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Ontario

BY EMAIL

February 2, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission on Halton Hills Hydro Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0227

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Halton Hills Hydro Inc. and any intervenors this proceeding.

Halton Hills Hydro Inc. reply to submissions is due February 23, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Halton Hills Hydro Inc.

EB-2009-0227

February 2, 2010

Board Staff Submission
Halton Hills Hydro Inc.
2010 IRM3 Rate Application
EB-2009-0227

Introduction

Halton Hills Hydro Inc. (“Halton Hills”) filed an application with the Ontario Energy Board (the “Board”), received on October 21, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Halton Hills charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd 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 the evidence submitted by Halton Hills.

Board staff makes submissions on the following matters:

- Potential Tax Sharing Rate Rider;
- Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the “EDDVAR Report”);
- Adjustments to the Revenue to Cost Ratios;
- Adjustments to the Retail Transmission Service Rates; and
- Accounting for the implementation of the Harmonized Sales Tax (“HST”).

POTENTIAL TAX SHARING RATE RIDER

General Background

The Supplemental Report of the Board on 3rd generation incentive regulation issued on September 17, 2008 determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate. The calculated annual tax changes over the plan term are to be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be collected from or refunded to customers each year of the plan term, over a 12-month period, through an explicit volumetric rate rider derived using annualized consumption by customer class underlying the Board-approved base rates.

Halton Hills Specific Background

Using the Board's Supplemental Filing module Halton Hills's Tax Sharing amount is a refund of $36,367. This amount when unitized using Halton Hills's volumetric billing determinants results in energy-based kWh rate riders less than four decimal places and demand-based kW rate riders less than two decimal places.

Submission

Board staff notes that as a result of having kWh Tax Sharing rate adders of $(0.0000) when rounded to the fourth decimal place and kW Tax Sharing rate adders of $(0.00) when rounded to the second decimal place, the refund amount of $36,367 will not be returned to ratepayers, which defeats the intent of the tax sharing process. Board staff submits that the Board may wish to consider directing Halton Hills to record the Tax Sharing refund amount of $36,367 in the variance account 1595 for disposition in a future rate application.

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.

Halton Hills Specific Background

Annual Disposition

Halton Hills has requested the dispostion of its Group 1 account balance. Halton Hills stated that it had exceeded the threshold test and has requested the disposition of its Group 1 account balances over a three year period. Board staff interrogatory # 6a requested that Halton Hills complete and submit an updated version 4 of the Deferral Variance Account Workform. Halton Hills has complied with this request.

Global Adjustment

In response to Board staff interrogatory # 2a Halton Hills stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588 RSVA power and global adjustment sub-account in accordance with this Bulletin. In response to Board staff interrogatory # 2b, Halton Hills confirmed that it had not made adjustments subsequent to its initial application to comply with the Regulatory Audit & Accounting Bulletin 200901 with respect to account 1588 and the global adjustment sub-account.

In response to Board staff interrogatory # 3a, Halton Hills agreed that a separate rate rider 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. Halton Hills however noted that any new Non-RPP customers would be inappropriately subject to the rate rider as these customers were previously paying the Global Adjustment as part of the RPP.

In response to Board staff interrogatories # 3b, Halton Hills 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. Halton Hills however indicated that a reasonable timeframe for implementation would be needed as programming and bill print changes would be required.

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 # 5d, Halton Hills indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Halton Hills further indicated that it had the billing capability to exclude MUSH sector customers.

Halton Hills has requested that the Board review and approve the disposition of the December 31, 2008 balances of other Group 1 Deferral and Variance accounts as defined by the EDDVAR Report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is debit of $2,905,826. The balance in the 1588 global adjustment sub-account is a credit of $425,069. Halton Hills has included interest, using the Board’s prescribed interest rates, on these account balances up to April 30, 2010. Debit balances are amounts recoverable from customers.

Submission

Halton Hills reported a credit balance of $425,069 in the global adjustment sub-account. While Halton Hills has confirmed that it had accounted for its Account 1588 RSVA power and global adjustment sub-account in accordance with the Regulatory Audit & Accounting Bulletin 200901, Board staff notes that a credit balance as of December 31, 2008 in the global adjustment sub-account would be the exception for Ontario electricity distributors. Board staff submits that the Board should not approve the disposition of Halton Hills account 1588 unless further details are provided to the Board that would explain this unusual result.

Were the Board to be satisfied with Halton Hills' additional explanations regarding the balances in account 1588, 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 returning the global adjustment sub-account balance solely to non-RPP customers would be more reflective of cost causality since it was that group of customers that were overcharged by the distributor in the first place.

The Board may wish to consider, as an alternative, to return the allocated global adjustment sub-account balance to all customers in each class. This approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer's best interest. Board staff recognizes that some volatility in electricity bills may result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties.

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

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2007-0696) for Halton Hills's 2008 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for Halton Hills to complete to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment.

Submission

Board staff submits that Halton Hills has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Halton Hills'revenue to cost ratio adjustments.

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.

Halton Hills Specific Background

Halton Hills has applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy rate adjustments.

Submission

Board staff notes that very few distributors, including Halton Hills, effected in their 2009 rates the July 1, 2009 level of UTRs since for most of them, distribution rates would have been implemented on May 1, 2009. Therefore, in accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level, that is an increase of about 15.6% to the RTSR Network Service rate, and an increase of about 5.2% to the RTSR Line and Transformation Connection Service Rate.

Board staff has reviewed the evidence provided by the applicant and submits that the proposal by Halton Hills may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff submits that the applicant's proposed rates be revised to reflect the January 1, 2010 values.

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.

Halton Hills Specific Background

In response to Board staff interrogatory # 8a which asked if Halton Hills agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Halton Hills stated that:

> "HHHI does not agree to capture in a variance account the potential reduction in OM&A and capital expenditures. PST is a commodity tax, not an income tax and it should not be given the same treatment with respect to rate adjustments. The Board has established clear rules that require HHHI to capture the differences in income tax rates or income tax rules resulting from legislative or regulatory changes and true them up with respect to the taxes incorporated in rates. However, there are no such rules laid out with respect to changes in commodity taxes.
>
> This is an issue generic to the industry and HHHI believes that a stakeholder consultation is required to ensure the implications of this commodity tax change are fully addressed. In the meantime, distributor revenue requirements should be established based on the current tax regime. Due to the nature of the short IRM period (1 year), sufficient time is not available to fully consider the issue of impacts through harmonization of sales taxes in order to put forth practical alternatives to a variance account being proposed by the Board staff."

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 Halton Hills 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 Halton Hills' 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 Halton Hills' next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Halton Hills 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