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December 17, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Sreet, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli,

Re: Argument in Chief – EB-2010-0132

Hydro One Brampton Networks Inc.("Hydro One Brampton") is pleased to file with the Ontario Energy Board ("the Board") its **Argument in Chief for the 2011 Cost of Service Rate Application EB-2010-0132** .

We would be pleased to provide any additional information that the Board requires in the processing of these documents. If additional information is required, please contact the undersigned.

Sincerely,

Scott Miller

Scott Miller
Manager of Regulatory Affairs
Hydro One Brampton Networks Inc.
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EB-2010-0132

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*;

AND IN THE MATTER OF an application by Hydro One Brampton Networks Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2011

ARGUMENT-IN CHIEF
OF THE APPLICANT, HYDRO ONE BRAMPTON NETWORKS INC.

HISTORY

Hydro One Brampton Networks Inc. ("Brampton") owns and operates the electricity distribution system in the City of Brampton. As the local distribution company ("LDC"), Brampton services approximately 131,000 Residential, General Service, Large Use, streetlight, and embedded distributor customers.

On June 30, 2010, Brampton submitted this Application to the Ontario Energy Board (the "Board") pursuant to section 78 of the *Ontario Energy Board Act, 1998,* as amended, (the "Act") for approval of its proposed electricity distribution rates and other charges for the rate year commencing January 1, 2011.

On August 26, 2010, the Board issued Procedural Order No. 1, which provided, *inter alia*, for the delivery of written interrogatories from intervenors and Board staff. Brampton received over 600 interrogatories and responded on October 1, 2010, by filing over 2,800 pages of responses in support of the Application.

On September 2, 2010, Brampton filed a letter with the Board to announce an amendment to the Application as a result of the deferral of the transition to IFRS, and requested a deferral account relating to additional OMERS costs not included in the original submission. Brampton outlined the impacts this change would have on the Application and submitted an adjusted Revenue Requirement Work Form.

On October 8, 2010, Brampton received, from Board staff, written questions which would potentially be asked at the Technical Conference on October 13, 2010. Brampton responded to these questions orally (at the Technical Conference) and, on October 18, 2010 provided responses to undertakings resulting from the Conference.

On November 8, 2010, Brampton filed two letters with the Board: one responded to Procedural Order 3, relating to next steps in the proceeding, and outlined Brampton's prior submissions, and the other provided an update to the revenue requirement concerning a PST cost-savings adjustment, an additional OM&A amount resulting from the Low Income Energy Assistance Program ("LEAP"), and an adjustment for Green Energy Act (GEA) capital expenditures.

At the oral hearing on December 6 and 7, 2010, Brampton provided a panel of four witnesses to respond to Board and intervenor questions. Brampton agreed to 15 undertakings, answers to which were filed with the Board on December 8, 2010.

Brampton submits that the preceding history illustrates the extensive body of evidence provided since June and the detailed scrutiny which this Application has undergone.

SUMMARY OF UPDATED APPLICATION

Brampton is seeking approval of the following for the 2011 Test Year:

- January 1, 2011, implementation date for 2011 rates
- A total Revenue Requirement of **$62,847,561**, which includes a revenue deficiency of **$116,379** (per Exhibit K1.1). (The above revenue requirement does not reflect the 2011 Cost of Capital parameter updates issued on November 15, 2010.) During the oral hearing, Brampton stated that it would reduce the total Revenue Requirement by $432,127 (per Exhibit K1.1) in relation to changes to the ROE and short-term debt rates as per the Board's November 15, 2010 memo. This reduction will be reflected in the draft rate order that Brampton will submit.
- OM&A expenses of **$22,176,435** (per Exhibit K1.1)
- Capital Expenditures of **$22,681,013** (per Exhibit K1.1)
- Wholesale Load forecast of **3,898,527,442 kWh** (per Exhibit 3, Tab 2, Schedule 1, page 4)
- Revenue/Cost ratios (per Appendix AO Sheet O1 of October 1, 2010 submission) as follows:

	Revenue/Cost Ratios
Residential	101.12%
GS < 50	120.00%
GS > 50	80.00%
Intermediate	130.00%
Large Use	100.00%
Street Lighting	70.00%
USL	80.00%

Deferral and Variance Accounts

Approval of Account Balances & Rate Riders/Adders:

Final Approval of Group 2 Account Balances and Rate Riders:

1. Account Balances Submitted for Disposition

Group Two Deferral and Variance Accounts Requested for Disposition				
Account Description	Account Number	Principal Amounts as of Dec-31 2009	Interest to Dec 31-10	Total Claim
Other Regulatory Assets	1508	$ 204,933	$ (128,195)	$ 76,738
Retail Cost Variance Account - Retail	1518	$ 69,359	$ 42,664	$ 112,023
Retail Cost Variance Account - STR	1548	$ 1,098	$ 9,007	$ 10,105
Deferred Payments in Lieu of Taxes	1562	$ 4,139,347	$ 1,452,967	$ 5,592,315
RSVA - One-time Wholesale Market Service	1582	$ 1,045,186	$ 317,781	$ 1,362,967
2006 PILs & Taxes Variance	1592	$ (558,645)	$ (47,107)	$ (605,752)
		$ 4,901,278	$ 1,647,118	$ 6,548,396

Per Exhibit 9, Tab 2, Schedule 1, Page 2 of 2 for all but account 1562. (For account 1562, please refer to the blue page update for Exhibit 9, Tab 1, Schedule 5.0, page 3 of 5.)

2. Final Approval of LRAM/SSM amount and Rate Riders (per Exhibit 10, Tab 1, Schedule 2, page 1 of 1):

    I. LRAM/SSM Amount Requested: **$2,395,597**
    II. LRAM/SSM Rate Riders as submitted on June 30, 2010.

2. Approval of Smart Meter Costs, Billed Amounts, Revenue Requirement, and Rate Rider, including (per Appendix AA of October 1, 2010 submission):

    I. Disposition of Smart Meter Capital Expenditures to December 31, 2009, net of previously-approved amounts: **$18,873,338**
    II. Disposition of Smart Meter Operating Expenditures to December 31, 2009, net of previously-approved amounts: $**335,345**
    III. Approval of Smart Meter Amounts Billed, net of previously-approved amounts: **$3,134,239**
    IV. Revenue Requirement to December 31, 2009, of $**3,986,083**
    V. Smart Meter Final Disposition Rate Rider of **$0.54** per metered customer per month.

3. Approval of ongoing Smart Meter Funding Adder of **$1.01** per metered customer per month (per Appendix AA of October 1, 2010, submission).

   (This rider will be revised in the draft rate order to reflect updates to the ROE and Short Term Debt rate changes.)

4. Approval of GEA Funding Adder of **$0.10** per metered customer per month requested in the November 8, 2010, submission to the Board.

   During the oral hearing, Brampton stated that it would accept revising the funding adder to include Brampton's customers' share of GEA-related costs, in addition to maintaining a variance account for said costs.

   (This rider will be revised in the draft rate order to reflect updates to the ROE and short-term debt rate changes.)

5. Approval of Late Payment Settlement Costs Rider of **$0.28** per metered customer per month (per Exhibit 9, Tab 1, Schedule 3, page 7).

   Brampton stated during the oral hearing that it would not be opposed to withdrawing this request from this proceeding and allowing it to be subject to the Board's decision in generic proceeding EB-2010-0295.

6. Approval of New Deferral and Variance Accounts:

   I. IFRS Deferral Account - Costs Subsequent to IFRS Implementation

   II. IFRS Deferral Account - Losses on Early Retirement of Fixed Assets

   III. IFRS Deferral Account - Implementation IFRS revenue requirement CGAAP to IFRS

   During the oral hearing, Brampton agreed to have the three above-mentioned deferral accounts dealt with in a future generic hearing.

IV. Variance Account - Recovery of Late Payment Settlement Costs

V. Variance Account - Ontario Smart Metering System Meter Data Management and Repository (MDM/R)

VI. Deferral Account - Incremental OMERS costs in 2011, 2012 and 2013

VII. Variance Account - GEA expenditures

Deferred Payment in Lieu of Taxes (PILS)

Recovery of PILS was extensively discussed in the prefiled evidence at Exhibit 9, Tab 1, Schedule 5, as well as by way of interrogatories and at the technical conference and the oral hearing. There are two discrete areas in which Brampton's situation was unique among LDCs, thereby justifying the Board's pre-oral hearing decision that this matter would remain part of this proceeding, rather than becoming entirely part of the Board's generic proceeding. The account 1562 balance applied for comprises the Interest Clawback, Bill 4 related amounts, and Proxy vs. Entitlements & Other True-Ups.

Account 1562 Deferred Payments in Lieu of Taxes Applied For	
	2010
Interest Clawback	$ 4,347,685
Bill 4	$ 4,086,573
Proxy vs Entitlements & Other True-Ups	$ (2,841,943)
Balance Applied For	**$ 5,592,315**

Per blue page update for Exhibit 9, Tab 1, Schedule 5.0 Page 3 of 5. (See transcript December 6, 2010, Vol. 1, pages 158 and 165.)

(a) PILS Interest Clawback

Brampton submits that the PILS interest clawback feature of the SIMPIL models for 2001 through 2005 should be excluded from the true-up calculations to determine its balance of the 1562 account. The PILS interest clawback amount to December 31, 2010, is $4,347,685, an amount which does not represent any overpayment by its customers and therefore, in Brampton's submission, triggers no obligation to return any amount related to this issue.

The PILS true-up approach for 2001 to 2005 required distributors to retain their deemed capital structure and interest expense, established in 1999, or be financially penalized if their actual capital structure and interest expense was higher than deemed. The deemed capital structure established in 1999 quickly became outdated, the result being that distributors that changed their capital structure, even for sound business reasons, would be required to pay ratepayers the PILS interest clawback as determined in the Spreadsheet Implementation Model ("SIMPIL") models. The interest clawback caused unintended consequences by adversely impacting distributors who had prudently managed their capital structure.

Brampton's capital structure was changed in November, 2001, before the Board released, on December 21, 2001, the initial SIMPIL model for PILS, which contained the PILS true-up calculations for dealing with PILs for ratemaking purposes. Therefore, when Brampton altered its capital structure through its debt issuance, it could not take into consideration the future PILs true-up methodology. Distribution rates are required, in part, to fund increases in both debt and equity for all rate years, yet true-ups were based on static 1999 amounts, which are not representative of changing distributor business requirements. As a result of rapid growth in customers and rate base, it was necessary for

Brampton to make significant investment to supply new customers, and the investment was funded by rates and long-term debt: Brampton needed the full incremental revenue to finance its growth. A PILS interest true-up that claws back some of Brampton's distribution revenue is inconsistent and arbitrary. Brampton's deemed capital structure was used to establish initial distribution rates from its 1999 rate application. When Brampton changed its capital structure, neither its distribution rates nor its customers were impacted.

The Board recognized the interest clawback shortcoming in the Report of the Board regarding the 2006 Electricity Distribution Rate Handbook issued on May 11, 2005, wherein the Board acknowledged that high-growth LDCs were negatively impacted by the limitation of interest deductibility and stated that "for purposes of 2006, the Board will continue the current treatment but refine it such that the tax calculation will be based on the greater of the deemed and actual 2004 interest expense". Clearly, the Board recognized this deficiency, and Brampton therefore submits that the PILS interest clawback feature of the SIMPIL models for 2001 through 2005 should be excluded from the true-up calculations to determine its balance of the 1562 – Deferred Payment in Lieu of Taxes account.

(b) PILS Bill 4

Amounts recovered from customers on an interim basis (Bill 4 amounts) were not treated as movements in regulatory assets in the PILS true-up models for 2004 and 2005, because final approval was not received from the Board until after that time. These interim recoveries in 2004 and 2005 of $2,881,192 and $3,720,374, respectively, were treated as income for tax purposes, and PILs was paid on these amounts (per Board Staff Technical Conference Question 11.). In addition, the effect on account 1562 pertaining to the PILS Bill 4 amount to December 31, 2010, was $4,086,573. The uncertainty of final approval stemmed from the enactment of Bill 4 and Bill 210 in November, 2002, when the Government imposed rate freezes on electricity commodity prices, delayed the implementation of the third tranche of the Market-Adjusted Rate of Return, and indefinitely postponed the recovery of regulatory assets.

Brampton was unsure whether it would recover the amounts collected for Regulatory Assets. In the Board's Decision with Reasons dated December 9, 2004, regarding Review and Recovery of Regulatory Assets – Phase 2, the Board stated that approvals of Regulatory Assets would be only on an interim basis in Phase 1 of recovery of Regulatory Assets and that final disposition would be dealt with as part of the Phase 2 review and recovery of Regulatory Assets. Although the Board communicated that Phase 2 of recovery of Regulatory Assets would allow distributors to apply for final disposition, the climate of uncertainty in the industry led Brampton to maintain its approach to dealing with the recovery of Regulatory Assets.

In the Board's Decision and Order pertaining to Brampton, RP-2004-0027, dated March 11, 2004, the Board stated that it would not approve the disposal of RSVA amounts on a final basis and that all rate changes would be only on an interim basis. In the Board's Decision and Order pertaining to Brampton, RP-2005-0013, the Board also approved a second installment of the recovery of Regulatory Assets on an interim basis. It was not until April 12, 2006, that the Board approved Brampton's disposal of Regulatory Assets on a final basis, per the Decision and Order in RP-2005-0020.

Regulatory Assets Note 8 in Brampton's 2004 Financial Statements echoed that the Board had provided interim recovery of Brampton's Regulatory Asset balances and that on December 9, 2004, the Board had announced an expedited review mechanism that could be used by distributors wishing to seek final approval of Regulatory Asset account balances. Note 9 to Regulatory Asset Recoveries in Brampton's 2005 Financial Statements stated:

> "On March 21, 2005, the OEB approved the Company's request to continue to recover its regulatory asset balances including interest, recognized prior to 2004. These recoveries will be offset against the related assets once final OEB approval is received. Such approval is expected in the second quarter of 2006."

Brampton submits that the preceding Notes to the Financial Statements for 2004 and 2005 show that final approval for Regulatory Assets was not expected until 2006. As per Board Decision and Order RP-2005-0020, the final disposition was approved for recovery effective on May 1, 2006. This was beyond the true-up period referred to above. Therefore, Brampton submits that it would be just and proper for it to be permitted to dispose of the balance of account 1562 - Deferred Payment In Lieu of Taxes, which includes the Bill 4 related true-up treatment.

OM&A

Brampton continues to grow. Since the last cost-of-service filing in 2006, customer growth has been significant. Most growth in cost of wages is driven by the workload relating to growth in customers and economic adjustments during this period. Brampton's evidence at the hearing was that it was necessary to hire additional staff to handle workload increases in the areas of asset management, to maintain plant and system reliability, and to respond to customer needs, the expectations of the regulator, and the ever-changing electricity industry.

With the rapid growth in the City of Brampton, there have been a number of infrastructure projects that require additional load management resources. This expansion has resulted in a substantial workload increase in the areas of locates, surveying and inspections to accommodate new residential developments and road-widening projects (See Exhibit 2, Tab 6, Schedule 1.1, Appendix E, pages 63-65). Growth has also resulted in a need for increased land negotiations and acquisitions in order to obtain easement rights over key parcels of land required by Brampton for future hydro plant installations. (See Exhibit 2, Tab 6, Schedule 1.1, Appendix E, page 80.)

Other areas affected by growth have been the need for more internal and external planning and outage coordination with Brampton's neighbouring utilities, as well as with the IESO, OGCC and other regulatory bodies. Brampton is looking to add a new staff position in its Operations area to deal specifically with these requirements. (See Exhibit 4, Tab 2, Schedule 1.3, page 10.)

Brampton's efforts to maintain a safe and reliable system include performing additional preventive maintenance activities on its system in the following areas:

1. Wood Pole testing program
2. Insulator Washing program
3. Switchgear Washing program
4. Infrared Scanning program
5. Vault Inspection program
6. Municipal Substation Inspection program

(See Brampton's Asset Management Plan at Exhibit 2, Tab 6, Schedule 1.1.)

Customer service and collection activities have increased in recent years, primarily as a result of economic conditions and a heightened awareness of the electricity industry, a trend that Brampton expects to continue in future years as a result of the implementation of time-of-use rates and other industry initiatives. Brampton's call centre staff will be required to explain very complex bills, a task which will increase the length of the customer's call and therefore put pressure on Brampton to maintain its customer service at the same level with which customers have been provided in the past. The introduction of LEAP and changes to the Distribution System Code have increased the amount of reporting and tracking necessary to comply with code changes, thereby putting additional pressures on collection activities as a result of trying to maintain revenue requirements while attempting to balance customers' needs and concerns. (See transcript, Vol. 1, Dec. 6, 2010, page 110.)

Brampton's work force is an area of focus in coming years. Increased customer base, system reliability and expansion, as well as succession planning will drive increased staff levels and OM&A costs. Brampton, like many other LDCs, faces staffing and workforce planning challenges in the coming years because of an aging workforce, a shortage of specialized skills in the industry and a highly competitive labour market. The average age of Brampton's employees is 46, and 41% of employees are 50 years of age or older (per Exhibit 4, Tab 4, Schedule 2, page 3). Key vulnerabilities exist within senior management, lines and information technology areas within the utility. These challenges are being addressed through succession planning and specialized recruitment programs through the local colleges. Brampton continues to respond proactively to the impending shortage of skilled workers in the utility by hiring well in advance of expected retirements, an action which Brampton submits is a prudent one to take. (See Exhibit 4, Tab 4, Schedule 2.)

As a result of the Government directive on salaries and wages, Brampton has made no provision in the OM&A for any economic adjustments to existing pay rates. (See Exhibit 1, Tab 2, Schedule 2.0, page 4 of 4.)

The regulatory environment has seen many additional responsibilities for LDCs over the past several years, some of which resulted from the many code changes required to accommodate various governmental and industry changes. To ensure that Brampton continues to stay abreast of these changes and maintain regulatory compliance, additional staff has been added, as identified in Exhibit 4, Tab 2, Schedule 1.3, pages 4 and 8 of 15, lines 10 and 26 respectively. This Application has also included approximately $800,000 of MDMR costs associated with additional expenses required to facilitate time-of-use billing.

These legislative and regulatory (including Code) changes have also increased the demands on Brampton's customer communications team, reflected in an increase in the amount of time being devoted, and therefore in the number of staff needed, to assist Brampton customers in understanding new legislative and regulatory changes. (See transcript, December 6, 2010, page 112, and VECC IR 41 d.)

In a March 2008 Board-commissioned report prepared by Pacific Economics Group, local distributors were ranked according to their efficiency. Brampton was included in a peer grouping of "Large City Southern High Undergrounding". The average OM&A cost per customer of the group of five distributors was $175 for the three-year period ending in 2007. Brampton was the lowest-cost distributor in the peer grouping, with an average cost per customer of $130; and based on the proposed 2011 OM&A of $22.2M and forecasted number of customers of 135,000 at the end of 2011, the OM&A cost per customer in 2011 will be $164, which represents a cost per customer of $11 less than the average of the peer grouping for the period 2005–2007. Expressed in total dollar amounts, Brampton's OM&A for the test year is $1.5M lower than its peers for the three-year period ending four years prior to the test year. (See revised transcript of Technical Conference, October 14, 2010.)

Brampton is a well-managed and cost-conscious distributor that is focused on customer satisfaction, reliability and safety, and on providing a reasonable return for its shareholder. OM&A increases are justified by work programs, added work volumes and new costs, as well as succession planning. Despite these cost drivers, OM&A levels will remain below the average of the peer groupings referred to in the Pacific Economics Group report.

Brampton submits that its responses and explanations in the interrogatories, at the Technical Conference, and in cross-examination at the oral hearing showed that the costs and expenditures shown in this Application (as revised prior to the commencement of the oral hearing, as well as pursuant to the changes agreed to by Brampton at the oral hearing) are reasonable and prudent, and made with the best interests of Brampton's ratepayers, its distribution system, and its future needs that balance the interests of its ratepayers with the needs of its system. Brampton submits that a review of the transcript from the oral hearing shows that intervenors were unable to demonstrate that any portion of Brampton's proposed investments and expenditures is unreasonable or imprudent.

Effective Date

At the commencement of the oral hearing, the Board panel asked that Argument include submissions as to the appropriate effective date of the Board's rate order resulting from this proceeding. Brampton respectfully submits that as the Application was filed on June 30, 2010, for rate changes to be effective on January 1, 2011, and as the cost justifications provided in evidence were for the entire 2011 year, it would be just and appropriate for all resulting rate changes to be effective retroactive to January 1, 2011. Furthermore, a January 1, 2011, start date will align the regulatory/rate year with Brampton's fiscal and budgeting year.

December 17, 2010

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Original signed by Michael Engelberg

Michael Engelberg

Counsel for Hydro One Brampton Networks Inc.