ORILLIAPOWER

Energizing Our Community

Telephone: (705) 326-7315
Fax: (705) 326-0800

January 11, 2010

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

Re: Orillia Power Distribution Corporation - Board File No: EB-2009-0273
2010 Electricity Distribution Rate Application

Please find attached the response to the Board Staff supplementary interrogatories in the above-noted proceeding.

Respectfully,

John F. Mattinson P. Eng.
President & Secretary
Orillia Power Distribution Corporation

Board Staff Supplemental Interrogatories
2010 Electricity Distribution Rates
Orillia Power Distribution Corporation
EB-2009-0273

General

1. Responses to Letters of Comment

Following publication of the Notice of Application, has the Applicant received any letters of comment in respect of this application? If so, please confirm that a reply was sent by the Applicant in response to such comments and if so, please file copies of such responses with the Board. If not, please explain why a response was not sent and state if the Applicant intends to respond and file a copy of the response if and when such response is given.

OPDC RESPONSE:

Two customers filed letters of comment addressed directly to the Ontario Energy Board regarding OPDC's application that we are aware of. The letters can be found posted on the OEB website under our application. We are not aware of any other customer communications on this issue.

As the letters were not addressed to OPDC but in fact to the Ontario Energy Board, OPDC did not respond at the time the letters were sent. Most of the issues mentioned in the letters were taken as comments on energy issues not under OPDC control but more provincial legislation. Among those were Bill 35 legislative requirements, the requirement to install smart meters, pending HST implementation etc.

OPDC is currently considering an appropriate response to the above mentioned customer comment / concern letters. Once these responses have been sent to the customers, OPDC will file its responses with the Board as soon as possible.

2. Manager's Summary

Ref: Responses to interrogatories

a) Based on the first and second round of interrogatories from all parties, please submit an updated Microsoft Excel file containing the revenue requirement work form.

b) Please provide a listing of all changes made to the Applicant's original application (by exhibit), including an updated derivation of its revenue requirement, PILs calculation, base rates, rate adders/riders, and bill impacts.

OPDC RESPONSE:

Response to (a):
OPDC does not feel that any changes should be made to the revenue requirement work form previously submitted. There are certain issues that are slightly "up in the air" at the moment needing resolution (for example effective tax rate). None of these issues are material to the overall application and they have the potential to go either way. Until more definitive direction is given on these issues, recalculations would be speculative.

Response to (b):
OPDC has not made any changes at this point to its original application.

Exhibit 2: Rate Base

3. Conditions of Service

Refs: Exhibit 2 / 4 / 3 / p2
In this exhibit the Applicant makes reference to Acts, Regulations, Codes and Guides.

a) Please identify any rates and charges that are included in the Applicant's conditions of service and provide an explanation for the nature of the costs being recovered.
b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2008 and the revenue forecasted for the 2009 bridge and 2010 test years.
c) Please explain whether, in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet.

OPDC RESPONSE:

Response to (a):
There are no specific rates included in OPDC's conditions of service (COS). Under the COS there are certain costs that are the responsibility of the customer. Charges to recover actual costs (labour, vehicles, material, direct purchases and contract labour) plus a markup are billed to the customer. The mark up is included in other distribution revenue and is recorded as an offset to our total revenue requirement.

Charges to the customer under the COS include:

- Inspections.
- Costs of electrical plant installed to supply customer calculated using the guidelines set out by the OEB in the DSC.
- Relocation of plant.
- False claims of supply interruptions.
- Costs of repair and replacement of Distributor metering equipment located on Customer's premise, if destroyed or damaged, other than by normal use.
- Bulk Metering – contribution to cost of the metering installation.
- Meter Seals – costs of investigation of tampering with the seal.
- Interval Metering – all incremental costs plus provision of communication line and cost of secondary pulse for load control or customer-owned metering if applicable.
- Variable Connection Fees - costs associated with the installation of connection assets above and beyond the basic connection.
- Underground Service – Underground services installed to the Distributor's specifications.
- Metering – cost to supply and install meter sockets and costs for repairing or replacing a damaged meter.

- Supply of Equipment – costs of additional equipment required for the connection beyond the point of demarcation.
- Sub-transmission Service – cost of sub-transmission services and in some circumstances cost to construct a private pole line.
- General – costs associated with the supply and installation of service conductors and costs of required transformation.

Response to (b):
The mark up described in (a) is charged to Other Distribution Revenues. The following schedule provides revenues recovered from these charges from 2006 to 2008 and the revenue forecasted for the 2009 bridge and 2010 test years.

Significant revenue increases in 2009 were attributable to specific major one time projects. Projects of this magnitude are not anticipated in 2010 and revenues from this area are expected to be more in line with the historical average.

Description	2006	2007	2008	2009	2010
Mark up included in Other Distribution Revenue:					
Retail Superstore			26,580		
Large Residential Development			14,330		
Main thoroughfare upgrade			6,790		
Road Extension - University				175,000	
Bury 44 kV - major city project				96,000	
Various	99,177	87,185	124,115	29,000	90,000
Total mark up on charges under COS	**99,177**	**87,185**	**171,815**	**300,000**	**90,000**

Response to (c):
There are no rates included in OPDC's COS. Charges under COS outlined in (a) are recovered based on actual costs plus a mark up. OPDC believes the method used to recover these costs is appropriate and, in its view, no new rates should be included in the tariff sheet. Charges are specific to the requirements of each project and a standard charge would not be appropriate.

Exhibit 4: Operating Costs

4. Regulatory Costs

Ref: Board staff interrogatory No. 26
The introduction and part a) of Board staff interrogatory No. 26 read:
"In Table 4-7 the Applicant breaks down the components of its regulatory costs and identifies "Operating expenses associated with staff resources allocated to regulatory matters (Regulatory Officer and New Engineering Staff.)" as the component responsible for the largest increase; i.e. an increase from $100,299 in 2008 to $198,000 in 2010.

a) Please explain why this component of regulatory cost is expected to effectively double in two years."

The Applicant responded:
"The primary factor influencing the increase in regulatory costs is the need to add a staff member in the engineering department in order to adequately address the increased regulatory requirements and regulatory reporting. In particular, the proposed new engineering technician will be focused on ensuring compliance with Regulation 22/04."

Please expand on the response provided including:

a) Provide a description together with annual person-hours of those activities that have been newly-required since 2008 when the existing resources would appear to have performed the work, and
b) Comment on the appropriateness of performing the additional work on overtime or with part-time assistance.

OPDC RESPONSE:

The implementation of Regulation 22/04 has had and will continue to have a profound impact on all utilities in the province. While providing a framework to standardize utility procedures, processes and requirements, as it relates to public safety, the regulation has added significant workload to ongoing utility operations. In particular, we have experienced increased requirements in the areas of system documentation and record-keeping, field inspections, project tracking and development and monitoring of standards.

Orillia Power Distribution Corporation has always taken public safety very seriously and will continue to do so, as it is a central premise of our operation and forms an integral part of our organization's Mission and Vision Statement. We recently celebrated the achievement of seven years of no lost time injuries. Thus far, we have managed to achieve successful Electrical Safety Authority (ESA) audit results and plan to maintain this record going forward. However, we have achieved these results by adding the incremental workload to existing staff, utilizing summer / co-op students and utilizing over-time as required.

Despite our successful safety performance and audit results to date, the achievement of Regulation 22/04 standards has taken staff attention away from other critical tasks that must be addressed in a more proactive manner going forward. In particular, the Senior Engineering Technologist, the Distribution Foreman and the Distribution Superintendent have all contributed significant time and energy in addition to, and in some cases away from their other duties, in order to satisfy the regulations. However, looking forward, we realize that this is not a sustainable business approach over the long-term and if we are to continue to achieve success with respect to ESA requirements and audits, as well as taking a highly pro-active approach to public safety, planning, designing, managing and maintaining our distribution system, additional resources must be added.

To give an example of how regulatory requirements upon the utility have changed over the past two years, we provide the following summary of current ESA expectations with respect to project planning and documentation versus what was typically accepted as recently as two years ago. In the past, line staff would consult with engineering staff and line staff would be provided with a variety of documents / drawings to carry out the job. Standards and specifications for each pole within the project would be pulled from a number of standards documents, in some cases, multiple drawings would be need to be referenced for a single pole.

With larger and more complex projects, this could lead to a confusing amount of information going out into the field. This could entail a series of drawings, project notes and binders containing various specification and standards guidelines on the numerous components involved in that particular construction project. Under this methodology, work was getting done, but quite frankly, we knew we would have difficulty satisfying the increasingly stringent requirements for project tracking and project documentation under the new regulations. Furthermore, the practical reality of sending excessive amounts of documentation out into the field leads to potential inefficiencies in the construction efforts and the possibility of the requirement for re-work.

In order to streamline operations in the field and ensure compliance with new regulations, the processes will now be vastly different. Engineering staff will assemble all required drawing and specification information on a master project drawing or drawings for issuance to field / line personnel. Each pole within a project will be displayed on the drawing and all relevant standards and specifications will be incorporated into that document. In addition to streamlining the project documentation that is issued to the field, the process of project tracking will be significantly improved. With the new regulations, it is no longer sufficient to simply say to an inspector that a job was built to standards. Utility staff must be competent and trained through the Construction Verification Program (CVP). Utilities must be able to demonstrate that the job was designed, engineered, and built to standards. We must then prove that every aspect of the job was fully inspected and documentation must be maintained that verifies these facts. Even after a job is complete, ongoing inspections must continue to be performed and again, documentation of all inspections must be accurately maintained to provide verification to the regulator as requested.

The foregoing is simply one example of how processes have changed and although we have managed to remain compliant with our existing resources, albeit supplemented with over-time (paid and unpaid in the case of management staff), part-time assistance and deferring other duties, the workload continues to increase. Orillia Power feels strongly that we would not be operating with the long-term interest of our organization and customers, nor would we be working with public safety at the forefront of our operations if we continued to further add to the workload of individuals and a department that is already stretched. With this in mind, a new approach is clearly required to properly manage the business.

The proposed new engineering technician will take a lead role and be focused on ensuring Orillia Power's continued compliance with Regulation 22/04. In addition, this new staff resource may be utilized to assist in addressing a growing number of inquiries related to the FIT and Micro-FIT programs. Below is a description of the incremental tasks and activities along with the related person hours, primarily related to the implementation of the new regulations.

- The most significant factor influencing demands on staff time is the implementation of the CVP in conjunction with Regulation 22/04. This program involves a number of different tasks, detailed below:
    - Overhead / underground construction drawings completed in compliance with ESA approved standards – 650 hours
    - Field inspections, record-keeping and documentation of existing assets and attachments for ESA audits – 450 hours
    - New materials – ensuring all new materials meet CSA, IEEE applicable guidelines and maintain documentation ensuring technical specification and integration into existing standards are met – 40 hours
    - Ensuring legacy construction has Professional Engineering approval and like for like construction presents no undue hazard – 80 hours
    - Developments of new standards as required, related to new construction where no existing approved standard is available – 140 hours
    - New third party attachments and on-going inspections of legacy attachments (i.e bonding, grounding, anchoring, clearance issues, etc.) We must ensure competent engineering review, coordination of all proposed third party attachments in conjunction with existing plant and post project in-field inspections – 120 hours

- Participation in Utility Standards Forum (USF) – attending regular meetings to collaborate in the development of new standards and improvement of existing standards in a cohesive and efficient manner – 80 hours
- Receiving and handling customer inquiries regarding FIT and Micro-Fit programs. With the launch of these programs we have seen a steady increase in the volume of inquiries from customers interested in investigating their options with respect to these programs. We anticipate the level of these inquiries to continue and likely increase in the coming year, as these programs are promoted and become more widely known – 40 hours

In conclusion, Orillia Power Distribution Corporation is confident that it can maintain its exemplary record of public safety and achieve successful ESA audit results going forward. The proposed investment in new staff will help to achieve these goals and further enable the utility to be a strong, stable and forward thinking service provider for the customers / citizens of Orillia.

5. Shared Services / Corporate Cost Allocation

Ref: Board staff interrogatories No. 29 and No. 33

The introduction and part a) of Board staff interrogatory No. 33 read:

"In Schedule 3, page 6 the Applicant provides information regarding the sale of the sub transmission line segment. In Table 4-12 the Applicant shows the allocation of shared services staff to itself and Orillia Power Generation Corporation (OPGD). In Exhibit 4 / 5 / 1 / pp1-9 the Applicant discusses the bases on which shared services costs are allocated and explains that OPGD expects to complete a connection from the Matthiasville plant to the Hydro One transmission system.

a) Please explain how the allocation of shared services costs between the Applicant and OPGD was modified in light of the sale of the sub transmission line segment."

The Applicant responded:

"It was not necessary to modify the allocation of shared services between OPDC and OPGC in light of the sale of the sub transmission line segment. Employees of OPGC are not part of the calculation of OPDC FTE count for shared services. OPGC employee costs are charges 100% to OPGC. Contract work performed between the companies is billed using fully allocated cost plus a rate of return. There are no intercompany contract services related to the sub transmission line included in the application for 2010."

In response to Board staff interrogatory No. 29 c) that concerned the sale of the sub transmission line, the Applicant stated: "The expected annual maintenance savings, based upon average maintenance spending over the past six years, is identified as $50,000 per year. These saving have been reflected in the application."

Considering that OPDC will perform $50,000 less maintenance work on the sub transmission line segment and, presumably, OPGC will perform $50,000 more maintenance work on the line segment,

a) Please confirm that the balance of OPDC/OPGC *support* services provided by the shared services organization remains unchanged with the sale of the line segment, and
b) In the event that part a. is not confirmed, please estimate the reduction in shared services cost to OPDC.

OPDC RESPONSE:

Response to (a):

The balance of OPDC/OPGC support services provided by the shared services organization remains unchanged with the sale of the sub-transmission line segment.

Response to (b):

Not applicable. See response to (a).

6. Tax Calculation

Ref: Exhibit 4 / 8 / 1 / pp1-4 and Board staff interrogatory No. 36

Board staff requests additional information to that requested in Board staff interrogatory No. 36.

a) Please show the detailed calculations that resulted in the 17.00% value for “Provincial Income Tax Rates: On the next $1000,000 clawback of SBD” for the year 2010 as shown in Table 4-25.

b) Please confirm that under Bill 218 that received third reading on December 9, 2009, a utility having an Annual Taxable Income of $1,035,000 would calculate its 2010 taxes as shown in the attachment to these supplemental interrogatories: “Attachment 1: Calculation of Income Taxes in 2010”.

c) If the Applicant did not confirm all steps of the calculation method in the attachment, please provide an in-depth explanation for each step where the Applicant believes a different method is more appropriate.

d) Please recalculate the Applicant’s taxes using the method that the Applicant considers to be most appropriate.

OPDC RESPONSE:

Response to (a):

The calculation is in the schedule below. OPDC realizes now that an error was made in this calculation. An assumption was made that the claw back continued past July 1 which of course it does not.

Small Business Deduction Income Tax Rates and Clawback	**1-Jan-10**	**1-Jul**	**Average 2010**
Small Business Deduction Threshold	500,000	500,000	500,000
Upper limit at which SBD is completely clawed back	1,500,000	1,500,000	1,500,000
Provincial rate on the first $500,000 of taxable income SBD	5.50%	4.50%	5.00%
On taxable income not eligible for SBD	14.00%	12.00%	**13.00%**
Clawback	4.25%	3.75%	**4.00%**
On the first $500,000 of taxable income	27,500	22,500	25,000
On the next $1000,000 of taxable income excluding clawback	140,000	120,000	130,000
Clawback on next $1,000,000	42,500	37,500	40,000
Total taxes paid on $1,500,000	**210,000**	**180,000**	**195,000**
Effective Ontario tax rate at $1.5 million of taxable income	**14.00%**	**12.00%**	**13.00%**

Response to (b):
OPDC **can not** confirm that under Bill 218 that received third reading on December 9, 2009, a utility having an Annual Taxable Income of $1,035,000 would calculate its 2010 taxes as shown in the attachment to these supplemental interrogatories: "Attachment 1: Calculation of Income Taxes in 2010". In order to determine this calculation, OPDC asked a tax manager at the accounting firm of Grant Thornton to make this calculation and her response is below in (c).

Response to (c):
The following calculations and comments were obtained from a chartered accountant specializing in taxation in the firm of Grant Thornton.

Combined corporate tax rate - 2010							
Taxable Income (assumed)							$ 1,035,300
Provincial (Ontario) Corporate Tax Rate:							
1) January 1, to June 30, 2010:							
General Rate	14%	x	$ 1,035,300	181	365	$	71,875
Small Business Deduction	5.50%	x	$ 500,000	181	365	-	13,637
Surtax	4.25% or SBD (lesser amount)						13,637
Subtotal							71,875
2) July 1, 2010 to December 31, 2010:							
General Rate	12%	x	$ 1,035,300	184	365		62,629
Small Business Deduction	4.50%	x	$ 500,000	184	365	-	11,342
Surtax	0%						-
Subtotal							51,286
Annualized provincial tax							123,161
Federal Corporate Tax Rate							
General Rate	18%	x	$ 1,035,300	365	365		186,354
Small Business Deduction	7%	x	-	365	365		-
(Federal SBC ground to zero)							
Annualized federal tax							186,354
Combined provincial and federal tax							$ 309,515
Combined provincial and federal tax rate							29.90%

We wish to provide you with the following explanations for each step of the calculation method detailed in “Attachment 1: Calculation of Income Taxes 2010” where we believe a different calculation is more appropriate:

1) Ontario Tax Rates – Up to June 30th:

   a. The Ontario provincial corporate tax rate used in “Attachment 1: Calculation of Income Taxes 2010” , before consideration of the small business deduction credit and provincial surtax, is 9.64% multiplied by 181/365 days or 4.78%. However, the Ontario provincial corporate tax rate for the period January 1 to June 30, 2010 is 14% multiplied by 181/365 days, which should be equal to 6.94%. We are uncertain how the 9.64% in Attachment 1 was determined.

   b. The Ontario provincial small business deduction credit rate used in “Attachment 1: Calculation of Income Taxes 2010” is 4.14% multiplied by 181/365 days or 2.05% multiplied by $500,000 (i.e. $10,265). However, the Ontario provincial small business deduction credit rate for the period January 1 to June 30, 2010 should be computed as 5.5% multiplied by 181/365 days multiplied by $500,000, which is equal to $13,637. We are uncertain how the 4.14% in Attachment 1 was determined.

   c. The Ontario provincial surtax used in “Attachment 1: Calculation of Income Taxes 2010” is computed as $11,282. However, the Ontario provincial surtax should not exceed the amount of the Ontario provincial small business deduction credit (due to a “lesser of” calculation which is used in the computation of Ontario provincial surtax), which as indicated in 1) b. above should be $13,637. Effectively, the Ontario provincial small business deduction credit of $13,637 calculated in 1) b. above is completely offset by the Ontario provincial surtax (due to the size/amount of taxable income of the corporation) such that the Ontario provincial corporate tax rate for the period January 1 to June 30, 2010 should be equal to 14% multiplied by 181/365 days multiplied by $1,035,300, which is equal to $71,875.

2) Ontario Tax Rates – After June 30th:

   a. The Ontario provincial corporate tax rate used in “Attachment 1: Calculation of Income Taxes 2010”, before consideration of the small business deduction credit, is 6.94% multiplied by 184/365 days or 3.5%. However, the Ontario provincial corporate tax rate for the period July 1 to December 31, 2010 is 12% multiplied by 184/365 days, which should be equal to 6.05%. Then, the 6.05% rate should be multiplied by $1,035,300, which is equal to $62,629.

b. The Ontario provincial small business deduction credit rate used in "Attachment 1: Calculation of Income Taxes 2010" is 2.44% multiplied by 184/365 days or 1.23% multiplied by $500,000 (i.e. $6,150). However, the Ontario provincial small business deduction credit rate for the period July 1 to December 31, 2010 should be computed as 4.5% multiplied by 184/365 days multiplied by $500,000, which is equal to $11,342. We are uncertain how the 2.44% rate in Attachment 1 was determined.

3) The Ontario provincial effective tax rate calculated in "Attachment 1: Calculation of Income Taxes 2010" is 7.78%. However, we calculate the Ontario provincial effective corporate tax rate as 11.9%.

4) The combined provincial and federal tax rate calculated in "Attachment 1: Calculation of Income Taxes 2010" is 25.78%. However, we calculate the combined provincial and federal corporate tax rate as 29.9%.

5) Ontario Provincial Capital Tax

   "Attachment 1: Calculation of Income Taxes in 2010" does not take into account any Ontario provincial capital tax applicable for the period January 1 to June 30, 2010, which rate is .15% on taxable capital in excess of $15 million.

Response to (d):
Based on the calculation above in response to (c), corporate income taxes on $1,035,300 would be $309,515.

7. Harmonized Sales Tax

Ref: Exhibit 4 / 8 / 1 / pp1-4
It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

a) Would the Applicant agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?
b) Are there other alternatives that the Board might consider to reflect the reductions in OM&A and Capex if this bill is enacted?

OPDC RESPONSE:

Response to (a):
OPDC does not feel that the use of a variance account is a practical solution to this issue and would not be in favour of this approach.

In general, a variance account is useful for capturing certain items in order to pass savings on to customers or protect the LDC for new costs not included in LDC revenues. However these are items that are clearly identifiable at the time of the transaction on an invoice or identified using clear analysis with hard numbers. These amounts could be subject to verification by an auditor. In the case of the PST to HST transition, OPDC would be attempting to read each and every suppliers "mind" so to speak in order to determine the costs saved due to the elimination of PST July 1. Any determination of a number representing HST implementation "cost savings" would be very speculative at best.

OPDC is not sure how anyone can be confident that LDC will experience savings in OM&A and capital expenditures with the implementation of HST. Most suppliers are coming out of some very lean times due to the global recession. It is possible that suppliers may use this once in a lifetime opportunity to increase sales prices (and margins) by the former amount of PST to purchasers. Suppliers would be able to do this with the knowledge that purchasers will still experience a total cost similar to what they would have experienced before HST introduction. It will take much longer than a few months for the competitive marketplace to shake out the new price reality and any savings for items purchased by LDCs.

Response to (b):
OPDC feels that attempting to deal with this issue explicitly by estimating the amount of PST savings **in any way** is very subjective and probably not auditable by an external auditor. OPDC's current accounting system is not set up in a way that allows a precise determination of how much PST would have been paid as it is blended in with the before tax cost. Our systems would be equally incapable of identifying transactions that would have been subject to PST going forward. At best we would be guessing.

OPDC feels that the Board should do nothing on this issue. There does not appear to be any reasonable way to protect customers from this issue without arbitrarily hurting LDCs. In any rates year, there would be other costs that will turn out to be greater than budgeted and included in revenue requirement. For example, all LDCs that use MEARIE for property insurance received notice in late November of this year that property insurance costs would be doubling due to changes in the current insurance market, claims history and the necessary changes to reinsurers. Those cost increases are not factored into our 2010 costs for purposes of this application. Moving forward past the rates year and into 3'rd generation IRM formula setting for rates, wage increases agreed to in OPDC union contracts could potentially exceed the amount allowed by the Board for a rate increase in 2011, 2012 and 2013. No doubt, there will be other unanticipated changes to costs within the time horizon of this rate application.

Over the course of the next few years, the new post PST cost reality will become apparent and slowly become embedded in OPDC's cost structure. Presumably if there are any savings experienced by HST implementation, they would be reflected in the next full cost of service rate application put forth by OPDC in 2014.

8. Allocation Factors and Calculation of Rate Riders

Ref: Exhibit 9 / Appendix 9-B / p1 and Board staff interrogatory No. 47
Board staff requests additional information to that requested in Board staff interrogatory No. 47.

a) Please confirm that with respect to the disposition of the 1588 Global Adjustment sub-account, the Applicant would have the billing capability to effect a separate rate rider for non-RPP customers only.
b) If the Applicant were to establish a separate rate rider to dispose of the balance of the 1588 Global Adjustment sub-account, please provide the Applicant's views as to whether this rate rider would be applicable to MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers.
c) If the answer to b) is in the negative, does the Applicant have the capability in its billing system to exclude MUSH sector customers to which the separate rate rider for the disposition of the 1588 Global Adjustment sub-account balance would apply?

OPDC RESPONSE:

Response to (a):
With respect to the disposition of the 1588 Global Adjustment sub-account, OPDC has the billing capability to effect a separate rate rider for non-RPP customers only. It would be necessary to modify set up in billing to create a negate feature that would be applied to offset this new rate rider for customers who are RPP. Sufficient time for testing would be needed.

OPDC Observation:
The Global Adjustment sub-account variance being considered for disposition was created by the difference between amounts billed to then non-RPP customers and amounts paid on energy purchased to provide service these customers for the period January 1, 2005 to December 31, 2008. Non-RPP customers today are not the same customers during this period.

The following customers will be charged the new rate rider if approved in this application:

- Customers signed with Retailers regardless of enrolment date
- MUSH customers moved off RPP November 1, 2009

OPDC believes there would be a poor matching of the amount to be disposed and the customers who would be billed the new rate rider. For instance, customers may have consistently paid RPP rates during the period January 1, 2005 to December 31, 2008 but will now be required to pay the new rate rider because they have recently signed with a Retailer or, as in the case of a MUSH customer, they have become ineligible for RPP effective November 1, 2009.

Response to (b):
If OPDC were to establish a separate rate rider to dispose of the balance of the 1588 Global Adjustment sub-account, this rate rider would be applicable to some MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers who are no longer eligible for RPP effective November 1, 2009 or who sign with a Retailer. Other MUSH customers continue to be eligible for RPP under the existing regulations and the new rate rider would not be applicable to them.

Response to (c):
Yes, please refer to (a).

Attachment 1: Calculation of Income Taxes in 2010

Calculation of Income Taxes in 2010				**Ontario Pro-rated Tax Calculation Jan. to June**	**Ontario Pro-rated Tax Calculation July to Dec.**	**Total Ontario and Federal**
Number of days						
January 1 to June 30, 2010	181					
July 1 to December 31, 2010	184					
	365					
Annual Taxable Income	**$1,035,300**			**$1,035,300**		
Small Business Income Limit	**$500,000**			**$500,000**		
Ontario Tax Rates						
Up to June 30th	9.64%	49.59%	4.78%	49,491		
Small business rate	5.50%					
Small business credit	4.14%	49.59%	2.05%	(10,265)		
Surtax	4.25%	49.59%	2.11%	11,282		
				50,508		50,508
After June 30th	6.94%	50.41%	3.50%		36,220	
Small business rate	4.50%					
Small business credit	2.44%	50.41%	1.23%		(6,150)	
					30,070	30,070
						80,578
Ontario effective tax rate				4.88%	2.90%	7.78%
Federal Tax Rates						
General tax rate	18.00%					186,354
Small business rate	11.00%					
Small business credit	7.00%					
(Subject to federal grind up to paid up capital of $15,000,000)						
				50,508	30,070	266,932
Combined effective tax rate						**25.78%**