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February 26, 2010

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli,

Re: Board Staff Submission on Hydro One Brampton Networks Inc. 2010 IRM2 Rate Application; Board File Number EB-2009-0199

In response to the Ontario Energy Board's ("the Board") Staff Submission dated February 9, 2010, Hydro One Brampton Networks Inc. ("Hydro One Brampton") respectfully submits its responses.

Please find attached with this letter:

- Two (2) paper copies of Hydro One Brampton's responses to the Board Staff Submission for the 2010 IRM2 Electricity Distribution Rate Application as well as copies of the print screen of the online confirmation displaying the RESS submission reference number for Hydro One Brampton's responses the Ontario Energy Board Staff Interrogatories.

We would be pleased to provide any additional information that the Board requires in review of Hydro One Brampton's responses to the Board Staff Interrogatories. If additional information is required please contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Miller". The signature is fluid and cursive, with the first name "Scott" and last name "Miller" clearly distinguishable.

Scott Miller
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Hydro One Brampton Networks Inc.
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(905) 452-5504

Roger A. Albert, President & CEO, Hydro One Brampton Networks Inc.
Jamie Gribbon, Vice-President of Finance & Administration, Hydro One Brampton Networks Inc.

Encl.

APPLICATION FOR APPROVAL OF 2010 ELECTRICITY DISTRIBUTION RATES

REPLY SUBMISSION TO BOARD STAFF

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. On December 17th, 2009, Hydro One Brampton received a series of interrogatories from the Board staff. On January 13th, 2010 Hydro One Brampton responded to those interrogatories. On February 9th, 2010 Hydro One Brampton received the Board’s staff submission pertaining to the application. Hydro One Brampton Networks submits this document in reply to the Board’s staff submission.

Board staff made submissions on the following issues:

- 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”).

Hydro One Brampton’s has reviewed the Board’s staff submission pertaining to the disposition of the Deferral and Variance Accounts. Hydro One Brampton is proposing that since Hydro One Brampton has now completed its 2009 fiscal year end, and the *Group 1 Account* balances have been audited, that the Board approve the disposition of all Group 1 Account balances as of December 31, 2009. As we will illustrate later, this will reduce impacts associated with the termination of the rate rider at the end of the disposition period.

Potential Low Voltage Rate Adder

Hydro One Brampton has adjusted the LV Charge to be applied as an offset to account 1550 expenditures per the Board staff's suggestion and has performed the following calculations in Schedules 1 through 3 to determine the incremental LV Charges to be credited to account 1550. As discussed above, Hydro One Brampton is requesting disposition of Deferral and Variance Accounts to the end of December 31, 2009. The following analysis is performed based on the LV amounts collected to the end of December 31, 2009.

Board staff recommended that Hydro One Brampton apply \$286,250 to account 1550. Hydro One Brampton does not agree with this amount of disposition as some of the rates associated with this amount were too small that they did not impact our rates. As a result, no revenue collection was recognized for this account for the Residential and Small General Service rate classes. Hydro One Brampton is proposing to apply \$219,087 to account 1550 expenditures based on the following explanation.

| Schedule 1 | | | | | |
|--|------------------|--|--|--|--|
| Impact on Volumetric Distribution Rates Due to LV Charges | | | | | |
| Rate Class | Billing Quantity | A Distribution Volumetric Rate - Excl LV Adj. | B Distribution Volumetric Rate - Incl LV Adj. | C Difference in Rates Due to LV Charges Adjustment | D LV Charges Adjustment Calculated in 2006 EDR |
| RESIDENTIAL | per kWh | 0.0158 | 0.0158 | - | 0.00002847 |
| GENERAL SERVICE Less than 50 kW | per kWh | 0.0182 | 0.0182 | - | 0.00002656 |
| GENERAL SERVICE Other > 50 kW (specify) . 50 kW to 699 kW | per kW | 2.3404 | 2.3508 | 0.0104 | 0.01040880 |
| GENERAL SERVICE Other > 50 kW (specify) .700 kW to 4999 kW | per kW | 3.8167 | 3.8288 | 0.0121 | 0.01208561 |
| GENERAL SERVICE Large Use (> 5000 kW) | per kW | 2.9602 | 2.9747 | 0.0145 | 0.01448395 |
| GENERAL SERVICE Unmetered Scattered Load | per kWh | 0.0182 | 0.0182 | - | - |
| SENTINEL LIGHTING | per kW | 3.8848 | 3.8936 | 0.0088 | 0.00874543 |
| STREET LIGHTING | per kW | 2.2507 | 2.2596 | 0.0089 | 0.00886149 |

Schedule 1 above is a calculated the Incremental Volumetric Rates per unit. Column A identifies the rates to be applied to the various customer classes before the LV adjustments were applied. Column B identifies the rates to be applied to the various customer classes after the LV adjustments were applied. Column D identifies the rates associated with the collection of LV charges as per the 2006 EDR model. Column C identifies the rates associated with the collection of LV charges that were effectively approved and applied to the customers.

Since Distribution Volumetric Rates are rounded to 4 decimal places, any amount applied to account 1550 should also be rounded to the same degree of precision. The amount of LV charges collected through rates is therefore less than the forecast LV costs of \$94,500 due to this rounding impact.

| Schedule 2 | | | | | |
|--|------------------|---|----------------------------------|---------------------------------|--|
| LV Charges Recovered Through Rate Rider | | | | | |
| Rate Class | Billing Quantity | E=C Difference in Rates Due to LV Charges Adjustment | F kWh Determinants - 2006 EDR | G kW Determinants - 2006 EDR | H = F X E or G X E LV Costs Recovered |
| RESIDENTIAL | per kWh | - | 989,558,788 | - | - |
| GENERAL SERVICE Less than 50 kW | per kWh | - | 276,748,729 | - | - |
| GENERAL SERVICE Other > 50 kW (specify) . 50 kW to 699 kW | per kW | 0.0104 | 1,018,101,225 | 2,771,782 | 28,827 |
| GENERAL SERVICE Other > 50 kW (specify) .700 kW to 4999 kW | per kW | 0.0121 | 827,789,524 | 1,918,198 | 23,210 |
| GENERAL SERVICE Large Use (> 5000 kW) | per kW | 0.0145 | 244,039,963 | 443,840 | 6,436 |
| GENERAL SERVICE Unmetered Scattered Load | per kWh | - | - | - | - |
| SENTINEL LIGHTING | per kW | 0.0088 | 80,647 | 233 | 2 |
| STREET LIGHTING | per kW | 0.0089 | 19,634,754 | 58,210 | 518 |
| | | | | | 58,993 |

Column H (E=C) in Schedule 2 above calculates the amount that would be applied to determine the annual amount of offset to account 1550 based on the actual approved rates and the corresponding volumes. When the actual approved rates are applied to the effective volume in Column E, used in the 2006 EDR, the total annual disposition to account 1550 is \$58,993. Since the unit prices were not rounded in the 2006 EDR, the LV Charges per unit prices are overstated by \$35,507 (\$94,500 - \$58,993) for the first year of the LV implementation.

| Schedule 3 | | | | | | |
|--|-------------|--|--|--|--|--|
| Recovery of Low Voltage Charges ("LV charges") | | | | | | |
| | GDP-IPI - X | LV Costs Recovered May 1 2006 to April 30 2007 | LV Costs Recovered May 1 2007 to April 30 2008 | LV Costs Recovered May 1 2008 to April 30 2009 | LV Costs Recovered May 1 2009 to Dec 31 2009 | LV Charges Recovered From May 1 2006 to December 31 2009 |
| LV Charges Recovered May 1 2006 to April 30 2007 | | 58,993 | | | | 58,993 |
| IPI-X for May 1 2007 to April 30 2008 | 0.92% | | | | | |
| LV Charges Recovered May 1 2007 to April 30 2008 | | | 59,535 | | | 59,535 |
| IPI-X for May 1 2008 to April 30 2009 | 0.90% | | | | | |
| LV Charges Recovered May 1 2008 to April 30 2009 | | | | 60,071 | | 60,071 |
| IPI-X for May 1 2009 to Dec 31 2009 | 1.10% | | | | | |
| LV Charges Recovered May 1 2008 to Dec 31 2008 | | | | | 40,488 | 40,488 |
| | | | | | | 219,087 |

Schedule 3 above calculates the total amount of \$219,087 collected through rates for the period from May 1, 2006 to December 31, 2009. The amount, \$40,488 for the period from May 1 2009 to December 31, 2009 is based on 8/12ths of the annual amount of \$60,732, (\$60,071 X 1.011 X 8/12) = \$40,488. Hydro One Brampton believes \$219,087 would be correctly applied to determine the retroactive amount of offset to apply to account 1550 expenditures.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Global Adjustment

Hydro One Brampton agrees with OEB staff that a separate rate rider should be established for the disposition of the global adjustment sub-account balance, and that it would apply prospectively to non-RPP customers, excluding the MUSH sector and other designated customers that were on RPP. Hydro One Brampton has made a programming assessment regarding the systems changes that would be needed and has determined that this separate rate rider can be readily implemented in time for a May 1st 2010 rate implementation.

Disposition Period for Group 1 Accounts

Hydro One Brampton has reviewed the OEB Staff comments on the disposition of Group 1 accounts including the Global Adjustment sub account and would like to correct OEB Staff statements relating to Hydro One Brampton's concerns with respect to the impact on cash flow if the one-year default disposition period was used. Hydro One Brampton did indicate in its original 2010 Distribution Rate Adjustments submission dated November 6, 2009 on page 4 paragraph three that it had Cash Flow concerns:

"Hydro One Brampton proposes a two year disposition as a reduction of revenues in excess of \$12M over one year is considered significant, and would create cash flow issues for the company."

Hydro One Brampton is very concerned regarding the cash flow issues that would be created by a one year disposition period. Hydro One Brampton has compared its *Group 1 Account* balances as of December 31, 2008 and December 31, 2009 in Schedule 4 below. The Deferral

and Variance Account balances have fallen from December 31, 2008 to December 31, 2009 mainly due to the RSVA – Power (Global Adjustment Sub-account).

| Schedule 4 | | | | |
|---|------|---------------------|--------------------|------------------|
| Deferral and Variance Account Balances | | | | |
| | | Dec 31 2008 | Dec 31 2009 | Change |
| LV Variance Account | 1550 | 357,009 | 128,908 | (228,101) |
| RSVA - Wholesale Market Service Charge | 1580 | (10,927,992) | (11,918,856) | (990,864) |
| RSVA - Retail Transmission Network Charge | 1584 | (504,430) | 149,959 | 654,389 |
| RSVA - Retail Transmission Connection Charge | 1586 | (1,419,701) | (2,110,933) | (691,232) |
| RSVA - Power (Excluding Global Adjustment) | 1588 | (732,062) | (955,550) | (223,488) |
| RSVA - Power (Global Adjustment Sub-account) | 1588 | 1,527,455 | 6,469,456 | 4,942,001 |
| Recovery of Regulatory Asset Balances | 1590 | (604,254) | (603,793) | 461 |
| | | (12,303,975) | (8,840,808) | 3,463,166 |
| 2009 Service Revenue | | 64,893,990 | 64,893,990 | |
| % of Service Revenue | | -19.0% | -13.6% | |

Hydro One Brampton now has completed its 2009 fiscal year end and the *Group 1 Account* balances have been audited. Since the 2009 balances (\$8,840,808) are more current than the 2008 balances (\$12,303,975), as previously mentioned, Hydro One Brampton requests to dispose of the 2009 balances over a 2 year period.

By disposing of *Group 1 Accounts* over two years the cash flow impacts to Hydro One Brampton would be reduced. Disposing of the 2009 balances as opposed to the 2008 balances, the amounts refunded to customers would be partially offset by the growing trend in the growth of the debit balance in the global adjustment.

In addition, a two year disposition for all *Group 1 Deferral and Variance Accounts* would help mitigate customer bill impacts subsequent to the disposition period. Disposing of the accounts over a one year period would cause a larger impact in the year subsequent to customers once the disposition ended. A two year disposition period would allow for more rate stability with less rate volatility and customer rate shock.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Hydro One Brampton agrees that the proposed rates be revised to reflect the January 1, 2010 wholesale transmission rates, and will do so pending the Board's decision on Hydro One Brampton's rate application.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

The Board staff submission states:

"To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement."

Hydro One Brampton agrees with this clarification and believes that a revenue requirement approach would capture the most reasonable dollar value to record in the proposed deferral account. This approach would allow for the tracking of the distribution revenue requirement impact of the HST tax savings and would require the recording of the change in OM&A, Amortization, Regulated Return on Capital, and PILs for the cost of the subject items that would be realized in the distribution revenue requirement.

In order for subject items to be realized in the distribution revenue requirement these items must have been recorded as capital or OM&A (not inventory) and have been reflected in the LDCs Financial Statements. An approach to determining the amounts realized through the Income Statement would be to separate inventory and non-inventory related tax savings and apply an inventory turnover ratio for the inventory costs realized in the LDC's financial statements.

With this clarification Hydro One Brampton agrees with the establishment of a deferral account to record the PST amounts, after July 1, 2010 until Hydro One Brampton's next cost-of-service rebasing application. This will be implemented for the 2011 rate year. Hydro One Brampton will calculate and record the distribution revenue requirement impact in the proposed deferral account for all subject purchases from July 1st 2010 to December 31st, 2010.

Hydro One Brampton advocates that the amounts recorded to the proposed deferral account should be half of the distribution revenue requirement impacts such that there would be a 50/50 sharing similar to how the savings relating to the PILS tax rate changes are being handled in the IRM rate models.

Conclusions:

Hydro One Brampton will be pleased to submit all required rate calculations and updated models pending the results of the Board's decision relating to our issues.