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BY EMAIL

February 9, 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 Oshawa PUC Networks Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0240**

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

Oshawa PUC Networks 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

Oshawa PUC Networks Inc.

EB-2009-0240

February 9, 2010

Board Staff Submission
Oshawa PUC Networks Inc.
2010 IRM3 Rate Application
EB-2009-0240

Introduction

Oshawa PUC Networks Inc. ("Oshawa PUC") 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 Oshawa PUC 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 Oshawa PUC.

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");
- Potential Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") rate rider(s);
- 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").

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.

Oshawa PUC Specific Background

Using the Board's Supplemental Filing module Oshawa PUC's Tax Sharing amount is a refund of $90,093. This amount when unitized using Oshawa PUC'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 $90,093 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 Oshawa PUC to record the Tax Sharing refund amount of $90,093 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.

Oshawa PUC Specific Background

Annual Disposition

On December 15, 2009 Oshawa PUC requested approval from the Board to withdraw its request to dispose of its Group 1 account balances from this rate application on the basis that the account balances were being reviewed for the years 2005 to 2008. Oshawa PUC indicated that the review is taking longer than expected due to the large amount of data and the complexity of the transactions recorded in the accounts under review. Oshawa PUC stated that it will request approval from the Board to dispose of the Group 1 account balances in its 2011 rate application.

Submission

Board staff considers that the review undertaken by Oshawa PUC is important to ensure the correctness of the account balances and as such, Board staff suggests that the Board should grant Oshawa PUC's request to withdraw this element of its application. Board staff would suggest that the Board encourage Oshawa PUC to apply for disposition of its deferral variance accounts immediately upon finalizing the review.

POTENTIAL LOST REVENUE ADJUSTMENT MECHANISM ("LRAM") RATE RIDER

Background

Oshawa PUC requested the recovery of an LRAM amount of $53,839.66 over a one year period. A third-party review of the LRAM calculations was not provided. However, Oshawa PUC stated that:

> "Oshawa PUC currently participates in OPA (Ontario Power Authority) programs only and relies on the analyses, evaluations and assessments performed by the OPA in their process of identifying program initiatives. Based on the materiality of the claims and all new 2008 programs are OPA, Oshawa PUC believes their reliance on the OPA is appropriate and sufficient.'

Submission

The Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008 outlines the information that is required when filing an application for LRAM.

Board staff submits that Oshawa PUC's application for LRAM recovery is consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM recovery.

TREATMENT OF SMART METER FUNDING ADDER

Background

Oshawa PUC has a current Board-approved smart meter funding adder of $1.00 per month per metered customer. In its application, Oshawa PUC is requesting an increase in its rate adder to $1.28 per month per metered customer. Oshawa PUC 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. Oshawa PUC is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

Oshawa PUC 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 Oshawa PUC has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Oshawa PUC makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Oshawa PUC’s proposal to increase its smart meter funding adder to $1.28 per month per metered customer.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Background

The Board’s Decision (EB-2007-0710) for Oshawa PUC’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 Oshawa PUC 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 Oshawa PUC has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with Oshawa PUC'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.

Oshawa PUC Specific Background

Oshawa PUC 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 Oshawa PUC, 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 Oshawa PUC 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.

Oshawa PUC Specific Background

In response to Board staff interrogatory # 9a which asked if Oshawa PUC agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Oshawa PUC stated that it does not agree. Oshawa PUC stated that:

> "The harmonization of sales taxes is expected to reduce our OM&A costs and capital expenditures in the long term. However, in the short term during the IRM period, our OM&A costs and capital expenditures are not likely to decrease significantly. Further, growth/reduction in capital expenditures is not incorporated into rates during the IRM period unless such growth/reduction exceeds the materiality threshold limit set by the OEB.
>
> There are other elements of Oshawa PUC's costs (other than PST) embedded into distribution rates such as property taxes, employment insurance rates, Canada pension plan rates, etc. Increases/decreases to all components of rates should be considered equally and simultaneously. In addition, harmonization of sales taxes (HST) may impact Oshawa PUC in other ways; for example, an increase in accounts receivable and a reduction to available working capital; and an increased exposure to bad debts."

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

Oshawa PUC 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