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Ontario

BY EMAIL

February 9, 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 Hydro One Brampton Networks Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0199**

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

Hydro One Brampton Networks Inc. reply to submissions is due February 26, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

VT INCEPIT FIDELIS SIC PERMANET

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Hydro One Brampton Networks Inc.

EB-2009-0199

February 9, 2010

Board Staff Submission
Hydro One Brampton Networks Inc.
2010 IRM2 Rate Application
EB-2009-0199

Introduction

Hydro One Brampton Networks Inc. ("Hydro One Brampton") filed an application with the Ontario Energy Board (the "Board"), received on November 5, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Hydro One Brampton 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 the evidence submitted by Hydro One Brampton.

Board staff makes submissions on the following matters:

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

POTENTIAL LOW VOLTAGE RATE ADDER

General Background

In previous IRM-based rate adjustments, the costs associated with the recovery of low voltage charges ("LV charges") associated with the supply through the low voltage facilities of a host distributor have been included in the Distribution Volumetric rate in accordance with the 2006 Electricity Distribution Rate Handbook and as approved in the Board's subsequent Decisions and Rate Orders.

Chapter 3 of the Filing Requirements for Transmission and Distribution Applications issued on July 22, 2009 states that: "For all 2010 rate applications and going forward, the Board has determined that the rate to recover the low voltage costs will be explicitly shown on the distributor's Tariff of Rates and Charges, identified as the Low Voltage Cost Rate Adder."

Hydro One Brampton Specific Background

In its 2006 EDR application, Hydro One Brampton included $94,500 in LV charges as a rate adder. In 2007 and 2008 the price cap adjustment (GDP-IPI - X) was 0.9% and 1.1% respectively. This had the effect of increasing the 2007 and 2008 LV charges to $95,351 and $96,399 respectively. In the 2010 IRM Deferral Variance Account Workform, Hydro One Brampton has reported $331,894 as the principal for the USoA 1550 LV Variance account as of December 31, 2008. Board staff interrogatory #1a requested that Hydro One Brampton confirm that it had applied the amounts previously approved by the Board for recovery through the volumetric distribution rates as an offset to the amounts billed from Hydro One for LV. Hydro One Brampton stated that the balance shown in the Deferral Variance Account workform did not include the amounts approved by the Board for recovery. Board staff interrogatory # 1b requested that Hydro One Brampton justify, if applicable, why the amounts approved for recovery would not offset the amounts billed from Hydro One for LV. In response to this interrogatory, Hydro One Brampton stated that:

> "The LV rate adders embedded in the volumetric distribution tariffs as determined in the 2006 EDR Rate Model were not applied against Account 1550 LV Variance Account since they were insignificant and the LV allocation created cross subsidization between classes.

> The LV rate adders for the Residential and General Service < 50 kW Customer Classes were so small that they rounded to zero such that there was no component of the volumetric distribution rate for these classes that related to LV at all. For the customer classes billed on kW billing determinants the LV adders were insignificant, only about 1 cent per kW. …
>
> Furthermore, the allocation of the LV costs calculated in the 2006 EDR model created cross subsidization and this allocation was inequitable and unfair as some customer classes were not contributing anything to the recovery of LV costs.
>
> When the current balance of account 1550 LV Variance Account is disposed of, it will be based only on LV costs paid to our host distributor. The balance of account 1550 LV Variance Account will be included in the aggregate deferral and variance account balances for disposition and the end result would be more fair and equitable cost allocation as the component of the Regulatory Asset Recovery Rate Rider pertaining to LV costs would be combined with other deferral and variance account balances enabling a fair allocation across all customer classes."

Submission

Board staff has concerns that Hydro One Brampton has not applied the amount of $286,250 ($94,500, $95,351, and $96,399 for 2006, 2007 and 2008 respectively) approved for recovery as an offset to the amounts billed from Hydro One for LV included in account 1550. Board staff disagrees with Hydro One Brampton's statement that "they were insignificant and the LV allocation created cross subsidization between classes". Board staff would have expected Hydro One Brampton to have applied the monthly volumetric billing determinants against the calculated rate riders, no matter how small, and applied the resultant amount as an offset to account 1550 expenditures.

Alternatively, Board staff would have expected Hydro One Brampton to have applied the Board-approved of $286,250 as an offset to account 1550.

Board staff submits that the Board may wish to require Hydro One Brampton to reduce the balance in account 1550 by $286,250.

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.

Hydro One Brampton Specific Background

Annual Disposition

Hydro One Brampton has requested the disposition of its Group 1 account balance over a two year period. Board staff interrogatory # 6 requested that Hydro One Brampton complete and submit an updated version 4 of the Deferral Variance Account Workform. Hydro One Brampton has complied with this request.

Global Adjustment

In response to Board staff interrogatory # 3a Hydro One Brampton 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 #3b, Hydro One Brampton confirmed that 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 # 4a, Hydro One Brampton 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.

However, in response to Board staff interrogatory #4b, Hydro One Brampton stated that it did not 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. Hydro One Brampton however indicated that:

> "If the Board were to order the provision of such a rider, Hydro One Brampton's billing system would need to be modified as it is not currently capable of billing a separate rate rider for Non-RPP customers. However, with some programming and testing a system modification could be completed to address an order. It is assumed that only customers being billed the provincial benefit on their current bill would be charged this rate rider. On the surface this system modification does not appear to be costly to implement, however, this will depend on which customers the rate rider would affect at the time of billing. If programming required a search through historical data to establish when a current Non-RPP customer became a Non-RPP customer in order to determine if the rate rider would be applicable to that customer, programming may be quite extensive."

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 #5d, Hydro One Brampton indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Hydro One Brampton further indicated that:

> "Hydro One Brampton believes that the disposition rider for account 1588 – Global Adjustment should not be applied to the MUSH group of customers. The remaining MUSH customers who were previously on RPP energy prices did not choose to become Non-RPP customers, the provincial electricity rules and regulation caused these customers to become Non-RPP customers. These customers can be readily identified and they can be exempted from having rider applied to their accounts. This exemption should not apply to any other customers as the circumstances under which any switch from RPP to Non-RPP occurred were different. Note: although the MUSH customers can be identified, Information Systems applications would need to be programmed so this could be done; this would not be an automatic exemption."

Hydro One Brampton 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 $13,831,428. The balance in the 1588 global adjustment sub-account is a debit of $1,527,454. Hydro One Brampton 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.

Hydro One Brampton 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

As a matter of principle, Board staff would suggest 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. 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 Hydro One Brampton’s current billing system could not readily accommodate that change. Board staff suggests that it would be useful to the Board were Hydro One Brampton to 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 thee bill) could be readily implemented by Hydro One Brampton.

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 Hydro One Brampton's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that Hydro One Brampton stated in response to staff's interrogatory # 6d that Hydro One Brampton 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 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.

Hydro One Brampton Specific Background

Hydro One Brampton 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 Hydro One Brampton, 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 Hydro One Brampton 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.

Hydro One Brampton Specific Background

In response to Board staff interrogatory # 12a which asked if Hydro One Brampton agreed that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Hydro One Brampton stated that:

> "Yes, Hydro One Brampton believes that it is appropriate to establish a deferral account to record the Revenue Requirement over-collection in the 2010 rate year pertaining to potential, OM&A & capital expenditure, cost reductions if the GST and PST are harmonized.
>
> Potential cost reductions relating to the harmonization of GST and PST would translate into a Revenue Requirement over collection. We suggest that any over earnings should be shared equally between shareholder and rate payer similar to how the 2nd and 3rd Generation IRM models apportion the tax savings related to reductions in federal and provincial income and capital taxes. Hydro One Brampton could develop a process to estimate the savings and reflect those savings in the deferral account 1592 PILs and Tax Variances for 2006 and Subsequent Years."

Hydro One Brampton further stated that:

> “Hydro One Brampton believes that to determine the over-recovery of revenue that a Revenue Requirement based approach should be used to ascertain the cost reductions. The dollar amount of revenue over recovery includes cost reductions relating to OM&A charged against the income statement of the rate year and the over-recovery for capital expenditures including depreciation on reduced capital expenditures, the return on rate base impact, and the applicable PILS amount.
>
> Hydro One Brampton believes that it would not be possible to establish the Revenue Requirement over- collection accurately at the transactional level, but Hydro One Brampton can develop an approach to make such an estimate using a high level approach.
>
> The OEB could either require distributors to develop their own approach to identifying this savings or could consider undertaking an industry wide study by using a generic high level approach that could be used by all distributors to establish these cost reductions during an IRM year. Any approach used should take into consideration sharing the savings equally between the Shareholder and Customers. In addition, a predetermined materiality threshold could be established such that if it were not met, no distributor would perform any such adjustment to the variance account. Where the threshold is met distributors could record and track the savings in the variance account.”

Submission

Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Hydro One Brampton’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 Hydro One Brampton's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Hydro One Brampton 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