VIA RESS AND MAIL

February 26, 2010

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

Dear Ms. Walli:

**RE: TILLSONBURG HYDRO INC.
EB-2009-0251
2010 Electricity Distribution Rate Application
Reply Submission**

Please find enclosed the Reply Submission from Tillsonburg Hydro Inc. in the above noted proceeding.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours truly,

S.T. Lund, P. Eng.
General Manager
Tillsonburg Hydro Inc.

cc. EB-2009-0251 All Intervenors of Record

Tillsonburg Hydro Inc.

EB-2009-0251

2010 Electricity Distribution Rates

Reply Submission

February 26, 2010

Introduction

Tillsonburg Hydro Inc. ("THI") filed an application with the Ontario Energy Board ("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 THI charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd Generation Incentive Regulation Mechanism. ("3GIRM").

On December 15, 2009, THI received Board staff's interrogatories.

On January 11, 2010, THI filed its response to Board staff interrogatories.

On February 5, 2010, THI received Board staff's submission based on its review of the evidence provided by THI.

The purpose of this document is to provide THI's responses to Board staff's submission 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")

Disposition of Deferral and Variance Accounts as per the EDDVAR Report

THI's Group 1 accounts for the 2008 fiscal year, excluding the 1588 global adjustment sub-account ("1588-GA"), totaled a credit of $370,857. The balance of the 1588-GA for 2008 has been determined to be a debit of $92,513. As the net amount of these accounts exceeded the preset disposition threshold of $0.001 per kWh, THI filed the Deferral and Variance Account Workform ("DVAW") and proposed disposition of the balance over a 1 year period.

The requested disposition represents the accumulation of one year's activity, not four years as stated by Board staff, as Board Decision (EB-2008-0246) approved final disposition of the balance in these accounts as at December 31, 2007.

The DVAW required that the 1588-GA be allocated to each class based on the Non-RPP consumption of each class and recovered from all customers in the class as combined into a singular rate rider with the Group 1 accounts. This method, to recover the allocated 1588-GA balance from all customers in each class, is Board Staff's secondary option for the method of disposition.

Board staff prefers establishing two separate rate riders; one rate rider for the disposition of Group 1 account, excluding 1588-GA, and a second for the disposition of 1588-GA. And, the 1588-GA rate rider would be applied prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. However, Board staff continued to state that CIS limitations would not allow THI to exclude the MUSH sector and other designated customers that were on RPP.

If the MUSH sector and other designated customers must be excluded, THI had proposed that an adjustment process similar to the OPG/MPMA Rebate process be considered. Board staff suggested that this process appeared onerous.

THI stated that "if current Non-RPP Standard Supply Service customers are the only customers that would be eligible for the distribution rate rider, its billing system would be capable of billing these customers a separate rate rider. If Retail customers or customers that have moved to/from RPP also qualify, Tillsonburg would not be able to effectively apply the separate rate rider." Upon further review of its CIS system, THI now believes that it would be capable of applying a rate rider to current Non-RPP customers, whether they are Standard Supply Service or Retail.

Therefore, THI submits that it now prefers the establishment of a separate rate rider for the disposition of 1588-GA. And, that the rate rider would be applied prospectively to all current Non-RPP customers. Customers that were previously Non-RPP, and now RPP, would be excluded. Customers that were previously RPP and now Non-RPP would be included. THI recommends this method as it best reflects cost causality since it was a group of Non-RPP customers that were undercharged in the first place.

Treatment of Smart Meter Funding Adder

THI has complied with the policies and filing requirements of the Smart Meter Guideline, is requesting that its smart meter funding adder to increase to $2.17 per month per metered customer. Actual smart meter expenditures will be subject to review when THI's application for disposition of the account balances is prepared for a subsequent proceeding. Board Staff took no issue with THI's proposal.

Adjustments to Revenue to Cost Ratios

THI applied adjustments to the Revenue to Cost Ratios in accordance with the prescribed phase-in period in the Board Decision (EB-2008-0246). Board staff submits that THI complied with the filing requirements of the 2010 Supplemental Filing Module and took no issue with THI's revenue to cost adjustments.

Adjustments to the Retail Transmission Service Rates (RTSR)

When THI filed its application on October 21, 2009, it applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy rate adjustments, as required. The proxy rate adjustments were an increase of 3.5% for the Network Service Rate and a decrease of 2.2% for the combined Line and Transformation Connection Service Rates.

Board staff submitted that THI "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 Transmission Connection Service Rate" as "very few distributors, including Tillsonburg, included in their 2009 rates the July 1, 2009 level of Uniform Transmission Rates ("UTR") since for most of them, distribution rates would have been implemented on May 1, 2009." Board staff's calculations assert that THI's 2009 Rate Application adjusted its RTSRs to only reflect the January 1, 2009 level of UTRs.

However, THI's 2009 Rate Application did adjust its RTSRs to reflect the July 1, 2009 UTRs. In THI's 2009 draft rate order, filed on July 24, 2009, THI noted that it had "estimated the proportional change in the level of the Board authorized UTRs from 2008 to those effective July 1, 2009 and adjusted its RTSRs according to these proportions." These adjusted rates were approved by the Board in its Decision and Rate Order, issued August 31, 2009, effective September 1, 2009.

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;
- 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.

THI submits that its 2010 proposed RTSRs be revised to reflect the change in the UTRs from the July 1, 2009 level to the January 1, 2010 level, or an increase of 11.7% for the Network Service Rate, and a increase of 7.5% for the combined Line and Transformation Connection Service Rates.

Accounting for the Implementation of the Harmonized Sales Tax ("HST")

The Ontario provincial sales tax ("PST") (currently at 8%) and the Federal goods and services tax ("GST") (currently 5%) will be harmonized effective July 1, 2010, at 13%, pursuant to Ontario Bill 218 which received Royal Assent on December 15, 2009.

THI acknowledges that PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in its OM&A expenses and capital expenditures. And, therefore PST is included in the revenue requirement and recovered through distribution rates.

Board Staff noted that many distributors' comments on the administrative burden of costs of sales tax harmonization are at odds with the Provincial and Federal governments' pronouncements regarding the stimulative and competitive results of the harmonization. Board Staff submits that "because the costs and savings are not clear at this point, Board Staff submits that tracking of these is warranted at the point to quantify, per government pronouncements, that the potential savings for corporations like Tillsonburg 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 Tillsonburg's next cost-of-service rebasing application."

THI submits that establishment of a deferral account and tracking of the costs and savings due to the HST is not appropriate in 3GIRM application. The appropriate time to address this issue is during a Cost of Service application when all OM&A expenses and capital expenditures are presented on a forward test year basis to the Board. THI is expected to manage any deviations from those projections, both increases and decreases in costs, in the year that they occur. The cost THI assumes a supplier will charge in the forward-test projection is unlikely to match the actual cost incurred. No deferral accounts are set up to record the differences between projected expenses and actual costs.

And, a HST deferral account presupposes that suppliers that previously charged PST will pass on this savings to customers and that prices will not rise. Even without the change in to an HST regime, the cost of goods and services procured might be higher simply due to normal price increases. Thus the HST charged will bear no relation to the PST cost assumed in the test-year projections.

THI also notes that numerous other government mandated rates and costs may change during an IRM regime, including and not limited to, WSIB rates, Canada Pension Plan rates, Employment Insurance rates and Property taxes. As THI is not required to track these costs in a deferral account or allowed to adjust its rates during the 3GIRM regime for any such changes, isolating only the PST change is neither justifiable, nor fair. Addressing only the commodity tax component of rates, during the 3GIRM period, amounts to a single-issue rate adjustment; and on that basis it should be rejected.

To track the savings and costs in a deferral account is an increase to the administrative burden that the governments' pronouncements did not anticipate. THI believes that the cost to modify its CIS and financial system to maintain two sets of financial records significantly mitigates the expected benefit. Specifically, additional staff resources (full-time equivalents "FTE") would be required as every invoice would have to manually adjusted with additional accounts to track the PST variance requirement. One coding would be required for the HST return, and another set of coding to allow PST variance accounting. The accounts payable department would also need to know which expenditures were allowed to be included in THI's Revenue Requirement, and which ones the recovery of was denied (i.e. paper and postage), as well as costs not anticipated or recoverable (i.e. special projects like a Strategic Review) and to be excluded. Ensuring that all expenses are recorded correctly given the multiple special treatments significantly increases the need for interdepartmental co-ordination. As was noted by Board staff in the 2009 Rate Application, THI regulatory staff is under resourced. THI's request to increase resources was denied. As additional staff resources would be required to facilitate recording and tracking this variance, the PST savings would be offset.

Since THI rebased its rates in 2009, and assuming the current expected 4 year rebasing schedule, Board staff's submission would require THI to track these differences for a minimum period of 3 years. THI notes that this extended period of time that the variance is tracked is a clear example of increased administrative burden.

Also, THI does not agree that PST savings on capital expenditures can be recorded in the same variance account and treated the same as OM&A expenditure savings. The revenue requirement reflects a level of capital expenditures, but only a fraction of the current year expenditure forms part of rate base. To record the full PST in the variance account would increase capital expenditures and rate base, which will result in a long-term multi-year recovery (approximately 20 to 25 years) through future rates. If PST savings on capital expenditures are recorded in a variance account and returned in the short-term, the result would be a return to the customer of revenues THI has not yet collected. And, adding a second variance account to track PST variances on capital expenditures separately from OM&A would add another layer of additional administrative burden.

Bad Debt expense and Collection costs are also likely to increase. With a customer now paying an additional 8% with the HST, the chance of non-collection of an account increases. It would be extremely difficult to determine which portion of the increased collection costs is due to HST implementation.

Another factor to consider is the impact on working capital allowance. With the IESO invoice increasing 8%, the need for working capital increases, which would increase the Revenue Requirement of the utility.

All of which is respectfully submitted.