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BY EMAIL

March 15, 2010

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Submission on Fort Frances Power Corporation 2010 Electricity Distribution Rates Application Board File Number EB-2009-0264

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Fort Frances Power Corporation and any intervenors in this proceeding.

Fort Frances Power Corporation'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

Fort Frances Power Corporation

EB-2009-0264

March 15, 2010

Board Staff Submission
Fort Frances Power Corporation
2010 IRM2 Rate Application
EB-2009-0264

Introduction

Fort Frances Power Corporation ("Fort Frances Power") filed an application with the Ontario Energy Board (the "Board"), received on December 3, 2009, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Fort Frances Power 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 Fort Frances Power.

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.

Fort Frances Power Specific Background

Annual Disposition

In response to Board staff interrogatory #1a, Fort Frances Power indicated that the preset disposition threshold was exceeded for its Group 1 account balance. Fort Frances Power indicated that it “did perform an informal calculation of outstanding balances as of December 31, 2008… with a calculated value of (.001585) resulting.” Fort Frances Power noted further that it “did not complete the Deferral Variance Account Workform as many large initiatives (Year End, Smart Meters, etc) have limited available human resources. Fort Frances Power Corporation did complete a formal Audit Review of Account 1588 RSVA Power and SubAccount Global Adjustment by the OEB in August 2009 and has adhered to all findings within the audit..”

Submission

Board staff suggests that the Board may wish to defer to 2011 the disposition of Fort Frances Power’s Group 1 account balances on the grounds that the distributor marginally exceeded the .001 / kWh threshold and provided reasonable justification of why the account balances should not be cleared.

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.

Fort Frances Power Specific Background

Fort Frances Power original application requested deferring adjustment to its RTSR rates. In response to Board staff interrogatory #6a, Fort Frances Power completed an analysis using January 1, 2010 UTR rates. In response to Board staff interrogatory #6b Fort Frances Power noted the following:

> “Fort Frances Power, at the time of filing, chose to minimize rate impact to our customers by deferring any adjustments to RTSR rates based on the large residual RSVA liabilities in both the Network and Connection accounts, until rebasing was complete.
>
> Upon review, the January 2010 Network Service Charge increase of 11.6 % to the rate of $2.97/kW would result in an anticipated 2010 revenue shortfall of $80,000. (Based on a 147,000kW annual load = $435,000 expense less $355,000 estimated revenue).
> Without a uniform percentage increase to TX Network General, Ref."L 1.1 Appl. for TX Network" of 12%, Fort Frances Power would be under billing all customers and create a negative cash flow position. Even with a 12% increase, there is an estimated revenue shortfall of $50,000 that would eliminate any residual RSVA Network Liability balance during 2010. Fort Frances Power appreciates this

> opportunity to revise our application and recommends a 12% increase in RTSR's-Network Service Rates for May 2010.
>
> Fort Frances Power supports the current RTSR's-Line and Transformation Connection Service Rates for 2010 due to the small charge increase and the large RSVA liability balance."

Submission

Board staff has reviewed the evidence provided by Fort Frances Power and submits that the proposal by Fort Frances Power is reasonable, based on the January 1, 2010 level of the UTRs and analysis provided. Board staff supports Fort Frances Power request to reflect the changes from the current level to its proposed levels which is an increase of about 12% to the RTSR Network Service rate, and no change 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.

Fort Frances Power Specific Background

In response to Board staff interrogatory #7 which asked if Fort Frances Power agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, Fort Frances Power stated that it "would comply with the OEB's direction on the treatment of an HST variance account. Another variance account would add to administration costs and tax available human resources. To report on HST variances would also add another layer of complexity in 2011 for IFRS to Regulatory Accounting true-ups and preparation of 2010-2011IFRS comparative financial statements.

The HST harmonization is one of many external factors that impact costs overall and is beyond the control of Fort Frances Power Corporation, all distribution companies and even the electricity industry."

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

Fort Frances Power 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