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BY COURIER

March 23, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: GRIMSBY POWER INC. – 2010 2ND GENERATION IRM APPLICATION, EB-2009-0198

Please find attached hard copies of Grimsby Power Inc.'s reply to Board Staff submission relating to our 2010 IRM rate application.

In addition, a PDF version has been filed through the Board's Regulatory Electronic Submission System.

Please do not hesitate to contact me if you require any further information.

Yours truly,

Mioara Domokos, CGA
Director of Finance

Enclosures

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Grimsby Power Incorporated for an Order or Orders approving or fixing a proposed schedule of adjusted distribution rates and other charges, effective May 1, 2010.

Grimsby Power's Reply

to Board Staff Submissions

March 23, 2010.

1 INTRODUCTION

Grimsby Power Inc (GPI) is a licensed electricity distributor providing service to consumers in Grimsby. GPI filed an application with the Ontario Energy Board (the "Board"), on November 23, 2009, seeking approval for changes to the distribution rates that GPI charges for electricity distribution, to be effective May 1, 2010. This application was based on the 2010 2nd Generation Incentive Regulation Mechanism.

GPI provided complete responses to Board staff interrogatories on March 04, 2010.

Board Staff made submissions dated March 15, 2010 based on its review of the evidence provided by GPI. In that submission, Board Staff made submissions on the following matters:

1. Disposition of Deferral and Variance Accounts as per the EDDVAR Report;
2. Treatment of Smart Meter Funding Adder;
3. Adjustments to Retail Transmission Service Rates; and
4. Accounting for the implementation of the Harmonized Sales Tax ("HST").

GPI does not have further comments with respect to treatment of the smart meter funding adder and adjustments to retail transmission services rates.

The purpose of this document is to provide GPI's responses to Board Staff's submission regarding:

- Disposition of Deferral and Variance Accounts as per the EDDVAR Report;
- Adjustments to Retail Transmission Service Rates and
- Accounting for the implementation of the Harmonized Sales Tax ("HST").

2 DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE ELECTRICTIY DISTRIBUTORS DEFERRAL AND VARIANCE ACCOUNT REVIEW REPORT (the "EDDVAR REPORT")

Board staff addressed the matter pertaining to the disposition of Global Adjustment sub-account balance, to which GPI is responding.

2.1 RATE RIDER FOR DISPOSTION OF GLOBAL ADJUSTMENT SUB-ACCOUNT BALANCE

At Page 4, Board staff suggests:

that it would be useful to the Board were Grimsby Power to review the Board's EB-2009-0405 Decision dated January 29, 2010 and provide comments in 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 Grimsby Power.

GPI has reviewed the Board Decision EB-2009-0405, with respect to the disposition of the global adjustment subaccount. In this decision, the Board approved a proposal for the disposition of the global adjustment subaccount, which would apply a credit or charge to all accounts that receive the provincial benefit, except for MUSH customers. The Board indicated that a separate line item must be on the bill indicating the rate and the usage used to determine the credit or charge. GPI advises that it could accommodate this approach but it will require billing system modifications.

3 ADJUSTMENTS TO RETAIL TRANSMISSION SERVICE RATES (RTSR)

GPI has applied for adjustments to its retail transmission service rates ("RTSR") based on the July 22, 2009 RTSR Guideline proxy rate adjustment. Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level of Uniform Transmission Rates. This would result in increases for GPI of 15.6% to RTSR Network Service and 5.2% to RTSR Line and Transformation Connection Service.

GPI accepts Board staff's submissions on the adjustments to retail transmission service rates.

4 ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX ("HST")

At Page 9, Board Staff states that

Board staff submits that the Board may wish to consider establishing a deferral and variance account to record the amounts after July 1, 2010 and until Grimsby 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.

Establishing a variance account, during the IRM period, to track reductions in the operation, maintenance and administration (OM&A) and capital expenditures imposes a significant additional administrative burden on utility.

Under current tax regime, the Provincial Sales Tax (PST) is a consumer tax that applies only to purchases of goods and certain services consumed in Ontario. When LDCs purchase goods and services, GST and PST is charged on goods and services. GST paid by LDCs is recovered through federal input tax credits whereas the PST portion is absorbed into the cost of goods and services purchased which then is passed on to electricity customers through distribution rates.
The PST portion absorbed into the cost of goods and services is passed on to electricity customers using different methodologies depending on where those goods and services are utilized:

- If goods and services purchased are used for the OM&A of distribution system, the PST portion embedded in cost of goods and services is passed through the OM&A expenses into distribution rates over the rate year.

- If goods and services purchased are used in Capital projects, the PST portion embedded in cost of goods and services is amortized through ‘amortization and depreciation expense’ over the life of the capital asset (up to 20-25 years). In this case, only a fraction of the PST incurred is passed through rates every year until the end of useful life of the goods and services.

- PST paid on direct costs or indirect costs that are accumulated to establish burden or overhead charges are ultimately capitalized. The tracking of HST variance for disposition would not line up with the revenue requirement implications as full HST savings would be identified when capitalized items are paid via depreciation and return over 25 years.

The goods and services procured by LDCs go into the utility’s inventory and get consumed either for OM&A or for Capital projects depending on the need. When goods are used from the inventory, it is difficult to identify whether a particular item was bought prior to July 1, 2010 or after HST was implemented.

Implementation of the HST on commodity will increase GPI's working capital requirements and exposure to bad debt. That is, GPI's LDC's working capital requirement would increase as a result of the 8% increase on IESO's invoice, which the utility has to pay first and collect later from customers. The exposure to bad debts would increase as the accounts receivable increases due to an overall increase in customer's bill owing to implementation of HST.

It is quite likely that the cost of producing such variance information with respect to the implementation and the ensuing regulatory proceeding for disposition of variance account would produce minimal if any net benefits to the ratepayers. For these reasons, GPI submits that a deferral and variance account to track the impacts of HST is not warranted during an Incentive Regulation Mechanism ("IRM") regime.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON THIS 23RD DAY OF MARCH, 2010