

PUC Distribution Inc.

Reply Submission

2010 Electricity Distribution Rate Application

EB-2009-0247

February 24, 2010

Introduction

PUC Distribution Inc. ("PUC") filed an application with the Ontario Energy Board (the "Board") on October 20, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to PUC's distribution rates effective May 1, 2010. The application was based on the 2010 3rd Generation Incentive Regulation Mechanism. On February 3, 2010 the Board Staff issued a written submission to be provided to the Board based on its review of PUC's application and evidence. PUC respectfully submits this document as a reply submission to the Board.

Potential Tax Sharing Rate Rider

Issue

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. Using the Boards Supplemental filing module PUC's tax sharing amount is a refund of \$14,333. Board Staff noted that as a result of having kWh tax sharing rate adder of \$(0.0000) when rounded to the fourth decimal place and a kW tax sharing adder of \$(0.00) when rounded to the second place, the refund will not be returned to ratepayers which defeats the intent of the tax sharing process. Board Staff submits that the Board may consider directing PUC to record the refund of \$14,333 in variance account 1595 for disposition in a future rate application.

PUC Comment

PUC Distribution agrees the refund of \$14,333 would not be returned to customers as intended due to the amount of the volumetric tax sharing rate adder and rounding. PUC proposes the refund be considered immaterial and no further direction is required.

Disposition of Deferral and Variance Accounts as per the EDDVAR Report

Issue

As per the EDDVAR Report, PUC has determined the value of its December 31, 2008 Group 1 deferral and variance account balances and has requested disposition in the 2010 IRM rate application. 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 but noted that PUC's current billing system, at this time, would not be capable of such a change. Alternatively, Board staff suggests another approach which is to recover sub-account global adjustment 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. PUC has complied with the Boards accounting procedures but did disclose that accounting errors were discovered when reviewing the balances and cautioned the Board that the balances were unaudited. Board staff suggests that the Board consider approving the proposed deferral and variance account balance and 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.

PUC Comment

At this time PUC suggests the global adjustment sub-account be recovered from all customers in each rate class until further analysis of billing options is completed and PUC is able to readily implement billing alternatives. PUC also suggests that the Board approve PUC's deferral and variance account disposition requested in the application on a final basis. Since the disposal period requested for disposition is one year, PUC proposes that in the 2011 rate application the deferral and account balances requested for disposition will include any audited adjustments from prior periods.

Adjustments to the Retail Transmission Service Rates (RTSR)

Issue

In accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSR's 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.

PUC Comment

PUC is in agreement that the proposed network service rates be revised to reflect January 1, 2010 values.

Accounting for the Implementation of the Harmonized Sales Tax

Issue

Board staff submits that the Board may wish to consider establishing a deferral account to record amounts, after July 1, 2010 and until 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 a HST Input Tax Credit.

PUC Comment

PUC submits that establishing a variance account during the IRM period to track reductions in OM&A and capital expenditures imposes an enormous administrative burden on a utility. Furthermore, 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 numerous other elements of a utilities costs (other than PST) embedded into distribution rates such as property taxes, employment insurance rates, Canada pension rates, etc. and increases/decreases to all components of rates should be considered simultaneously. In addition, there would be an increased exposure to bad debts as accounts receivable increase. Addressing only the commodity tax component of rates during the IRM period amount to "a single-issue rate

adjustment". Therefore, PUC proposes in the IRM term that revenue requirement be established based on the current tax regime and that the issue is generic to the industry and a stakeholder consultation may be required to ensure implications of this tax change are fully addressed.

- All of which is respectfully submitted -