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Ontario

BY EMAIL

May 3, 2010

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 Erie Thames Powerlines Corporation 2010 Electricity Distribution Rates Application Board File Number EB-2009-0222

Please see attached Board staff's submission for the above proceeding. Please forward the attached to Erie Thames Powerlines Corporation and any intervenors in this proceeding.

Erie Thames Powerlines Corporation reply to submissions is due May 7, 2010.

Yours truly,

Original signed by

Martin Benum
Advisor, Applications and Regulatory Audit

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2010 ELECTRICITY DISTRIBUTION RATES

Erie Thames Powerlines Corporation

EB-2009-0222

April 30, 2010

Board Staff Submission
Erie Thames Powerlines Corporation
2010 IRM3 Rate Application
EB-2009-0222

Introduction

Erie Thames Powerlines Corporation ("Erie Thames") filed an application with the Ontario Energy Board (the "Board"), received on March 15, 2010, under section 78 of the Ontario Energy Board Act, 1998, seeking approval for changes to the distribution rates that Erie Thames charges for electricity distribution. 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 Erie Thames.

Board staff makes submissions on the following matters:

- Effective Date of Rate Change;
- 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")

EFFECTIVE DATE OF RATE CHANGE

Board staff notes that Erie Thames' application did not explicitly specify the effective date of the rate changes sought in this application. Board staff submits that the general intent of the 2010 IRM process is to target an implementation date of May 1, 2010. In a letter dated July 3, 2009, the Board indicated that 2010 IRM applications containing a request to dispose of select deferral/variance accounts ought to be filed by October 21, 2009. Board staff notes that Erie Thames filed its application on March 15, 2010, about five months after the Board's prescribed due date. Board staff suggests that the Board should not give consideration in this case to the recovery of foregone revenue for the period between May 1, 2010 and the effective date of the rate change to be determined by the Board.

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.

Erie Thames Specific Background

In response to Board staff interrogatory #1 Erie Thames stated it had reviewed the Regulatory Audit & Accounting Bulletin 200901 and confirmed that it had accounted for its Account 1588RSVApower and global adjustment sub-account in accordance with this Bulletin. Erie Thames confirmed that it had complied with the bulletin.

In response to Board staff interrogatory #2 Erie Thames confirmed that it had made changes to previously reported balances subject to a full review and identified significant adjustments that were necessary. Erie Thames provided a detailed reconciliation of difference to the previously submitted Board RRR filings. Erie Thames confirms that it complied with the Boards accounting policy and procedures.

In response to Board staff interrogatory #3a, Erie Thames 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 interrogatory #3c, Erie Thames stated that it did currently have the billing capability to have a separate rate rider that would prospectively apply 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 #3b, Erie Thames indicated that the rate rider should exclude customers in the MUSH sector.

Erie Thames 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 $1,147,010. The balance in the 1588 global adjustment sub-account is a debit of $364,270. Erie Thames 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 while credit balances are amounts refundable to customers. . Erie Thames's account balances as at December 31, 2008, plus projected carrying charges to April 30, 2010, are shown below.

Account Description	Account Number	Principal Amounts A	Interest Amounts B	Total Claim C = A + B
LV Variance Account	1550	225,700	22,176	247,876
RSVA - Wholesale Market Service Charge	1580	(905,374)	83,941	(821,433)
RSVA - Retail Transmission Network Charge	1584	(252,127)	22,061	(230,066)
RSVA - Retail Transmission Connection Charge	1586	(688,990)	(30,406)	(719,396)
RSVA - Power (Excluding Global Adjustment)	1588	483,813	622,421	1,106,234
RSVA - Power (Global Adjustment Sub-account)	1588	374,998	(10,728)	364,270
Recovery of Regulatory Asset Balances	1590	(2,424,924)	1,330,428	(1,094,496)
		(3,186,903)	**2,039,893**	**(1,147,010)**

Erie Thames originally requested a disposition period of one year. In response to Board staff interrogatory #4a, Erie Thames revised its proposed disposition period to three years on the ground that the amount to be refunded to customers represent about 20% of its revenue requirement.

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, 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. 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 no longer reconcile with previously audited balances nor with Erie Thames's RRR filings. Board staff has reviewed the balances and notes that the changes do result in material differences. Board staff notes that Erie Thames stated in response to a staff's interrogatory that Erie Thames 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. Were the Board to have any concerns about these adjustments, Board staff proposes that the Board might consider declaring the rate riders interim until the revised balances can be brought forward in a future application and supported by a third party audit.

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.

Erie Thames Specific Background

Erie Thames' proposed revisions to the RTSRs reflect the changes from the UTRs level underpinning current rates and the January 1, 2010 UTRs level. This represents 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

Submission

Board staff agrees with Erie Thames proposals.

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.

Erie Thames Specific Background

In response to Board staff interrogatory # 7, Erie Thames stated that it understands that this issue is being dealt with by the Board for all distributors and will comply with the resulting decision of the Board.

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

Erie Thames 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