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

Ontario

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 Thunder Bay Hydro Electricity Distribution Inc. 2010 Electricity Distribution Rates Application Board File Number EB-2009-0250

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

Thunder Bay Hydro Electricity Distribution Inc. reply to submissions is due February 26, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Thunder Bay Hydro Electricity Distribution Inc.

EB-2009-0250

February 8, 2010

Board Staff Submission
Thunder Bay Hydro Electricity Distribution Inc.
2010 IRM3 Rate Application
EB-2009-0250

Introduction

Thunder Bay Hydro Electricity Distribution Inc. ("Thunder Bay") filed an application with the Ontario Energy Board (the "Board"), received on October 23, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Thunder Bay 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 Thunder Bay.

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.

Thunder Bay Specific Background

Using the Board's Supplemental Filing module Thunder Bay's Tax Sharing amount is a refund of $72,598. This amount when unitized using Thunder Bay'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 $72,598 will not be returned to ratepayers, which defeats the intent of tax sharing process. Board staff submits that the Board may wish to consider directing Thunder Bay to record the Tax Sharing refund amount of $72,598 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.

Thunder Bay Specific Background

Annual Disposition

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

Global Adjustment

In response to Board staff interrogatory # 1a Thunder Bay 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, Thunder Bay stated 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, Thunder Bay disagreed 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. Thunder Bay noted that:

> “In addition to customers moving between RPP and Non-RPP, another potential issue of fairness would be the determination of the denominator in the rate rider calculation.
>
> In normal practice, the denominator would be the billed Non-RPP kWh during 2008, however, since 2008, the billed Non-RPP kWh in 2009 may be materially different for many Distributors due to the transition of MUSH customers no longer being eligible for RPP as of November 1, 2009. In Thunder Bay, although the total number of Non-RPP customers has only increased by 159 customers or 2.3% between Dec. 31, 2008 and November 30, 2009, the November year-to-date consumption has increased by 60.5 million kWh or 14.9% from 2008 to 2009.
>
> Since the magnitude of the increase is material, the impact on the "fairness" to all customers is of concern. Ultimately the fairest methodology would be to dispose of the account to only those customers that contributed to the balance for disposal; however, the costs would outweigh the benefits of this methodology. Therefore, from a practical perspective, given the complexity and the relatively immaterial amount for disposition Thunder Bay is of the opinion that the most cost effective method would be to provide the rate rider to the Non-RPP customers that exist during the horizon of the disposal.”

In response to Board staff interrogatories # 2b, Thunder Bay stated that it would have the billing capability to implement a separate rate rider that would be prospectively applied to non-RPP customers if ordered 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 interrogatories # 4d, Thunder Bay noted the following:

> “Thunder Bay believes that if a separate rate rider was established to dispose of the balances of the 1588 - Global Adjustment sub-account, the rate rider should not be applied to customers in the MUSH sector. However, Thunder Bay also believes that any other customer that was paying RPP on December 31, 2008 and switched to a retailer or market price during 2009 should not be eligible for the separate rate rider. Ultimately it would be unfair to all customers to both include and exclude the MUSH sector without considering all customers that switched off of paying RPP. With that being said, Thunder Bay does not have the billing capability to exclude these customers that switched from RPP to a retailed or market price. The billing system calculates charges based on their current status (ie) on RPP or Non-RPP, and thus, Thunder Bay cannot exclude current Non-RPP customers that were previously RPP customers on a certain date without the exercise becoming a manual and labour intensive process. In order to overcome the billing system's constraints, Thunder Bay would apply the rate rider to all current Non-RPP customers and then manually reverse the rate rider for those customers that had been price protected as at December 31, 2008. Of Thunder Bay's 7,063 customers that were signed up with a retailer or paying market price as at November 30, 2009,159 were either paying RPP on December 31,2008 or signed up as a new customer in 2009. Thus, as discussed in Question # 2a above, Thunder Bay believes that it would be an onerous exercise to manually exclude 159 customers from the application of the separate rate rider.”

Thunder Bay 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 $978,351. The balance in the 1588 Global Adjustment sub-account is a credit of $47,454. Thunder Bay 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

Thunder Bay reported a credit balance of $47,454 in the global adjustment sub-account. While Thunder Bay 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 Thunder Bay account 1588 unless further details are provided to the Board that would explain this unusual result.

Were the Board to be satisfied with Thunder Bay's 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. Board staff also suggests that it would not be practical for Thunder Bay to exclude the MUSH sector and other designated customers that were on RPP since this process would be onerous and labour intensive. 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.

The Board may also 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. Board staff hence agrees with Thunder Bay's proposal.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year. This is also consistent with Thunder Bay's proposal.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with Thunder Bay's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that Thunder Bay stated in response to staff's interrogatory # 5d that Thunder Bay 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.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board's Decision (EB-2008-0245) for Thunder Bay'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 Thunder Bay 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 Thunder Bay has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Thunder Bay'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.

Thunder Bay Specific Background

Thunder Bay 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 Thunder Bay, 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 Thunder Bay 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.

Thunder Bay Specific Background

In response to Board staff interrogatory # 8a which asked if Thunder Bay agreed that a deferral account should be established to capture the reductions in OM&A and capital expenditures. However, Thunder Bay indicated that the establishment of a variance account to capture the reductions in OM&A and capital expenditures would be fraught with difficulties. Thunder Bay also stated that:

> “Attempting to identify applicable expenditures and code the variance at the source transaction would prove very problematic with our current information systems.
>
> Attempting to calculate this reduction other than on a transactional level would be subjective and difficult to audit. Using a basis such as a monthly HST return to try and calculate an estimated portion to set up in a variance account would, in their opinion, not be supportable.”

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 Thunder Bay 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

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

Thunder Bay 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