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BY EMAIL

February 5, 2010

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 Tillsonburg Hydro Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0251

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

Tillsonburg Hydro Inc. reply to submissions is due February 26, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Tillsonburg Hydro Inc.

EB-2009-0251

February 5, 2010

Board Staff Submission
Tillsonburg Hydro Inc.
2010 IRM3 Rate Application
EB-2009-0251

Introduction

Tillsonburg Hydro Inc. ("Tillsonburg") 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 Tillsonburg 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 Tillsonburg.

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 Revenue to Cost Ratios;
- 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.

Tillsonburg Specific Background

Annual Disposition

Tillsonburg has requested the disposition of its Group 1 account balance over a one year period. Board staff interrogatory #5 requested that Tillsonburg complete and submit an updated version 4 of the Deferral Variance Account Workform. Tillsonburg has complied with this request.

Global Adjustment

In response to Board staff interrogatory #1a, Tillsonburg 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 #1b, Tillsonburg confirmed that it 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 #2a, Tillsonburg 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.

Tillsonburg however noted that:

> "Tillsonburg agrees that the proposal to create a separate disposition rate rider to be applied prospectively to Non-RPP customers for 1588 may be fair but the treatment of customers that have moved to/from RPP to Non-RPP status must be explored prior to a final decision being made. These status changes primarily take place due to changes in Regulation (MUSH), customer reclassifications and Retailer enrolment. Tillsonburg is questioning whether these customers should or should not qualify for a portion equal to their contribution to account 1588."

In response to Board staff interrogatory #2b, Tillsonburg 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. Tillsonburg however indicated that:

> "If current Non-RPP Standard Supply Service customers are the only customers that would be eligible for the distribution rate rider, Tillsonburg's billing system would be capable of billing these customers the separate rate rider. If Retail customers or customers that have moved to/from RPP also qualify, Tillsonburg would not be able to effectively apply the separate rate rider. The reasoning for this is that Tillsonburg's CIS has been designed to use the same rate codes for all customers within the same rate class. In other words, if the Board was to mandate that the disposition of the rate rider would be to all customers that contributed in part to the balance of 1588, the disposition to those customers presently paying RPP rates would not be possible through our rate engine. Further to this, if the Board was to mandate the above, beyond Non-RPP SSS customers, a possible complication would be significant software costs to redesign the CIS system."

Tillsonburg proposed as an alternative that:

> "An alternative would be to dispose of the variance through a mechanism similar to the OPG/MPMA Rebate process. This process produced a listing of all Non-RPP billed usages, by customer, and the disposition of funds was managed outside the billing/rate engine via monetary adjustments to cusomers accounts. This could be a one-time adjustment or some other frequency as determined by the Board."

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 interrogatory #4d, Tillsonburg indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Tillsonburg further indicated that:

> "Tillsonburg does not believe that the rider should be applied to customers in the MUSH sector. However, CIS limitations do not allow for these customers to be excluded from receiving, as they are now being billed using the same Non-RPP rates as customers who would qualify. Effective November 1st, 2009, most MUSH customers were moved from RPP rate codes to Non-RPP rate codes. As stated previously, in Tillsonburg's opinion, the only way to effectively exclude MUSH customers from a GA rate rider disposition is by using an adjustment process similar to the OPG/MPMA Rebate process."

Tillsonburg 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 a credit of $370,857. The balance in the 1588 global adjustment sub-account is a debit of $92,513. Tillsonburg 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

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.

Board staff notes that Tillsonburg's billing system would be capable to prospectively apply the rate rider for the disposition of the global adjustment sub-account balance to non-RPP customers. Board staff however notes that CIS limitations would not allow for the exclusion of MUSH sector and other designated customers that were on RPP. Tillsonburg suggested that the only way to effectively exclude MUSH customers from the global adjustment rate rider disposition would be by using an adjustment process similar to the OPG/MPMA Rebate process. Board staff suggests that this process appears to be onerous.

The Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from 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.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances, nor with Tillsonburg's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that Tillsonburg stated in response to staff's interrogatory #5d that Tillsonburg has complied 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. Board staff suggests that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis.

TREATMENT OF SMART METER FUNDING ADDER

Background

Tillsonburg has a current Board-approved smart meter funding adder of $0.50 per month per metered customer. In its application, Tillsonburg is requesting an increase in its rate adder to $2.17 per month per metered customer. Tillsonburg 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. Tillsonburg is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

Tillsonburg 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 Tillsonburg has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Tillsonburg makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Tillsonburg's proposal to increase its smart meter funding adder to $2.17 per month per metered customer.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2008-0246) for Tillsonburg's 2009 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for Tillsonburg 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 Tillsonburg has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Tillsonburg's 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 charges 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.

Tillsonburg Specific Background

Tillsonburg 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 Tillsonburg, included 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 Tillsonburg 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.

Tillsonburg Specific Background

In response to Board staff interrogatory # 4a which asked if Tillsonburg agreed that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Tillsonburg stated that:

> "Tillsonburg would not agree to capture in a variance account the reduction in OM&A and capital expenditures given the potential difficulties. It is unclear on how Tillsonburg would be able to determine the amount accurately given the final rules of the HST are not yet known. The fact is, the HST rate will not be applied to all expenditures and not all expenditures were allowed recovery in THI's rate base. Further to this, in our opinion, the cost to modify the CIS and financial system to maintain two sets of financial records would outweigh any expected benefit. Tillsonburg is of the opinion that the OEB believes PST savings will flow through to the LDC which remains to be seen. Tillsonburg would also like to point out that the opposite could occur – that costs incurred could increase."

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

Tillsonburg 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