Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273

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 Woodstock Hydro Services Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0211**

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

Woodstock Hydro Services 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

Woodstock Hydro Services Inc.

EB-2009-0211

March 15, 2010

Board Staff Submission
Woodstock Hydro Services Inc.
2010 IRM2 Rate Application
EB-2009-0211

Introduction

Woodstock Hydro Services Inc. ("Woodstock Hydro") filed an application with the Ontario Energy Board (the "Board"), received on December 2, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Woodstock Hydro 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 Woodstock Hydro.

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");
- Treatment of Smart Meter Funding Adder;
- 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.

Woodstock Hydro Specific Background

Annual Disposition

Woodstock Hydro has requested the disposition of its Group 1 account balance over a four year period.

Board staff interrogatory #5 requested that Woodstock Hydro complete and submit an updated version 4 of the Deferral Variance Account Workform. Woodstock Hydro has complied with this request.

Global Adjustment

In response to Board staff interrogatory #1a, Woodstock Hydro 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 #1b, Woodstock Hydro confirmed that it had 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 #2a, Woodstock Hydro agreed that a separate rate rider that would 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. Woodstock Hydro however noted that:

> "Woodstock Hydro agrees that a separate disposition rate rider applied prospectively to Non-RPP customers for 1588 –Global Adjustment would be fair in principle. In practice, however, the incremental programming and administrative costs to implement, monitor, and report on a specific rate rider for a sub-group of customers within a particular rate class may outweigh the benefits to do so for that rate class as a whole."

In response to Board staff interrogatories #2b, Woodstock Hydro 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. Woodstock Hydro however indicated:

> "If the Board were to order Woodstock Hydro to provide a separate rate rider, Woodstock Hydro's billing system would be capable of billing non-RPP customers, subject to incremental programming changes. Sufficient time and resources would be required by both Woodstock Hydro and its CIS provider to develop, test and implement these programming changes. Woodstock Hydro cannot confirm that a programming change of this nature would be in place for May 1, 2010."

Woodstock Hydro proposed as an alternative:

> "If Woodstock Hydro were unable to bill in this fashion, an alternative would be to determine a single rate per kWh, based on total non-RPP kWh's and is either included as part of, or applied in a manner similar to, the Global Adjustment rate.

> As is the case with the Global Adjustment charge, only Non-RPP Customers would be charged the non-RPP rate rider."

Woodstock Hydro 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 $2,339,464. The balance in the 1588 global adjustment sub-account is a debit of $396,394. Woodstock Hydro 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 Woodstock Hydro's current billing system could not readily accommodate that change.

The Board might wish to consider Woodstock Hydro's suggestion that a separate rate rider applicable to non-RPP customers be implemented through an adjustment to the Provincial Benefit item on the bill.

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.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with Woodstock Hydro's RRR filings. Board staff has reviewed the balances and notes that the changes do not result in material differences. Board staff notes that Woodstock Hydro stated in response to staff's interrogatory #5c that Woodstock Hydro 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.

TREATMENT OF SMART METER FUNDING ADDER

Background

Woodstock Hydro has a current Board-approved smart meter funding adder of $1.00 per month per metered customer. In its application, Woodstock Hydro is requesting an increase in its rate adder to $1.63 per month per metered customer. Woodstock Hydro filed evidence in accordance with section 1.4 of the Guideline G-2008-0002: Smart Meter Funding and Cost Recovery (the “Smart Meter Guideline”), issued October 22, 2008. Woodstock Hydro is authorized for smart meter deployment under the amended Regulation pursuant to and in compliance with the London Hydro RFP process.

Woodstock Hydro is not seeking approval for capital and operating costs incurred to date or in 2010 in this application, but will track actual costs, and revenues received from the funding adder, in the established deferral accounts for review and disposition in a subsequent application.

Submission

Board staff submits that Woodstock Hydro has complied with the policies and filing requirements of the Smart Meter Guideline. Actual smart meter expenditures will be subject to review when Woodstock Hydro makes application for disposition of the account balances in a subsequent proceeding. Hence, Board staff takes no issue with Woodstock Hydro’s proposal to increase its smart meter funding adder to $1.63 per month per metered customer.

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.

Woodstock Hydro Specific Background

Woodstock Hydro 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 Woodstock Hydro, 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.

Woodstock Hydro Specific Background

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

> "Woodstock Hydro would comply with the OEB's direction on the treatment of an HST variance account. However, in light of adding yet another variance account, the materiality, cost, and benefit to do so should be strongly considered. PST is charged on only a portion of Woodstock Hydro's total purchases, by a portion of Woodstock Hydro's vendors. Additional costs and resources would be required to administer and report on PST variances and would also add another layer of complexity in 2011 for IFRS-to-Regulatory Accounting true-ups and preparation of 2010-2011 IFRS comparative financial statements. Woodstock Hydro believes that the HST harmonization is one of many external factors that impact costs overall yet are beyond the control of the LDC and even the electricity industry. For example, between 2004 and 2009, market prices for metals soared which resulted in a marked increased in the price for transformers, wire, and related equipment, all of which is essential for the safe, reliable operation of an LDC. The following table illustrates the increases for identical transformers:

		Pricing for Identical Transformers			
Item #	Transformer Type	2004	2008	2009	2004-2009 Increase
1	Single Phase Padmount	$ 2,823	$ 3,928	$ 7,254	257.0%
2	Single Phase Polemount	$ 3,710	$ 5,540	$ 11,293	304.4%
3	Single Phase Polemount	$ 1,040	$ 211	$ 3,867	371.8%
4	Single Phase Polemount	$ 1,885	$ 4,368	$ 8,240	437.1%
5	Three Phase Padmount	$10,900	$18,149	$ 34,751	318.8%

> Although in this example, market prices had a negative, and significant, impact on costs, approval of a deferral account to track these changes would be highly unlikely, and more suitably addressed as part of a Cost of Service Application. The establishment of a variance account for potential cost reductions such as the HST harmonization, would capture only one "side" of the cost equation. In the spirit of fairness and completeness, Woodstock Hydro believes that both cost increases and decreases should be considered together as part of the rate setting process."

Woodstock further noted that:

> "Woodstock Hydro believes that any overall net savings that may or may not result from the enactment of HST would be immaterial and therefore proposes no alternative solution to reflect reductions in OM&A and capital expenditures. Consistent with current process, all changes to OM&A and capital expenditures should be collectively addressed in a Cost of Service Application."

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

Woodstock Hydro 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