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

Ontario

BY EMAIL

April 19, 2010

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

Dear Ms. Walli:

**Re: Board Staff Submission on West Coast Huron Energy Inc.
2010 Electricity Distribution Rates Application
Board File Number EB-2009-0254**

Please see attached Board staff's submission for the above proceeding. Please forward the attached to West Coast Huron Energy Inc. and any intervenors in this proceeding.

West Coast Huron Energy Inc.'s reply to submissions is due April 23, 2010.

Yours truly,

Original Signed by

Martin Benum
Advisor, Applications and Regulatory Audit

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

West Coast Huron Energy Inc.

EB-2009-0254

April 19, 2010

Board Staff Submission
West Coast Huron Energy Inc.
2010 IRM3 Rate Application
EB-2009-0254

Introduction

West Coast Huron Energy Inc. ("West Coast Huron") filed an application with the Ontario Energy Board (the "Board"), received on January 11, 2010, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that West Coast Huron charges for electricity distribution, to be effective May 1, 2010. The application is based on the 2010 3rd 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 West Coast Huron.

Board staff makes submissions on the following matters:

- Potential Tax Sharing Rate Rider
- 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 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

General Background

The Supplemental Report of the Board on 3rd generation incentive regulation issued on September 17, 2008 determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate. The calculated annual tax changes over the plan term are to be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be collected from or refunded to customers each year of the plan term, over a 12-month period, through an explicit volumetric rate rider derived using annualized consumption by customer class underlying the Board-approved base rates.

West Coast Huron Specific Background

Using the Board's Supplemental Filing module West Coast Huron's Tax Sharing amount is a refund of $787. This amount when unitized using West Coast Huron's volumetric billing determinants results in energy-based kWh rate riders 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.

Submission

Board staff notes 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 $787 will not be returned to ratepayers, which defeats the intent of tax sharing process. Board staff submits that the Board may wish to consider directing West Coast Huron to record the Tax Sharing refund amount of $787 in the variance account 1595 for disposition in a future rate application.

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.

West Coast Huron Specific Background

Annual Disposition

West Coast Huron has requested the disposition of its Group 1 account balance over a one year period. Board staff interrogatory #5 requested that West Coast Huron complete and submit an updated version 4 of the Deferral Variance Account Workform. West Coast Huron complied with this request.

Global Adjustment

In response to Board staff interrogatory # 1a West Coast Huron stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588 RSVA power and global adjustment sub-account in accordance with this Bulletin. In response to Board staff interrogatory # 1b, West Coast Huron confirmed that it 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, West Coast Huron 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. In response to Board staff interrogatories # 2b, West Coast Huron identified that it currently have the billing capability to implement a separate rate rider applicable to non-RPP customers to dispose of the global adjustment sub-account balance.

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 # 4d, West Coast Huron indicated that the rate rider should exclude customers in the MUSH sector since they would have paid for the global adjustment as RPP.customers. West Coast Huron further indicated that it would be able to exclude customers in the MUSH sector.

West Coast Huron 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 $230,252. The balance in the 1588 global adjustment sub-account is a debit of $32,016. West Coast Huron has included interest, using the Board’s prescribed interest rates, on these account balances to April 30, 2010. Debit balances are amounts recoverable from customers and credit balances are amounts refundable to customers. .

West Coast Huron did not address any concern with respect to the impact on its cash flow were it to use the one-year default disposition period contemplated in the EDDVAR

Report to clear its deferral and variance account balances. West Coast Huron selected a 1-year disposition period in its Deferral Variance Account Workform V4.

Submission

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were undercharged by the distributor in the first place. Alternatively, Board staff suggests that the Board may wish to consider the recovery of the allocated global adjustment sub-account balance from all customers in each class, as this approach would recognize the customer migration that might occur 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. Board staff agrees with West Coast Huron that a disposition period of one year would be appropriate.

Board staff notes that the final proposed balances for disposition may no longer reconcile with previously audited balances nor with West Coast Huron's RRR filings. Board staff has reviewed the balances and notes that the changes do result in material differences. Board staff notes that West Coast Huron stated in response to staff's interrogatory # 5d that West Coast Huron 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.

ADJUSTMENTS TO THE REVENUE TO COST RATIOS

General Background

The Board's Decision (EB-2008-0248) for West Coast Huron's 2009 cost of service rate application prescribed a phase-in period to adjust revenue to cost ratios. The 2010 Supplemental Filing Module included schedules for West Coast Huron to complete to address this matter. The process adjusts base distribution rates before the application of the price cap adjustment.

West Cost Huron's Specific Background

Board staff's interrogatory #6a asked if West Coast Huron had complied with the Board's 2009 Cost of Service decision (EB-2008-0248). In that Decision, the Board directed West Coast Huron to transition the approved revenue-to-cost ratio of 75% for the Large Use rate class to 85% over two years in two equal increments starting in 2010. The increased revenue from this change should be used initially to lower the rates for the General Service 500 to 4,999 kW class. If the re-balancing permits further rate reductions, the ratios of the General Service 500 to 4,999 kW and the General Service 50 to 499 kW should be lowered together.

West Coast Huron identified that they had, in error, not complied with the Board's findings. West Coast Huron filed an amended 2010 Supplemental Filing Module and presented the following table to show the intended transition in 2010 and 2011 for the Large Use and General Service 500 to 4,999 kW rate classes .

Rate Class	**Group**	Pre -Rebased Year 2008	Rebased Year 2009	Transition Year 2 2010	Transition Year 3 2011	Transition Year 4 2012	Transition Year 5 2013
Residential	No Change	0.00%	48.37%	48.37%	48.37%	48.37%	48.37%
General Service Less Than 50 kW	No Change	0.00%	17.75%	17.75%	17.75%	17.75%	17.75%
General Service 50 to 499 kW	No Change	0.00%	15.77%	15.77%	15.77%	15.77%	15.77%
General Service 500 to 4,999 kW	Change	0.00%	6.53%	5.98%	5.42%	5.42%	5.42%
Large Use	Change	0.00%	8.34%	8.90%	9.46%	9.46%	9.46%
Unmetered Scattered Load	No Change	0.00%	0.07%	0.07%	0.07%	0.07%	0.07%
Sentinel Lighting	No Change	0.00%	2.78%	2.78%	2.78%	2.78%	2.78%
Street Lighting	No Change	0.00%	0.38%	0.38%	0.38%	0.38%	0.38%

Submission

Board staff takes issue with West Coast Huron's revenue to cost ratio adjustments.

The following table is extracted from page 26 of West Coast Huron's Draft Rate Order EB-2008-0248 version 3 issued July 29, 2009.

West Coast Huron Energy
Rate Design - Revenue to Cost Ratios
Thursday, July 23, 2009

	Residential	**GS < 50**	**GS>50 to 499 kW**	**GS>500 kW to 4999 kW**	**Large Use**	**Sentinel Lighting**	**Street Light**	**Unmetered**		
2007 CA Revenue to Cost %	89.44%	88.20%	175.11%	318.54%	63.35%	93.68%	31.94%	64.67%		
Board Staff Min RC%	85.00%	80.00%	80.00%	80.00%	80.00%	70.00%	70.00%	80.00%		
Board Staff Max RC%	115.00%	120.00%	180.00%	180.00%	180.00%	120.00%	120.00%	120.00%		
2006 DRR	757,367	275,824	264,348	197,639	116,224	1,132	18,713	4,345	**1,635,592**	
2006 Misc. Revenue	62,543	25,114	11,629	4,709	7,138	60	2,806	898	**114,898**	
2006 Total Revenue	819,910	300,938	275,977	202,349	123,362	1,192	21,519	5,243	**1,750,490**	
	0.00%	**0.00%**	**0.00%**	**-138.54%**	**16.65%**	**0.00%**	**38.06%**	**15.33%**		
Minimum Adjustment										
Current RC%	89.44%	88.20%	175.11%	318.54%	63.35%	93.68%	31.94%	64.67%		
Min RC%	85.00%	80.00%	80.00%	80.00%	75.00%	70.00%	70.00%	80.00%		
Max RC%	115.00%	120.00%	180.00%	180.00%	180.00%	120.00%	120.00%	120.00%		
2006 Total Revenue	819,910	300,938	275,977	202,349	123,362	1,192	21,519	5,243	1,750,490	
Min Adjustment	-	-	-	(88,006)	22,686		25,642	1,243	(38,435)	
2006 Min Adjusted Total Revenue	819,910	300,938	275,977	114,343	146,049	1,192	47,161	6,486	1,712,055	38,435
Allocation of Balance	26,804	9,838				39	1,542	212	**38,435**	
2006 Adjusted Total Revenue	846,714	310,776	275,977	114,343	146,049	1,231	48,703	6,698	1,750,490	
2006 Total Revenue %	48.37%	17.75%	15.77%	6.53%	8.34%	0.07%	2.78%	0.38%		
2009 Total Revenue	1,114,264	408,977	363,183	150,474	192,198	1,620	64,092	8,814	2,303,623	
less: 2009 Misc. Rev. Projection	44,837	16,457	14,614	6,055	7,734	65	2,579	355	92,696	
2009 Min Adustment BRR	1,069,427	392,520	348,569	144,419	184,464	1,555	61,513	8,460	2,210,927	
New BRR%	**48.37%**	**17.75%**	**15.77%**	**6.53%**	**8.34%**	**0.07%**	**2.78%**	**0.38%**		
	92.37%	**91.09%**	**175.11%**	**180.00%**	**75.00%**	**96.74%**	**72.29%**	**82.62%**		

Board staff notes that West Coast Huron has used the percentages from the second last line identified as New BRR%. Board staff would have expected that West Coast Huron to use the last line as the starting point (i.e. the Rebased Year 2009 entries).

Board staff invites West Coast Huron in its reply submission to include corrected revenue-to-cost adjustments that are consistent with the Board's findings in its EB-2008-0248 Decision.

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.

West Coast Huron Specific Background

West Coast Huron is requesting a decrease of 2.2% for its Network Service Rates and a decrease of 2.2% for its Line and Transformation Connection Service Rates. West Coast Huron did not provide any analysis or explanation as part of its original application to support its proposal.

Submission

Board staff notes that very few distributors, including West Coast Huron, 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 Rates, and an increase of about 5.2% to the RTSR Line and Transformation Connection Service Rates.

Alternatively, Board staff suggests that West Coast Huron may wish to provide in its reply submission a detailed analysis supporting its proposal that would also incorporate the January 1, 2010 UTR adjustments.

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.

West Coast Huron Specific Background

In response to Board staff interrogatory # 7a which asked if West Coast Huron agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, West Coast Huron stated it does not agree with the proposal to capture in a variance account the potential changes in OM&A and Capital Expenditures. West Coast Huron noted that in order to determine the potential variance in rates from this harmonization, LDC's would be forced into a very onerous undertaking to determine the PST amounts embedded in its approved Cost of Service applications. West Coast Huron further stated that this type of analysis would be too complex to deal with within the confines of an IRM 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 West Coast Huron 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 West Coast Huron'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 West Coast Huron's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

West Coast Huron 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