February 23, 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: Barrie Hydro Reply Submission
Barrie Hydro Distribution Inc.
2010 IRM 3 Application
Board File Number EB-2009-0245

Please find attached the Barrie Hydro Distribution Inc. ("Barrie Hydro") Reply Submission for the above proceeding.

Yours truly,

Original signed by Tom Barrett

Tom Barrett
Manager, Rate Applications

REPLY SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Barrie Hydro Distribution Inc.
EB-2009-0245

February 23, 2010

Barrie Hydro Reply Submission
Barrie Hydro Distribution Inc.
2010 IRM 3 Rate Application
EB-2009-0245

Introduction

Barrie Hydro Distribution Inc. ("Barrie Hydro") filed an application with the Ontario Energy Board (the "Board") on October 21, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Barrie Hydro charges for electricity distribution, to be effective May 1, 2010. The application was based on the 2010 3rd Generation Incentive Regulation Mechanism.

On February 2, 2010, Board staff made 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").

Barrie Hydro respectfully offers the following replies to the Board staff submissions.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT – GLOBAL ADJUSTMENT

In its 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 however notes that Barrie Hydro’s current billing system would not be capable to effect such a change mainly in relation to the potential exclusion of the MUSH sector and other designated customers that were on RPP.

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. Board staff hence agrees with Barry Hydro'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 Barrie Hydro's proposal."

Reply Submission

Barrie Hydro has reviewed Board Staff submission and agrees with Board Staff's proposal to establish a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would be applied to non-RPP customers, excluding the MUSH sector and other designated customers.

Barrie Hydro has some concerns regarding the implementation of a separate rate rider for the recovery of the Global adjustment portion of the cost of power retail settlement variances that is applied only to non-regulated price plan ("non-RPP") customers.

The main concern is the short time available between the rate decision and the effective date of the new rates for making billing system changes.

Another concern is regarding the practicality of being able to identify and exclude certain customers who are now non-RPP customers but were regulated price plan ("RPP") customers during the period January 1, 2005 to December 31, 2008, when this global adjustment variance arose.

Barrie Hydro proposes to calculate a separate rate rider of $0.0015 per kWh to recover the Global Adjustment variance over a period of one year. (See Table 1 below.) This will be applied to all non-RPP customers, with the exception of any MUSH (municipalities, universities, schools and hospitals) and other designated customers who were on the RPP as of December 31, 2008.

Table 1
Barrie Hydro
Allocation of RSVA - Global Adjustment (GA) Recovery

Rate Class	2008 Actual Non - RPP kWhs	% of Total	GA Allocated	kWh Rate Rider Non-RPP Customers only
Residential	128,744,853	16.2%	$ 191,929	$0.0015
General Service <50 kW	30,940,357	3.9%	$ 46,125	$0.0015
General Service 50 kW to 4,999 kW	621,814,313	78.5%	$ 926,982	$0.0015
Large Use > 5000 kW	-	0.0%	$ -	
Unmetered Scattered Load	479,466	0.1%	$ 715	$0.0015
Street Lighting	10,373,287	1.3%	$ 15,464	$0.0015
TOTAL	792,352,276	100.0%	$ 1,181,215	--

Barrie Hydro will update the proposed regulatory asset recovery rate riders to exclude the global adjustment variance, when preparing the draft rate order.

TREATMENT OF SMART METER FUNDING ADDER

Barrie Hydro is prepared to increase the smart meter funding adder to $1.61 per month per metered customer in accordance with the application and the Board staff submission.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

Barrie Hydro is prepared to make the changes to the revenue to cost ratios in keeping with the application and the Board staff submission. The changes impact the street lighting class by increasing their revenue to cost ratio to the Board's prescribed threshold with an offsetting reduction in the revenue to cost ratio for the residential class.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Barrie Hydro agrees with the Board staff submission that the Uniform Transmission Rates should be updated to reflect January 1, 2010 values. These amounts were in a Decision and Rate Order of the Board (EB-2008-0272) that was issued after Barrie Hydro submitted its IRM 3 rate application. This is an increase of about 15.6% to the Retail Transmission Service - Network Service rate, and an increase of about 5.2% to the Retail Transmission Service Retail - Line and Transformation Connection Service rate.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX (“HST”)

In its submission, Board staff indicated that:

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

Barrie Hydro 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."

Reply Submission

In response to Interrogatory # 8, Barrie Hydro indicated that during an incentive regulation period, it is expected that costs will fluctuate but the distributor must manage these changes in order to meet the allowed rate of return. Barrie Hydro pointed out a number of practical concerns with respect to establishing a deferral account related to the harmonized sales tax (HST), including transitional issues, uncertainty about increased costs and increased demands on cash flow. Finally, Barrie Hydro indicated willingness to participate in industry-wide consultation, if such an approach were to be undertaken by the Board.

In this Reply Submission, Barrie Hydro would like to expand upon these issues under the following headings:

- Incentive Regulation
- Practical Considerations
- Generic Approach

Incentive Regulation

The underlying premise of Incentive Regulation (IR) is that during the period between rebasings, the distributor has the opportunity to manage the cost components of distribution revenue in order to meet the allowed return on equity.

It is expected that during any IR period, costs categories will rise or fall and the distributor must manage the net result.

Barrie Hydro notes that HST is a tax on consumption rather than income. The Board's Third Generation Incentive Regulation Model takes into account income tax changes, sharing these 50% with customers. This is easily administered since the changes are applied to known base amounts. Implementing a similar model for HST within an IR period is complex, with some of the challenges noted below.

Practical Considerations

The term HST is somewhat of a misnomer in that the Ontario Provincial Sales Tax (OPST) in not being harmonized with the Goods and Services Tax (GST) on July 1, 2010, but rather the OPST is being cancelled simultaneous with an increase in the GST from 5% to 13%. The higher GST is referred to as the HST, is administered by the Federal Government, and the 8% collected will flow back to the Province of Ontario. The HST is generally subject to the same rules as the GST in that commercial organizations can claim a full Input Tax Credit (ITC) for most purchases.

Although the HST framework is relatively straight-forward, there are a number of practical considerations:

- There are a number of areas (called Temporary ITC Restrictions) where an amount equivalent to the OPST cannot be claimed as part of the ITC. These restrictions directly impact distributors. This includes licensed road vehicles under 3,000kg (including parts, certain service and fuel), electricity, gas, and combustibles except where used in manufacturing, telecommunications services other than internet access and toll-free numbers and food, beverages and entertainment. The ITC restrictions are in place for five years followed by a three year phase-out. There is increased cost to track and administer these restrictions.

- It should be noted that the provincial portion of the HST paid on electricity and natural gas costs, not eligible for the HST input tax credit, represent an additional cost that did not exist before, rather than a savings.
- There is no certainty that when the OPST ends June 30, 2010 the price paid for goods previously subject to the OPST will decline. Prices can fluctuate for any number of reasons, including market forces. For example, if a piece of equipment was purchased for $100 on June 30, the total cost would be $108 once the 8% OPST was included. There would be no ITC to claim. If however, an identical item was purchased for $110 on July 1, it would be subject to HST of 13% or $14.30. This $14.30 amount could be claimed as an ITC so the net cost of the equipment would be $110, or $2 higher than previously. It would seem inappropriate to record the OPST reduction in a deferral account since there has been no saving.
- All things being equal, bad debt expense will increase 8%. Similarly, the IESO invoice will increase 8%, putting significant pressure on working capital
- Rate base will increase slower than when the OPST was in place since, except for the ITC restriction areas, the OPST will not be booked to fixed assets. At the time of the next cost of services rate review, rate base will be lower that it otherwise would have been, thus reducing potential return.

Generic Approach

Barrie Hydro is of the view that consideration of the impact of the HST in an issue that affects all distributors. The creation of deferral account, if that is in fact appropriate, needs careful design in order to accurately capture the correct cost elements.

Barrie Hydro submits that Board should consider the HST issue in an industry-wide, generic context and not as part of the 2010 IRM rate application.

All of which is respectfully submitted.