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Ontario

BY EMAIL

February 1, 2010

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

Dear Ms. Walli:

**Re: Board Staff Submission on Brant County Power Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0258**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Brant County Power Inc. and any intervenors and observers in this proceeding.

Brant County Power Inc.'s reply to this submission is due February 17, 2010.

Yours truly,

Original signed by

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Brant County Power Inc.

EB-2009-0258

February 1, 2010

Board Staff Submission

Brant County Power Inc.

2010 IRM2 Rate Application

EB-2009-0258

Introduction

Brant County Power Inc. ("Brant County Power") filed an application with the Ontario Energy Board (the "Board"), received on October 5, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Brant County Power charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 2nd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of all the evidence submitted by Brant County Power.

Board staff makes submissions on the following matters:

- Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report");
- Treatment of Smart Meter Funding Adder;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax ("HST").

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

General Background

For purposes of 2010 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2008 Group 1 Deferral and Variance account balance and determine whether the balance exceeded the preset disposition threshold of $0.001 per kWh using the 2008 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2010 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account Workform.

Brant County Power Specific Background

Annual Disposition

Brant County exceeded the disposition threshold in its initial filing which indicated that it did intend to include a request for the disposition of its Group 1 account balances. Board staff interrogatories requested that Brant County Power complete and submit an updated version 4 of the Deferral Variance Account Workform. Brant County Power has not complied with this request. Brant County Power advised the following:

> *Currently BCP is in the middle of two processes that will impact the variance account balances. The first is a motion before Board (EB-2009-0063) which will impact both the 1584 RSVA Network & 1586 RSVA Connection accounts. The 2nd is an independent 3rd party rebuild of variance account balances from Jan 1 2005 to Dec 31, 2009. This will ensure that all OEB guidelines have been followed for variance balances and interest calculations.*

Global Adjustment

Board staff interrogatory # 2 asked if Brant County Power had reviewed the Regulatory Audit & Accounting Bulletin 200901 to confirm that it had accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin. Brant County Power confirmed that it will comply with the Regulatory Audit & Accounting Bulletin 200901 at the time its filing is updated to include a request for the disposition of its Group 1 account balances.

In response to Board staff interrogatory #3a, Brant County Power agreed that a separate rate rider to be prospectively applied to non-RPP customers to dispose of the global adjustment sub-account balance would be appropriate on the basis of cost causality.

In response to Board staff interrogatories #3b, Brant County Power stated that it did currently have the billing capability to have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance.

As of November 1, 2009 the MUSH sector (Municipalities, Universities, Schools and Hospitals) and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status as per O. Reg. 95/05 of the Ontario Energy Board Act, 1998. In response to Board staff interrogatories #4d, Brant County Power indicated that: "Brant County believes that the MUSH sector should receive a rate rider correlated to the time the MUSH sector contributed to the Non-RPP customer class. Depending on the Board's ruling, this may require a 3rd rate rider for 1588 COP variance account (1 – Non-RPP, 2 – RPP & 3 – MUSH). Again, BCPs billing system can handle this process fully."

Submission

Board staff would encourage Brant County Power to update its application to include a request for the disposition of its Group 1 accounts as soon as possible, preferably on or before March 1, 2010. Further, Board staff requests Brant County Power to complete and file in response to this submission a brief description of its plan to complete its review of the accounts and a confirmed date for filing this information before the Board.

The EDDVAR Report addresses the processes and requirements for the disposition of deferral and variance account balances in rates. With respect to reliability of account balances for disposition in rates, the EDDVAR Report at page 27 states"…The Board believes that …additional audit certification is not necessary. The Board however will require a distributor to file a reconciliation of the regulatory trial balance that is reported to the Board as part of RRR [2.1.7] and the audited financial statements."

Board staff notes the original balances proposed for disposition (and supported by audited financial statements) might have been adjusted to account for events subsequent to the release of the EDDVAR Report. They include, but are not exclusive to the following:

1. The Regulatory Audit & Accounting Bulletin 200901 ("accounting bulletin") dated October 15, 2009 and accounting frequently asked questions issued in October 2009 clarified the accounting rules for account 1588 RSVApower and Sub-account Global Adjustment. The accounting bulletin required electricity

distributors to review and correct misstatements since January 1, 2005 or since the last time Account 1588 RSVApower and Sub-account Global Adjustment were cleared by the Board on a final basis. Due to the changes to account balances arising from the accounting bulletin Board staff asked distributors to confirm their compliance to the accounting requirements specified in the bulletin.

2. Applicants retroactively reviewing, and correcting Group 1 account balances over the January 1, 2005 to December 31, 2008 period.

Board staff notes that it might be possible that Brant County Power's final proposed balances for disposition may no longer reconcile with previously audited balances nor Brant County Power's RRR filings. Subject to receipt of the final Deferral Variance Account Workform from Brant County Power before March 2, 2010, Board staff will review the balances and note whether the changes do or do not result in material differences. Staff notes that Brant County Power stated in response to staff's interrogatory #1e) that Brant County Power will comply with the Board's accounting policies and procedures. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. For this reason Board staff makes no proposal as to whether the Board may wish to consider approving the proposed deferral and variance account balance disposition rate riders on an interim or final basis.

As with all 2010 IRM applications, Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place. However, the Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from all customers in each class. The rationale for this approach is that there is customer migration both away from the non-RPP customer group and into the non-RPP customer group.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.

TREATMENT OF SMART METER FUNDING ADDER

Background

Brant County Power has a current Board-approved smart meter funding adder of $0.25 per month per metered customer. In its Application, Brant County Power is requesting an increase in its rate adder to $1.00 per month per metered customer. Brant County Power filed evidence in accordance with section 1.4 of the Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the “Smart Meter Guideline”), issued October 22, 2008. Brant County Power is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

Brant County Power is not seeking approval for capital and operating costs incurred to date or in 2010 in this application, but will track actual costs, and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

Submission

Board staff submits that Brant County Power has complied with the policies and filing requirements of the Smart Meter Guideline and is authorized under regulation. Actual smart meter expenditures will be subject to review when Brant County Power makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Brant County Power’s proposal to increase its smart meter funding adder to $1.00 per month per metered customer.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

General Background

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charged for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs effective July 1, 2009 were as follows:

- Network Service Rate was increased from $2.57 to $2.66 per kW per month, a 3.5% increase;
- Line Connection Service Rate remained unchanged at $0.70 per kW per month; and
- Transformation Connection Service Rate was decreased from $1.62 to $1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates ("RTSRs") to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010.

Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, a Rate Order issued January 21, 2010 revised the UTRs effective January 1, 2010 as follows:

- Network Service Rate has increased from $2.66 to $2.97 per kW per month, an 11.7% increase over the July 1, 2009 level or 15.6% over the rate in effect prior to July 1, 2009;
- Line Connection Service Rate has increased from $0.70 to $0.73 per kW per month; and
- Transformation Connection Service Rate has increased from $1.57 to $1.71 per kW per month, for a combined Line and Transformation Connection Service Rates increase of 7.5% over the July 1, 2009 level or 5.2% over the rate in effect prior to July 1, 2009.

Brant County Power Specific Background

Brant County Power has applied for an adjustment to its RTSR rates based on a comparison of RTS revenue under existing rates and adjusted wholesale transmission costs. Brant County Power is requesting an increase of 21.65% for its Network Service

Rate and an increase of 15.52% for its Line and Transformation Connection Service Rate.

Submission

Board staff has reviewed the evidence provided by the applicant and submits that the proposal by Brant County Power may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff asks Brant County Power to clarify if it wishes to submit a revised calculation or reflect the January 1, 2010 UTR adjustments.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

General Background

The Ontario provincial sales tax (“PST”) (currently at 8%) and the Federal goods and services tax (“GST”) (currently at 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor’s OM&A expenses and capital expenditures. The PST is therefore included in the distributor’s revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

Brant County Power Specific Background

In response to Board staff interrogatory # 4a which asked if Brant County Power agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Brant County Power stated *“Brant County agrees that the net HST* *implications (OM&A reductions plus any cost increases) should be tracked through a variance account."*

Submission

Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization. Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like Brant County Power could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Brant County Power's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until Brant County Power's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Brant County Power would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

All of which is respectfully submitted