Oshawa
PUC Networks Inc.
100 Simcoe Street South, Oshawa, Ontario L1H 7M7 • Tel. (905) 723-4623 • Fax (905) 743-5220 • E-mail contactus@opuc.on.ca

February 24, 2010

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

Re: Oshawa PUC Networks Inc. ("Oshawa") 2010 Electricity Distribution Rate Application (EB-2009-0240) – Reply Submission

Dear Ms. Walli:

Please find enclosed Oshawa's reply submission in the above noted proceeding.

If you have any questions or concerns with this submission, please feel free to contact me at (905) 743-5209.

Sincere regards,

(Original signed by)

Phil Martin
VP Finance & Regulatory Compliance

CC Michael Buonaguro, Counsel for Vulnerable Energy Consumers Coalition ("VECC")
Interveners in EB-2009-0240

Enc.

Oshawa PUC Networks Inc.

Submission

2010 Electricity Distribution Rate Application

EB-2009-0240

February 22, 2010

INTRODUCTION

On October 21, 2009, Oshawa PUC Networks Inc. ("Oshawa") filed its 2010 3rd Generation Incentive Regulation Mechanism application ("Rate Application") with the Ontario Energy Board (the "Board") under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the rates Oshawa charges for electricity distribution. Upon receipt of the Board's approval, these rates will be effective May 1, 2010.

The Ontario Energy Board Staff ("Board Staff') filed its submissions on February 9, 2010. Please accept the following as Oshawa's response and its final submission for this Rate Application.

The following matters are considered:

- **Potential tax sharing rate rider;**
- **Disposition of deferral and variance accounts as per the Electricity Distributors' Deferral and Variance Account Review Report ("EDDVAR Report");**
- **Potential lost revenue adjustment mechanism ("LRAM") and shared savings mechanism ("SSM") rate riders;**
- **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").**

POTENTIAL TAX SHARING RATE RIDER

Board Staff note in their submission that as a result of having kWh tax sharing rate adders of $0.0000 when rounded to the fourth decimal place and kW tax sharing rate adders of $0.00 when rounded to the second decimal place, the refund amount of $90,093 will not be returned to all ratepayers. As a result, they submit that the Board may wish to consider directing Oshawa to record the tax sharing refund amount of $90,093 to the variance account 1595 for disposition in a future rate application.

Oshawa agrees with the Board Staff's position.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

On December 15, 2009, Oshawa requested approval from the Board to withdraw its request to dispose of its Group 1 account balances from this Rate Application on the basis that the account balances were being reviewed for the years 2005 to 2008. Board Staff considers that the review undertaken by Oshawa is important to ensure the correctness of the account balances and as such, Board Staff suggests that the Board should grant Oshawa's request to withdraw this element of its application.

Oshawa agrees with the Board Staff's position.

LRAM AND SSM RATE RIDERS

The Board's Guidelines for Electricity Distributor Conservation and Demand Management (the "Guidelines") issued on March 28, 2008, outlines the information that is required when filing an application for LRAM.

As part of its original Rate Application, Oshawa applied for an LRAM recovery totaling $53,839.66.

Board Staff submits that Oshawa PUC's application for LRAM recovery is consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM recovery.

In its response to interrogatories from both the Vulnerable Energy Consumers Coalition ("VECC") and Board Staff, Oshawa updated the assumptions used in its LRAM recovery calculation resulting in a reduction to the amount applied for from $53,839.66 to $43,486.13. Details are included in Oshawa's response to interrogatory questions 11(b) from Board Staff, and 6 and 8 from VECC.

Oshawa agrees with the Board Staff's position on compliance with the Guidelines. However, Oshawa believes the amount of the recovery should be reduced to $43,486.13.

SMART METER FUNDING ADDER

Board staff concluded that Oshawa complied with the policies and filing requirements of the Smart Meter Guidelines and took no issue with Oshawa's proposal to increase its smart meter funding adder to $1.28 per month per metered customer.

Oshawa requested a Utility Specific Smart Meter Funding Adder of $1.28 based on the cost estimates for procurement and installation of smart meters available at the time its Rate Application was filed. Subsequently, Oshawa obtained more accurate information concerning the installation and procurement costs and updated its estimates.

In its response to interrogatories from VECC, Oshawa included these updated estimates and reduced the amount of the smart meter funding adder from $1.28 to $1.00. Details are included in Oshawa's response to interrogatory questions 1 through 4 received from VECC.

Oshawa agrees with the Board Staff's position on compliance with the Smart Meter Guidelines. However, Oshawa believes the amount of the smart meter funding adder should be reduced to $1.00.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

The Board's Decision (EB-2007-0710) for Oshawa's 2008 cost of service Rate Application mandated a three year phase-in period to adjust revenue to cost ratios into the ranges approved by the Board. Oshawa completed this transition in its 2010 Rate Application. Board staff concluded that Oshawa correctly recalculated these ratios and took no issue with Oshawa's revenue to cost ratio adjustments.

Oshawa agrees with the Board Staff's position.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATE ("RTSR")

Oshawa has applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy. Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level which 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 and that Oshawa's proposed rates be revised to reflect the January 1, 2010 values.

Oshawa agrees with the Board Staff's position.

ACCOUNTING FOR THE IMPLEMENTATION OF THE 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 Oshawa PUC 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 Oshawa 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 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 Oshawa PUC's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Oshawa PUC 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.

The harmonization of sales taxes is expected to reduce our OM&A costs and capital expenditures in the long term. However, in the short term during the IRM period, our OM&A costs and capital expenditures are not likely to decrease significantly. Further, 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 other elements of Oshawa PUC's costs (other than PST) embedded into distribution rates such as property taxes, employment Insurance rates, Canada pension plan rates, etc. Increases/decreases to all components of rates should be considered equally and simultaneously. In addition, harmonization of sales taxes (HST) may impact Oshawa PUC in other ways: for example, an increase in accounts receivable and a reduction to available working capital; and an increased exposure to bad debts.

Oshawa PUC does not agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures related to the impact of HST on its OM&A and capital expenditures.

Oshawa disagrees with the Board Staff's position.