

**Ontario Energy  
Board**  
P.O. Box 2319  
27th. Floor  
2300 Yonge Street  
Toronto ON M4P 1E4  
Telephone: 416-481-1967  
Facsimile: 416-440-7656  
Toll free: 1-888-632-6273

**Commission de l'énergie  
de l'Ontario**  
C.P. 2319  
27e étage  
2300, rue Yonge  
Toronto ON M4P 1E4  
Téléphone: 416-481-1967  
Télécopieur: 416-440-7656  
Numéro sans frais: 1-888-632-6273



**BY EMAIL**

February 8, 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 St. Thomas Energy Inc.  
2010 Electricity Distribution Rates Application  
Board File Number EB-2009-0208**

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

St. Thomas Energy 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**

**St. Thomas Energy Inc.**

**EB-2009-0208**

**February 8, 2010**

**Board Staff Submission  
St. Thomas Energy Inc.  
2010 IRM2 Rate Application  
EB-2009-0208**

**Introduction**

St. Thomas Energy Inc. ("St. Thomas Energy") filed an application with the Ontario Energy Board (the "Board"), received on October 29, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that St. Thomas Energy charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 2<sup>nd</sup> 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 St. Thomas Energy.

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.

## **St. Thomas Energy Specific Background**

### **Annual Disposition**

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

### **Global Adjustment**

In response to Board staff interrogatory # 1a, St. Thomas Energy 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. St. Thomas Energy stated that changes were required to be made back to January 1, 2005. In response to Board staff interrogatory # 1b, St. Thomas Energy confirmed that it had 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, St. Thomas Energy 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. In response to Board staff interrogatory # 2b, St. Thomas Energy however stated that:

“St. Thomas Energy's initial check with the Application Service Provider (ASP) for the Customer Information System indicated it may be possible to do so. At the time of writing this response to the OEB St. Thomas Energy Inc. had not received official confirmation from the ASP and/or Harris Software on whether this was possible nor an indication of when this could be available for use if it was possible.”

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 # 3d, St. Thomas Energy stated that:

“St. Thomas believes that the rate rider should not be applied to customers in the Mush Sector who moved from RPP to Non RPP status last November. Approximately three St. Thomas Energy MUSH customers were moved out of the RPP in November 2009. At the time of writing this response to the OEB St. Thomas Energy Inc. had not received official confirmation from the ASP and/or Harris Software on whether this was possible nor an indication of when this could be available for use if it was possible.”

St. Thomas Energy have 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 \$1,081,745. The balance in the 1588 global adjustment sub-account is a debit of \$200,652. St. Thomas Energy 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.

St. Thomas Energy did not address any concern with respect to the impact on its cash flow were it to use the one-year default disposition period contemplated in the EDDVAR Report to clear its deferral and variance account balances.

### **Submission**

Board staff suggests that as a matter of principle, the global adjustment sub-account balance should be recovered by means of a separate rate rider that would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. This approach 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 however notes that St. Thomas Energy did not receive confirmation from its Application Service provider on whether its current billing system could accommodate that change at the time the interrogatory responses were submitted. Board staff suggests that it would be useful to the Board were St. Thomas Energy to provide a status update, and to also review the Board's EB-2009-0405 Decision dated January 29, 2010 and provide comments in its reply submission as to whether the approach for the disposition of the global adjustment contained in that Decision (i.e. implementation through an adjustment to the Provincial Benefit item on the bill) could be readily implemented by St. Thomas Energy.

Alternatively, the Board may wish to consider the recovery of the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that occurs 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.

The EDDVAR Report includes filing guidelines for the disposition of deferral and variance account balances. With respect to the reliability of account balances, 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 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 global

adjustment sub-account. The accounting bulletin required electricity distributors to review and correct misstatements since January 1, 2005 or since the last time Account 1588 RSVA power and global adjustment sub-account 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 the final proposed balances for disposition may no longer reconcile with previously audited balances nor with St. Thomas Energy's RRR filings. Board staff has reviewed the balances and notes that the changes do result in material differences. Board staff notes that St. Thomas Energy stated in response to staff's interrogatory # 4d that St. Thomas Energy 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.

Were the Board to have any concerns about these adjustments, Board staff proposes that the Board might consider declaring the rate riders interim until the revised balances can be brought forward in a future application and supported by a third party audit.

## **TREATMENT OF SMART METER FUNDING ADDER**

### **Background**

St. Thomas Energy has a current Board-approved smart meter funding adder of \$1.00 per month per metered customer. In its application, St. Thomas Energy is requesting an increase in its rate adder to \$3.17 per month per metered customer. St. Thomas



Energy 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. St. Thomas Energy is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

St. Thomas Energy 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 St. Thomas Energy has complied with the policies and filing requirements of the Smart Meter Guideline with one exception. St. Thomas Energy has included stranded meters’ costs in the smart meter rate adder calculation. The Board has directed distributors to report the stranded meter costs in sub-account: Smart Meter Capital and Recovery Offset Variance Account 1555 sub-account Stranded Meter Costs. Accordingly, Board Staff that suggests that a stranded meter costs review is better suited for inclusion in a cost of service application. This treatment would be consistent with the EDDVAR Report which contemplates the review and disposition of Group 2 accounts, including accounts 1555 and 1556, at the time of rebasing.

Hence, Board staff would suggest that the Board may wish to deny St. Thomas Energy’s request to increase its smart meter funding adder to \$3.17 per month per metered customer. Board staff suggests that St. Thomas Energy may wish to file a revised rate adder request that would exclude stranded meters’ costs.

## 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.

### **St. Thomas Energy Specific Background**

St. Thomas Energy 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 St. Thomas Energy, 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 St. Thomas Energy 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.

### **St. Thomas Energy Specific Background**

In response to Board staff interrogatory # 6a which asked if St. Thomas Energy agreed that a deferral account should be established to capture the reductions in OM&A and capital expenditures, St. Thomas Energy stated that:

"Consideration could be given towards the use of an ongoing factor in future rate applications applied to gross OM&A and Capital Expenditures to represent this difference. It will not be exact but it would allow for a "across the board" approach for all LDCs. It is realized that the PST factor can be much different amongst all LDCs depending on how costs are incurred. A study of each LDC

based on 2009 experience may be useful in attempting to come up with a factor. It may be appropriate to allow each LDC to have a specific factor based on the results of the study.”

## **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 St. Thomas Energy 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 St. Thomas Energy’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 St. Thomas Energy’s next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

St. Thomas Energy 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