St.Thomasenergyinc.
We're Your Local Power Distributor

March 2, 2010

Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli,

St. Thomas Energy Inc.
2010 IRM2 Distribution Rate Application
Board Staff Submission on St. Thomas Energy Inc.
Board File No. EB-2009-0208

St. Thomas Energy Inc. is filing a response to an Ontario Energy Board Staff Submission dated February 8, 2010.

Also included are the following Excel Spreadsheets:

1. A revised 2010 Incentive Rate Mechanism (IRM 2) Rate Generator Model has been filed to address items 2 and 3 below along with Matter # 3 below,
2. A revised IRM Deferral and Variance Account Work Form (Version Four) has been filed to adjust previously reported carrying charges for all Deferral Accounts requiring disposition with explanations noted under Matter # 1 below and
3. Re-submission of the Smart Meter Calculation Model (un-revised) made on January 18, 2010 with explanations noted under Matter # 2 below

In addition to the above an information sheet has been included with two parts entitled "Appendix A" and "Appendix B".

135 Edward Street, St. Thomas Ontario N5P 4A8
Telephone 1-519-631-5550 Fax 1-519-631-5193

Response to the Ontario Energy Board Staff Submission dated February 8, 2010

The original submissions are in bold and italicized font for each matter requiring comment. Each comment is provided directly after each italicized area and is indicated in green.

Matter # 1 - Disposition of Deferral and Variance Accounts as per the Electricity Distributors' Deferral and Variance Account Review Report (the "EDDVAR Report")

a) ***St. Thomas Energy did not address any concern with respect to the impact on its cash flow were it to use the one-year default disposition period contemplated in the EDDVAR Report to clear its deferral and variance account balances.***

Comment : St. Thomas Energy Inc. indirectly addressed its concern with cash flow having requested the four year period on the spreadsheet due to the magnitude of the net amount being credited back to customers. Based on experience with the 2006 Rate Application Approval St. Thomas Energy Inc. was allowed a two year period in which to collect $ 302,587 from its customers. That amount represented approximately 5% of total annual distribution revenue. In the case of the 2010 Rate Application there is about $ 800,000 or 13% of total annual distribution revenue possibly being required to be returned to customers over a one year period. This is a significant amount of funds being returned to customers and will undoubtedly affect the LDCs cash flow negatively over a one year period. Had this occurred over the last four years it would not have been as much of an issue.

Appendix A of this response includes information on the filing of the IRM Deferral and Variance Account Work Form (i.e. original filing in October 2009, Revision # 1 in January 2010 and Revision # 2 included with this response). Revision # 2's claim period has been changed to 3 years from 4 years. To be clear the Global Adjustment could be applied over a one year period but the balance of the deferral accounts would be applied over a three year period.

An alternative to Revision # 2 has been suggested based on St. Thomas Energy Inc.'s, review of the Board's EB-2009-0405 Decision. More specifically stated that consideration be given to using the balance in Account 1588 Power Sub Account Global Adjustment at September 30, 2009 instead of the balance at December 31, 2008 due to the nine month significant increase in the balance by approximately $ 900,000. By doing so this would create a minor positive cash flow situation over the next 12 months (one year disposition period). This would also more fairly match the application of the difference to the Non RPP Customer group before the change in the MUSH Group occurred. In summary then all amounts would be applied over a one year period.

b) ***Board staff however notes that St. Thomas Energy did not receive confirmation from its Application Service provider on whether its current billing system could accommodate that change at the time the interrogatory responses were submitted. Board staff suggests that it would be useful to the Board were St. Thomas Energy to provide a status update, and to also review the Board's EB-2009-0405 Decision dated January 29, 2010 and provide comments in its reply submission as to whether the approach for the disposition of the global adjustment contained in that Decision (i.e. implementation through an adjustment to the Provincial Benefit item on the bill) could be readily implemented by St. Thomas Energy.***

Comment : St. Thomas Energy Inc. has received confirmation from its Application Service Provider that it is able to dispose of the global adjustment portion through a rate rider that would be allocated only to Non RPP Customers. This rate rider could be shown as a separate line on the bill or included as part of the Distribution Charges line. The MUSH Group Accounts, transferred over last November, can be excluded from the rate rider calculations. This could be implemented in time for May 1, 2010 rate changes. The Application Service Provider recommended this as the only viable solution that could be utilized in time for May 1, 2010 and which would provide a clear audit trail for the dispositions to be made.

c) ***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. In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.***

Comment : Please refer to the comments made in a) above and Appendix A.

d) Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with St. Thomas Energy's RRR filings. Board staff has reviewed the balances and notes that the changes do result in material differences. Board staff notes that St. Thomas Energy stated in response to staff's interrogatory # 4d that St. Thomas Energy has complied with the Board's accounting policies and procedures. Board staff is mindful of the importance of a timely disposition of deferral and variance account balances and does not believe that the disposition should be delayed. Board staff suggests that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis.

Comment : St. Thomas Energy Inc. is submitting a Revision # 2 Total Claim with this response. Please refer to Appendix B for more information on the financial part. This adjustment relates to revised interest calculations due to incorrect monthly rates being applied on opening monthly balances over the 2005 to 2008 period. This has been rectified in 2009 and moving forward. Account 1590 was also reviewed and changes were made to remove interest calculations from May 2006 to December 2008 as there was no principal balance involved over that period. Please consider these changes as final.

As indicated in Appendix B differences between the RRR filings and the Revision # 2 Total Claim as at December 31, 2008 will be included as adjustments in the 2009 4th Quarter RRR Filing. The 2009 RRR filings for 3rd and 4th Quarter will be revised to include corrected 2009 information as well.

Matter # 2 - Treatment of Smart Meter Funding Adder

Board staff submits that St. Thomas Energy has complied with the policies and filing requirements of the Smart Meter Guideline with one exception. St. Thomas Energy has included stranded meters' costs in the smart meter rate adder calculation. The Board has directed distributors to report the stranded meter costs in sub-account: Smart Meter Capital and Recovery Offset Variance Account 1555 sub-account Stranded Meter Costs. Accordingly, Board Staff that suggests that a stranded meter costs review is better suited for inclusion in a cost of service application. This treatment would be consistent with the EDDVAR Report which contemplates the review and disposition of Group 2 accounts, including accounts 1555 and 1556, at the time of rebasing.

Hence, Board staff would suggest that the Board may wish to deny St. Thomas Energy's request to increase its smart meter funding adder to $3.17 per month per metered customer. Board staff suggests that St. Thomas Energy may wish to file a revised rate adder request that would exclude stranded meters' costs.

Comment : St. Thomas Energy Inc. has filed a revised utility specific funding adder that excludes stranded meter costs. As evidence St. Thomas has provided a smart meter calculation model, with this response, which is in addition to other documentation previously submitted. St. Thomas Energy Inc. wishes to change its funding adder request from $ 3.17 to $ .52 per month per metered customer.

Matter # 3 - Adjustments to the Retail Transmission Service Rates

Board staff notes that very few distributors, including St. Thomas Energy, 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 St. Thomas Energy 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.

Comment : St. Thomas Energy Inc. has revised its application to reflect the Decision and Rate Order of the Board in the EB-2008-0272 proceeding issued January 21, 2010 revising the UTRs effective January 1, 2010.

Matter # 4 - Accounting for the implementation of the Harmonized Sales Tax ("HST")

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 St. Thomas Energy 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 St. Thomas Energy'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 St. Thomas Energy's next cost of service application is determined by

the Board or until the Board provides guidance on this matter, whichever occurs first.
St. Thomas Energy 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.

Comment : St. Thomas Energy Inc. is due to file a Rate Rebasing Application in August of 2010 for rates to become effective in May 2011. It may make sense that the application include adjustments for 2010 and 2011 estimated information. Consideration should be given, in light of LDCs who will be filing a Rate Rebasing Application this year, to a process separate and apart from those LDCs that have already filed rebasing applications in the past. Whatever is decided it would be appreciated if this could be communicated as soon as possible to all LDCs submitting applications this year.

Respectfully submitted for the Board's consideration.

Dana A. Witt

Dana A. Witt,
Chief Financial Officer
St. Thomas Energy Inc.
Ext 223

APPENDIX A

C1.5 Reg Assets - Con Sch Final

Account Description		Account Number	Original Total Claim	Revision # 1 Total Claim	Revision # 2 Total Claim	Alternative To Revision # 2 Total Claim
LV Variance Account		1550	0.00	0.00	0.00	0.00
RSVA - Wholesale Market Service Charge		1580	-864,464.52	-864,464.52	-831,651.18	-831,651.18
RSVA - Retail Transmission Network Charge		1584	267,305.95	267,305.95	277,097.40	277,097.40
RSVA - Retail Transmission Connection Charge		1586	225,588.43	225,588.43	232,957.65	232,957.65
RSVA - Power (Excluding Global Adjustment)		1588	670,325.73	-664,344.22	-656,621.99	-656,621.99
RSVA - Power (Global Adjustment Sub-account)			-1,135,549.46	200,652.45	**195,033.63**	**1,061,060.53**
Recovery of Regulatory Asset Balances		1590	-52,989.41	-45,831.59	-11,411.99	-11,411.99
Disposition and recovery of Regulatory Balances Account		1595	0.00	0.00	0.00	0.00
	Total		-889,783.28	-881,093.50	**-794,596.47**	**71,430.43**
Submitted to the OEB on			29-Oct-09	12-Jan-10	02-Mar-10	
Disposition Period Requested			Four Years	Four Years	Three Years	One Year
Time Period			2005 to 2008	2005 to 2008	2005 to 2008	2005 to **2009***

2009* - add transactions (principal only) Jan to Sep 2009 that total $ 866,026.90

APPENDIX B

C1.4 Reg Assets - Con Sch 2008

Account Description		Account Number	Original Total Claim	Revision # 1 Total Claim	Revision # 2 Total Claim	RRR Filing Amount as of Dec-31-08	Difference
LV Variance Account		1550	0.00	0.00	0.00	0.00	0.00
RSVA - Wholesale Market Service Charge		1580	-785,469.94	-854,163.03	-821,349.69	-814,312.57	-7,037.12
RSVA - Retail Transmission Network Charge		1584	242,895.72	264,120.36	273,911.81	264,100.13	9,811.68
RSVA - Retail Transmission Connection Charge		1586	224,475.47	222,644.42	230,013.64	210,885.42	19,128.22
RSVA - Power (Excluding Global Adjustment)		1588	555,027.36	-656,419.33	-648,697.10	562,207.26	-1,210,904.36
RSVA - Power (Global Adjustment Sub-account)			-964,193.40	198,093.80	192,474.98	-1,048,254.91	1,240,729.89
Recovery of Regulatory Asset Balances		1590	0.00	-45,831.59	-11,411.99	-192,147.89	180,735.90
Disposition and recovery of Regulatory Balances Account		1595	0.00	0.00	0.00		
	Total		-727,264.79	-871,555.37	-785,058.35	-1,017,522.56	232,464.21
Submitted to the OEB on			29-Oct-09	12-Jan-10	02-Mar-10	02-Mar-10	
Time Period			2008 Ending Bal	2008 Ending Bal	2008 Ending Bal	2008 Ending Bal	To Be Included as 2009 4th Qtr Adjustment in RRR Filing