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Ontario

BY E-MAIL

March 15, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission on Wasaga Distribution Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0209**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Wasaga Distribution Inc. and any intervenors in this proceeding.

Wasaga Distribution Inc.'s reply to submissions is due April 6, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Wasaga Distribution Inc.

EB-2009-0209

March 15, 2010

Board Staff Submission
Wasaga Distribution Inc.
2010 IRM2 Rate Application
EB-2009-0209

Introduction

Wasaga Distribution Inc. (“Wasaga”) filed an application with the Ontario Energy Board (the “Board”), received on November 30, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Wasaga charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 2nd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by Wasaga.

Board staff makes submissions on the following matters:

- 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”).

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

General Background

For purposes of 2010 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2008 Group 1 Deferral and Variance account balance and determine whether the balance exceeded the preset disposition threshold of $0.001 per kWh using the 2008 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2010 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

Any distributor exceeding the preset disposition threshold was required to file a Deferral and Variance Account Workform.

Wasaga Specific Background

Annual Disposition

Wasaga has requested the disposition of its Group 1 account balance over a three year period.

Board staff interrogatory #6 requested that Wasaga complete and submit an updated version 4 of the Deferral Variance Account Workform. Wasaga has complied with this request.

Global Adjustment

In response to Board staff interrogatory #2a, Wasaga stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588RSVA power and global adjustment sub-account in accordance with this Bulletin. In response to Board staff interrogatory #2b, Wasaga confirmed that it had not made adjustments subsequent to its initial application to comply with the Regulatory Audit & Accounting Bulletin 200901 with respect to account 1588 and the global adjustment sub-account.

In response to Board staff interrogatory #3a, Wasaga agreed that a separate rate rider be prospectively applied to non-RPP customers to dispose of the global adjustment sub-account balance would be appropriate on the basis of cost causality. Wasaga however noted the following:

> "Wasaga fundamentally agrees with the Board staff proposal, however; we do not have sufficient information to give an absolute opinion. We do understand that one of the contributing factors to the variance GA is the amount the LDC is charged for the GA and the rate that the LDC is directed to use for billing of the GA. Any variance due to a difference in these rates would be more appropriately shared by all customers. We do have a concern that the variance in this account has occurred over a number of years and the application to the current customers may not be fair depending on the effective date of such a rate rider and a customer's status at that instant.
>
> Board staff should consider using the preliminary or final GA rate for LDC's to calculate the Provincial Benefit paid by customers rather than a different rate for billing purposes. This will alleviate the large variance balances between the paid GA and the billed Provincial Benefit."

In response to Board staff interrogatories #3b, Wasaga stated that it did not currently have the billing capability to have a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance. Wasaga noted that it "is aware that its billing system, Harris/Northstar could be changed to allow this separate rate rider. We expect that the setting up of billing parameters would be somewhat complex and not without costs."

As of November 1, 2009 the MUSH sector (Municipalities, Universities, Schools and Hospitals) and other designated institutional customers that remained as RPP customers were required to switch to non-RPP customer status as per O. Reg. 95/05 of the Ontario Energy Board Act, 1998. In response to Board staff interrogatories #5d, Wasaga indicated that the rate rider should not apply to RPP customers, and should exclude customers in the MUSH sector. Wasaga indicated its "billing system should be able to differentiate these customers; however additional programming costs would have to be incurred to test and develop these new billing determinants."

Wasaga has requested that the Board review and approve the disposition of the December 31, 2008 balances of other Group 1 Deferral and Variance accounts as defined by the EDDVAR Report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of $2,481,493. The balance in the 1588 global adjustment sub-account is a debit of $179,012. Wasaga has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2010. Debit balances are amounts recoverable from customers.

Submission

Board staff suggests that as a matter of principle, the global adjustment sub-account balance should be recovered by means of a separate rate rider that would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. This approach would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place.

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Board staff however notes that Wasaga's current billing system could not readily accommodate that change. Board staff suggests that it would be useful to the Board were Wasaga to 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 Wasaga.

Alternatively, the Board may wish to consider the recovery of the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that occurs both away from the non-RPP customer group and into the non-RPP customer group.

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.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

General Background

Electricity transmitters in Ontario charge Uniform Transmission Rates (UTR) to their transmission connected customers. These UTRs are charges for network, line connection and transformation connection services. Based on the Decision and Rate Order of the Board in the EB-2008-0272 proceeding, the new UTRs effective July 1, 2009 were as follows:

- Network Service Rate was increased from $2.57 to $2.66 per kW per month, a 3.5% increase;

- Line Connection Service Rate remained unchanged at $0.70 per kW per month; and
- Transformation Connection Service Rate was decreased from $1.62 to $1.57 per kW per month, for a combined Line and Transformation Connection Service Rates reduction of 2.2%.

On July 22, 2009 the Board issued an amended "Guideline for *Electricity Distribution Retail Transmission Service Rates*" ("RTSR Guideline"), which provided electricity distributors with instructions on the evidence needed, and the process to be used, to adjust Retail Transmission Service Rates ("RTSRs") to reflect the changes in the UTRs effective July 1, 2009. The Board set as a proxy at that time an increase of 3.5% for the Network Service Rate and reduction of 2.2% for the combined Line and Transformation Connection Service Rates. The Board also noted that there would be further changes to the UTRs in January 2010.

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 or 15.6% over the rate in effect prior to July 1, 2009;
- 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 or 5.2% over the rate in effect prior to July 1, 2009.

Wasaga Specific Background

Wasaga has applied for an adjustment to its RTSR rates based on the July 22, 2009 RTSR Guideline proxy rate adjustments.

Submission

Board staff notes that very few distributors, including Wasaga, 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.

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

General Background

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

The PST is currently an incremental cost applied to the price of goods purchased by an electricity distributor and is included in a distributor’s OM&A expenses and capital expenditures. The PST is therefore included in the distributor’s revenue requirement and is recovered from ratepayers through the application of distribution rates.

When the PST and GST are harmonized, distributors will pay the HST on purchased goods and service but will now claim an input tax credit for the PST portion. The mechanics of HST as a value added tax means that the distributor will no longer incur that portion of the tax that was formerly applied as PST (i.e. the 8%) on goods purchased. However, the current rates as applied will continue to effect cost recovery as if the PST was still in place. If no action is taken, the distributor will realize a savings in the cost of goods purchased while applying rates which do not reflect those savings.

Wasaga Specific Background

In response to Board staff interrogatory # 4a which asked if Wasaga agreed that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Wasaga stated the following:

> "Wasaga does not agree to capture in a variance account the reductions in OM&A and capital expenditures. Wasaga feels there is much more discussion required around the impact of the introduction of HST on July 01, 2010. This change is just one of the many changes experienced by LDC's on a regular basis. For example, unforeseen increases in expenditures like insurance costs, a 4% increase in EDA dues as well as increased pressure from the transition to IFRS and the significant impact the GEGEA will have on all LDC's. Some other issues to be considered are:
>
> - Complications in deriving the information from our current accounting system will increase costs should the Board decide to require this calculation.
> - Not all expenses are subject to PST so that an across the board reduction on OM&A and capital is not discernable.
> - Increase in wages, especially where union contracts are involved are considerably higher than what the IRM process provides for in an increase in distribution rates.
> - 2010 will represent only one half year of change.
>
> It is Wasaga's view that the Board should carefully weigh the costs to the industry and ultimately to our customers of making these adjustments and tracking yet another variance account."

Submission

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 Wasaga 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 Wasaga'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 Wasaga's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

Wasaga 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.

All of which is respectfully submitted