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January 26, 2011

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

Dear Ms. Walli,

Re: Reply Submission: EB-2010-0132

Hydro One Brampton Networks Inc.("Hydro One Brampton") is pleased to file with the Ontario Energy Board ("the Board") its **Reply Submissions 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

REPLY SUBMISSION OF THE APPLICANT, HYDRO ONE BRAMPTON NETWORKS INC.

INTRODUCTION

Hydro One Brampton Networks Inc. ("Brampton") is pleased to file its reply submission in connection with its application for 2011 electricity distribution rates (the "Application").

Brampton has limited its reply submissions to responding to submissions made by Board Staff on January 14, 2011, by Energy Probe Research Foundation ("Energy Probe"), and the Vulnerable Energy Consumers' Coalition ("VECC") on January 18, 2011, and by the School Energy Coalition on January 19, 2011.

Brampton has organized the remainder of its reply submission in the same manner as its Argument-in-Chief, addressing the following issues which were raised by staff and intervenors in their submissions:

A. Load Forecast

A. LOAD FORECAST

Brampton reiterates that both its Load Forecast and its Customer/Connection Forecast were submitted using the best available information at the time of submission. Brampton complied with all available Board guidelines and referred to other Board-approved methodologies to complete both forecasts. Brampton submits that its forecasts are reasonably accurate and that they should be accepted and approved by the Board.

Customer Forecast

Exponential Smoothing

Brampton used exponential smoothing to forecast customer/connection data (Exhibit 12/ Tab 2/ Schedule 2/ Part B). Exponential smoothing, a tool commonly used to forecast time series data, is a methodology that smoothes historical data by calculating a moving weighted average for each data point, placing larger weights on more recent data. The smoothed data itself is not representative of a forecast. Once the data is smoothed, a growth rate is calculated and applied to actual data to complete a forecast.

Brampton submits that utilizing exponential smoothing to complete its customer/connections forecast is appropriate, as the forecast combines Brampton's historically high customer growth with the more recent decline in customer growth rates.

Customer Growth Rates

While Brampton does recognize that the 1.8% annual growth is lower than historical years, growth rates have been declining since 2005, as illustrated in the table below.

HOBNI Historical and Forecast Customer/Connection Data (Board Staff IR #52, Appendix AS)

	2005	2006	2007	2008	2009	2010	2011
Residential	104,822	109,778	117,119	119,060	121,041	122,377	123,660
GS < 50 KW	6,892	7,075	7,294	7,437	7,529	7,728	7,893
GS > 50 KW	1,364	1,402	1,417	1,491	1,554	1,544	1,552
Intermediate	121	119	117	116	114	110	106
Large User	3	4	5	6	6	6	6
Street Lighting	32,938	34,321	35,762	37,265	38,829	40,459	42,158
USL	1,159	1,207	1,250	1,267	1,280	1,287	1,300
Total Customer/Connections	**147,299**	**153,906**	**162,964**	**166,642**	**170,353**	**173,511**	**176,675**
Year/Year Growth Rates		**4.49%**	**5.89%**	**2.26%**	**2.23%**	**1.85%**	**1.82%**

Board staff has referenced the City of Brampton's planning report (Board Staff IR # 13, Appendix L), stating that an increase is projected in housing connections for the year 2012. However, Brampton points out that the said report states on page 6:

> "*…..The 2008 – 2011 period is forecast to mark the bottom of the current decline in housing start, with slow recovery reflected in an increase in housing completions in 2012. Housing activity is expected to peak again around 2015/2016*…."

Brampton has interpreted this document to mean that housing connections will remain low for the 2010 bridge and 2011 test years, and that while some recovery will begin to take place in 2012, housing connections will not return to their historically high levels until 2015.

Brampton submits that it would be inappropriate to increase its customer/connection forecast based on the housing connection increases anticipated by the City of Brampton in 2012. Firstly, the task required by Brampton for this Application was to forecast growth rates for 2011 only, a process that does not include speculation of proposed customer growth rates beyond the test year: doing so would prove highly speculative. Secondly, the City of Brampton does not expect that housing connections to reach the historically high levels until 2015. Brampton will be submitting its next Cost of Service Application at that time, so the increased growth rates will be captured then for the applicable rate years.

Brampton submits that growth rates were determined using the exponential smoothing method and then utilized to complete the customer/connections forecast (with actual data used for January and February of 2010). Brampton submits that this methodology for determining customer/connections forecasts is reasonably accurate and appropriate.

Load Forecast

GDP Growth Rate

In response to VECC's and Energy Probe's concerns surrounding the GDP growth rates utilized in the load forecast, Brampton completed the load forecast following Board guidance and referring to Board-approved forecast methods utilizing the best information available at the time. While there may be more recent data available at this time, Brampton submits that it is inappropriate, and not normal practice, to select data from varying points in time to alter a previously-accepted forecasting methodology. Brampton submits that in a cost-of-service application, it would be neither reasonable nor practical to selectively update certain factors but not others.

Brampton submits that the GDP growth rates utilized in its forecast remain reasonable and that they should not be changed.

CDM Impacts

Both Board Staff and VECC have expressed concerns regarding Brampton's 64 GWh adjustment to capture provincial CDM impacts for 2011. Board staff argues that the reduction should be limited to the 38.8 GWh filed in Brampton's CDM strategy (J2.1, Exhibit B/ Tab 1/ Schedule 1/ Page 1). VECC argues that this reduction should be limited to 18.2 GWh, which represents Brampton's share of the provincial energy targets identified in Exhibit K1.3.

Brampton would like to clarify that the 64GWh reduction is representative of its share of CDM savings from OPA-contracted and Board-approved CDM programs, including other CDM impacts resulting from various codes and standards and federal and provincial government programs. Neither the Board staff's nor VECC's proposed CDM reductions represent an all-inclusive CDM impact, and it is on this basis that Brampton opposes the use of either target.

The 18.2 GWh adjustment proposed by VECC utilizes numbers provided by Hydro Ottawa at its most recent rate filling, EB-2010-0133. As detailed at the oral hearing, Brampton submits that it is inappropriate to utilize these values as they are not publically-tested numbers, nor were they officially provided by the OPA (see Oral Hearing transcripts V1, page 76-77). The Board did not adopt the use of these values in the Hydro One Networks Inc. transmission rates case EB-2010-0002 as there was a lack of an evidentiary basis to do so. In light of the uncertainty of these numbers, Brampton submits that it would be inappropriate to adopt the 18.2 GWh as its CDM adjustment.

Brampton therefore submits that it would not be appropriate to change its initial 64 GWh of CDM reduction to the forecast.

Weather Normalization

Brampton submits that the use of a 30-year average for heating and cooling degree days is appropriate and acknowledges Board staff's support on the reasonableness of this approach.

kW Forecast Methodology

Brampton elected to utilize the exponential smoothing method in this case as it is a recognized method for use in the forecasting of time series data. The appeal of this approach is that Brampton believes it will provide a more accurate forecast given that it pays more mind to recent trends in the relationship between kWh and kW for customers being billed on demand. Brampton disagrees with Energy Probe's submission that this methodology should not be used, and Brampton maintains its submission that this methodology is appropriate.

B. OPERATIONS, MAINTENANCE, AND ADMINISTRATION (OM&A)

Compensation – 2011 FTEEs

The increase in number of FTEEs for the test year 2011 is six. This increase is in line with the increase for 2008 and less than the nine FTEEs added in 2007. The FTEEs in 2009 were lower than average because during that year a number of replacement positions were filled by contract staff (Oral Hearing Transcript volume 2 2010-12-07, page 14).

"MR. GRIBBON: some of these positions don't add additional costs to the LDC. Some of these positions replace contracted positions."

These positions were filled in 2010 by FTEEs, resulting in a higher than normal number of new hires in 2010. If 2009 were normalized to include the positions that were filled by contract staff, the additions in that year would increase from 4 to 8 and those in 2010 would decrease to 10. Normalizing 2009 and 2010 for the contract positions would provide the following for FTEEs per year:

	2006 Approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Bridge	2011 Test
Number of Full time Equivalents (FTEE)	183	192	201	207	215	225	231
FTEE change as compared to prior year		9	9	6	8	10	6
% increase in FTEE's compared to prior year		4.9%	4.7%	3.0%	3.9%	4.7%	2.7%

The increase of 16 employees for 2010 and 2011 is 7.4%, which is in line with that of the two prior years.

At the end of 2009, Brampton had four positions that were being filled by contract staff for periods that ranged from six months to slightly over one year. These positions were filled in 2010 by FTEEs. Although the replacement positions increase the total compensation amount for 2010, they do not increase total OM&A for the period, as the amounts paid to the contractors were included as administration expense in OM&A and not as part of employee compensation. Brampton therefore submits that it would be incorrect and inappropriate for compensation costs in 2011 to be reduced by $386,000 for these four replacement positions, as administration costs in OM&A were decreased by a similar amount.

Compensation – CDM Representative

During this proceeding some questions arose pertaining to the possibility of Brampton's current forecast, including funding associated with a CDM representative, being funded in OM&A.

Board staff is of the view that in the absence of an explanation from Brampton in its reply submission by directing the Board to evidence filed to date, the Board may wish to disallow $70,949 from Brampton's 2011 OM&A proposed budget. Brampton responds by referring to undertaking J1.9, in which the Company stated, "In light of this recent code, Hydro One Brampton will not require funding for the salary of the CDM hire in revenue requirement." As a result, Brampton does agree to the removal of the $70,949 from its 2011 OM&A proposed budget.

Meter Data Management/Repository ("MDM/R")

Brampton submits that its estimated costs associated with the MDMR are based on best industry information available at the time the Application was filed. For this reason, Brampton is requesting the cost estimate be approved and that a variance account be used to track MDMR differences.

Brampton is concerned with the cash flow impacts of not including these proposed MDMR costs in its revenue requirement. Brampton's ongoing investments in its infrastructure to meet CDM targets and investments relating to the changing industry landscape will put significant strains on its cash flows, and Brampton submits that it is important to minimize the cash flow impacts of revenue requirement going forward. If not included in revenue requirement, Brampton would not be able to recover the cash and seek recovery for these costs until a future proceeding several years from now. In addition, including an allowance for these costs in rates now will help to reduce the impacts on the variance account in the future and thus mitigate future customer rate increases.

Regulatory Costs

Brampton's 2011 Regulatory costs include the recovery of the 2011 application costs of $70,000. It has been suggested that these costs should be amortized over a four-year period. Brampton points out that these costs are estimates only and are not material. As a result, Brampton is proposing no change to its 2011 rates for this item.

Overall Increase

The OM&A costs included in the 2006 EDR historical test year are based on the 2004 actual OM&A costs of $13,748,002. The OM&A cost per customer was $129 in 2004 based on the 2004 customer count of 106,526 and the 2004 actual OM&A costs.

The customer projection for 2011, seven years after 2004, is 133,219 customers. The projected OM&A costs based on the 2004 OM&A cost per customer of $129 at 2011 customer counts is $17,185,251 before applying the compound growth in OM&A cost per customer.

SEC's Final Argument 3.1.3 suggests that a reasonable range for annual compounded OM&A increases over any extended period for a utility would be between 2% to 5%. In section 3.1.6, SEC suggests that something in the 3% range, compounded annually for five years, would approximate a reasonable budget level in 2011. As noted previously, seven years of compounding is more appropriate than five years, since the 2006 rates were based on 2004 actual overall OM&A costs.

The table below summarizes the results of applying 3% and 4% growth rates from the starting point, being the 2004 historical OM&A levels used in the 2006 rate application in order to arrive at a calculated 2011 overall OM&A before non-recurring items. Non-recurring items were added to this 2011 projected OM&A base. MDMR costs of $758,949 were added, as these would not have been included in the 2011 base as these costs did not exist in 2004. Also, Board annual assessment costs of $453,027 were also added to the 2011 calculated OM&A base, as those had been deferred in 2004.

The results of this top-down approach is as follows. Applying a 3% growth rate in OM&A cost per customer yields OM&A costs of $22,357,125 which is $180,690 greater than the OM&A costs of $22,176,435 submitted in the rate application. Applying a 4% growth rate in OM&A yields $23,826,594, which is $1,650,159 greater than the OM&A costs included in the Application. The OM&A costs submitted in the Application represent an imputed compound growth rate of 2.87% on OM&A costs per customer since 2004 (based on the 2006 EDR historical test year values). Therefore, Brampton submits that its OM&A budget of $22,176,435 for the 2011 Test Year is reasonable.

		Assumption 3% growth rate	Actual Compound Growth rate of 2.87%	Assumption 4% growth rate
2004 OM&A	a	13,748,003	13,748,003	13,748,003
2004 Customers	b	106,526	106,526	106,526
OM&A per customer	c=a/b	129	129	129
Growth rate		3.00%	2.87%	4.00%
2004 OM&A/customer		129	129	129
2005 OM&A/customer		133	133	134
2006 OM&A/customer		137	137	140
2007 OM&A/customer		141	141	145
2008 OM&A/customer		145	145	151
2009 OM&A/customer		150	149	157
2010 OM&A/customer		154	153	163
2011 OM&A/customer	d	159	157	170
2011 customer base	e	133,219	133,219	133,219
Calculated 2011 OM&A	f=d*e	21,145,149	20,964,460	22,614,618
Add non-recurring items				
MDMR	g	758,949	758,949	758,949
OEB assessment costs deferred in 2004		453,027	453,027	453,027
2011 OM&A costs as calculated	h=f+g	22,357,125	22,176,436	23,826,594
2011 OM&A in rate application		22,176,435	22,176,436	22,176,435
(Under) estimation of overall OM&A in rate application		(180,690)	0	(1,650,159)

Bad Debt Expense

Brampton is forecasting a bad debt expense of $525,300 in 2011 and $515,004 in 2010, as identified in Exhibit 4, Tab 2, Schedule 1.2, Table 2 of the evidence. These values are forecasted to be approximately half the amounts experienced in 2009 due to the economic downturn during that year. Although the bad debt expense as of June 2010 was lower than the 2009 figure, excluding the large one-time bankruptcies, Brampton cannot discount that the economy has not fully recovered and that further large bankruptcies can and will occur. Brampton's forecasts reflect the removal of the large one-time bankruptcies that occurred in 2009. As a result, Brampton's proposed forecast is reasonable.

Collection Costs

Energy Probe is proposing to adjust the forecast of collection costs based on comparing June 2010 actuals to the same period in 2009. This is not appropriate, in Brampton's submission, as it has been its experience that collection costs can considerably rise from July through to November, when the Company is able to disconnect customers for non-payment. In addition, in order to keep up with the increased collection activity, Brampton has included additional staffing requirements in 2011. Brampton is proposing no change to its collection costs for 2011.

C. RATE BASE

Capital Expenditures

Pertaining to Energy Probe's final argument – page 6, section b(i), Brampton has not included the $137,198 chassis costs for the 55' Aerial Single Bucket Truck (Vehicle 72) in rate base for 2010. In 2009 Brampton held a balance of $798,274 (Exhibit 2, Tab 2, Schedule 1.1, Page 5 of 5) in Construction In Progress (CIP), which represented vehicles that were purchased in 2009 but were not ready to be put into service. This balance has been rolled forward for each year in the Application. At the end of each year, Brampton expects vehicles to be acquired that are not ready to be put into service.

Green Energy Act Plan

Appropriateness of Recovery Methodology

Brampton agrees that it would be premature for the Board to find that the GEA expenditures are prudent at this time and agrees that revenues should be collected through funding adders and deferral accounts.

Uncertainties that persist with respect to recovery, both provincially and from Brampton's ratepayers

Brampton has agreed to exclude this capital spending from rate base and establish a variance account to track potential differences between expenditures budgeted vs. actually incurred.

Appropriateness of characterization of Smart Grid investments

Brampton agrees with VECC that the investment in SCADA should be considered a Renewable Enabling Improvement investment; however, Brampton does not agree that 6% of these expenditures benefit load customers. The SCADA projects are driven by Renewable Generation, but once in place these projects will benefit both the load and generator customers. Equal benefits exist with the ability to remotely operate and transfer power while Generators continue to feed the grid, and at the same time the ability for the LDC to perform scheduled maintenance or new work. These expenditures provide operational and reliability benefits to the load customers and hence Brampton submits that they should be allocated as a 50% / 50% split with the provincial ratepayers.

Appropriateness of direct benefit percentages

Brampton does not agree with Board staff comments that they are not convinced that the Renewable Enabling Investments will not benefit load customers from an operational/reliability standpoint. These expenditures, as explained in exhibit JT 1.21, are for monitoring equipment to be installed at the Generator for the sole purpose of sending data and status information back to the transmitter. Brampton submits that these expenditures do not provide any operational or reliability benefit to the load customers and hence should be allocated 100% to the provincial ratepayers.

In the case of expansion-related spending, the larger size pad-mounted transformers will not benefit the load customers since the load growth in the areas are static: the sole purpose of the increase size of the transformers is to accommodate reverse power flow from the Generators. From the load customer perspective, the replacement of these transformers is like-for-like; and since they are being replaced 15 years ahead of schedule, the benefit to load customers is 15/40/2 = 18.75%.

Quanta of Green Energy plan expenditures for approval and recovery

Brampton agrees that all the costs incurred and revenues collected with respect to GEA should be tracked in the deferral accounts. The amounts related to renewable generation and smart grid from the funding adder will be tracked in Accounts 1533 and 1536, respectively.

Working Capital

Brampton agrees that it is appropriate to adjust its commodity cost of power to reflect the RPP/non-RPP split and to apply the appropriate prices to these different volumes.

D. COST OF CAPITAL

As stated in Exhibit 1/ Tab 1/ Schedule 1.1/Page 3/Lines 1 – 5, Brampton is a subsidiary of Hydro One Inc. and a sister utility of Hydro One Networks Inc. Hydro One Networks Inc. is operated and financed independently from Brampton. Hydro One Networks Inc. issues debt to Hydro One Inc., who matches debt issued to third parties, based on Hydro One Networks Inc.'s own financing requirements. The existing long term debt rate reflects the actual cost of debt issued externally and cannot be refinanced at current rates without significant penalties. The cost of debt associated with Hydro One Networks Inc. is not relevant to the Brampton situation.

Exhibit 1/Tab2/Schedule 2/Page 4 discusses the terms and conditions associated with the 6.95% long term debt rate. The cost of capital report states that a utility should use the cost of 3rd party debt actually issued. Brampton has done so. This note is mirrored by Hydro One Inc. (Brampton's parent) such that the terms and conditions match the third party debt issued by Hydro One Inc.

Brampton submits that it would be inappropriate to update the interest rate forecast for 2011 based on the September 2010 forecast, as suggested by intervenors. The

Company's forecast was completed with the best information available at the time, and while certain assumptions could be updated based on more current information, it would be inappropriate to update assumptions only when they are in the customer's favour, without revisiting all assumptions. The Company submits that it is neither practical nor appropriate to update all assumptions included in an Application prepared several months ago.

E. COST ALLOCATION AND RATE DESIGN

Monthly Service Charge

Brampton submits that although in some cases the upper bound of the monthly service charge was exceeded, the Company followed the practice used by Board-regulated utilities and maintained its existing fixed/variable split consistent with the Board's Cost Allocation Report and previous decisions.

Retail Transmission Service Rates

Brampton confirms that it will use the most recent RTSRs and update its transmission network and connection rates by customer class once the Decision in this Application has been issued.

F. DEFERRAL AND VARIANCE ACCOUNTS

New or Continued Deferral and Variance Accounts Requested

Brampton withdraws its request pertaining to Late Payment Settlement costs, given the generic proceeding that is currently under way.

Brampton submits that the recovery of MDMR through revenue requirement, coupled with a variance account, will help mitigate future rate shock to its customers, as the Government has announced that there will be substantial rate increases over the coming years. Brampton submits that this current rate application is the most appropriate place for recovery of these costs, since its distribution rates are expected to decline on the whole.

Brampton withdraws its request for IFRS deferral accounts in this Application, with the understanding that the issues pertaining to IFRS that necessitated the IFRS deferral accounts are dealt with in the current combined IFRS IRM proceeding.

Brampton agrees with Board staff’s recommendation on the inclusion of incremental OMERS costs in the revenue requirement.

PILs Accounts 1562 and 1592

PILs Bill 4

Brampton has reviewed its interpretation of the PILs methodology described in its Argument-in-Chief and submits that its interpretation and methodology are justified.

PILs Interest Clawback

When the SIMPIL true-up process was first established, there were a number of inconsistencies with respect to the interpretation of the methodology, and the process was to be refined and reviewed at a future proceeding. Brampton expected to raise its concerns when these matters were brought before the Board. Brampton has considered the elimination of the interest clawback as appropriate for some time and that the Company would deal with this matter in the disposition proceedings.

Brampton's answer to Board Staff IR #65 (b) confirmed that the mechanism was in place since 2001-2002 but that the Company did not agree with this mechanism. Brampton chose to file its original annual SIMPIL filings based on the methodology established and to make submissions regarding the PILs interest clawback in the SIMPIL true-ups in future proceedings, because it determined this approach to be most appropriate. Brampton raised its concerns regarding the interest clawback as an intervenor in the combined PILs proceeding EB-2008-0381, on November 20, 2009, and updated the Account 1562 balance subsequently in this disposition filing.

Commencing with the 2006 rate year applications, the Board changed the methodology with respect to the true-up of PILs amounts in rates, such that Account 1562 was no longer used. The IRM model became the true-up vehicle for changes to tax legislation, and there was no longer a requirement to calculate an interest clawback true-up. Although these changes did not apply to the pre-2006 period, the updating of that methodology implies that the previous approach was not working and needed to be fixed.

In the combined PILs 1562 proceeding EB-2008-0381, with respect to Issue #13, the Board accepted to maintain the clawback penalty for the period 2001 to 2005. In that proceeding, the three named distributors were not adversely impacted by the settlement. PowerStream (Barrie) and EnWin Powerlines were not materially affected by this issue in the settlement agreement, and the Board approved the Halton Hills Hydro settlement to remove about 61% of the interest clawback from the SIMPIL true-up calculations. However, PowerStream (South) did not accept this settlement and said it would deal with this issue in its own application. Brampton submits that had Halton Hills Hydro not settled to remove the majority of the interest clawback from its Account 1562 balance, settlement of this issue may not have been reached.

In its evidence Brampton provided additional reasons, beyond the reasons stated in the January 14, 2011, Board Staff Submission on Pages 54 and 55, as to why it submits that the interest clawback is not just and reasonable, including:

- Brampton's interest clawback issue pre-dates the PILs 1562 methodology, and
- From 2001 to 2005, rates were established based on static rate base values, and Brampton needed more revenue from rates than the 1999 deemed amounts would enable.

Brampton established its debt levels prior to the Board's establishing the account 1562 SIMPIL true-up methodology, including the PILs interest clawback. Per the December 6, 2010 Oral Hearing transcript at pages 164 & 165:

> *"MR. SKINNER: And I believe you've answered the affirmative to the next question, but I will ask it. Has the interest claw-back methodology existed in the RRR SIMPIL models since 2002?*
>
> *MR. GRIBBON: Yes, it has. And our debt was issued prior to when the SIMPIL model first was introduced."*

Therefore, Brampton's interest clawback issue predates the PILs 1562 methodology, and in this regard its issue is consistent with Halton Hills' issue, which was settled in part for this reason.

The interest threshold amount in the SIMPIL models for each year was $8.15 million, determined based on static deemed 1999 rate base of $211.7 million, deemed capital structure ratios of 55% debt / 45% equity, and deemed interest expense of 7%. This interest expense threshold was an aspect of the determination of account 1562 from 2001 to 2005.

The true-up methodology created an inconsistency: while rates were established to provide for growing debt and equity funding requirements (due to growth in rate base), the true-up calculations used static deemed 1999 rate base values. The deemed threshold interest expense was inadequate to fund Brampton's higher rate base and capital structure. Brampton submits that freezing the deemed rate base and capital structure for determining the Account 1562 balance is not reasonable or fair in Brampton's circumstances, and this would cause unintended consequences to Brampton as it would need to remit, to customers, $4.3 million in PILs interest clawback that it needs to fund its growth. The interest expense was necessary to fund the growth and is no different than other changes in operations that affect the amount of tax paid such as increased costs in excess of growth and revenue.

Brampton submits that it would be appropriate and reasonable for the Board to make an exception to permit the Company to adjust the interest expense thresholds for true-up calculations by updating the SIMPIL models to reflect these changes. Brampton submits that the interest expense threshold in the SIMPIL models should be adjusted for each year from 2001 to 2005, based on its actual annual regulatory rate base. Brampton agrees with Board staff that significant growth is a valid consideration in the Board's making exceptions to the applicability of the clawback rule. Brampton submits that its significant growth is reasonable grounds to justify an adjustment of the interest expense thresholds. The actual interest expense used in the true-up calculations would be unaffected.

In addition, Brampton also submits that the deemed debt/equity structure is inadequate in its circumstances. From 2001 to 2005 Brampton grew quickly and surpassed the $250 million rate base threshold by 2005. At a rate base of $250 million or more, a distributor's deemed capital structure moves to 60% debt / 40% equity. In its case, Brampton submits that the suitable debt equity structure of 57.5% debt / 42.5% equity should be used in the SIMPIL models from 2001 to 2005.

In the Board staff Submission dated January 14, 2011, on page 55, Board staff submits, "It appears that the excess interest is directly attributable to the pushed-down goodwill…" Brampton submits that the pushed-down goodwill had a major impact on the magnitude of its actual long term debt and interest expense amounts, but that these values were not excessive. If the interest expense threshold and the deemed debt equity structure are not adjusted appropriately as described in the previous paragraphs, it could appear that the full amount of the interest clawback is attributable to the pushed-down goodwill. Put another way, based on the actual interest threshold of $8.15 million, it appears that the full interest clawback is attributable to the pushed-down goodwill.

Although the pushed-down goodwill influenced Brampton's level of debt and its interest expense reported in its GAAP financial statements, the pushed-down goodwill would not affect determining the interest expense thresholds. The pushed-down goodwill is not part of the determination of regulatory rate base as it is not part of the net book value of fixed assets. Pushed-down goodwill would have affected the actual interest expense in the financial statements, and this is only one side of the interest clawback true-up calculation. The interest expense on the goodwill is not in rates so that any tax benefit related to this cost should be with the company as it bears the cost.

Brampton would like to clarify the change of accounting for push-down goodwill in 2009. Brampton did not write off goodwill; rather, it retrospectively de-recognized goodwill, per Note 2 of the 2009 Audited Financial Statements below.

> *"In previous years, the Company followed the "push down" basis of accounting for goodwill whereby the goodwill values that arose in the purchase equation, when the Company was acquired, were pushed down to the accounts of the Company. During 2009, the Company changed its* accounting policy *and retrospectively de-recognized goodwill. Management determined that the change in accounting policy provides more reliable and relevant information and prepares the Company for the adoption of International Financial Reporting Standards (IFRS), on January 1, 2011.*
>
> *This change in accounting policy resulted in the removal of goodwill in the amount of $60,060 thousand and associated contributed surplus of an equal amount. As a result of this change, a deferred income tax asset was*

> *recognized in the amount of $13,063 thousand and retained earnings opening balance was adjusted to reflect this change."*

In conclusion, Brampton requests that its SIMPIL models be updated to reflect: 1) the use of its growing rate base from 2001 to 2005; and 2) the deemed debt equity ratios of 57.5% / 42.5%. If the Board rules in favour of this request, Brampton will submit updated SIMPIL models to reflect these updates.

Disposition of deferred PILs account 1562

Brampton submits that rate impact should be the key driver of the disposition of the balances of Accounts 1562 and 1592 and, based on its current submission, should be based on a two-year disposition period. However, if the Board approves a lower amount for regulatory asset recovery, Brampton submits that a one-year disposition period may be more appropriate.

Smart Meters

Smart Meter funding adder

Brampton has requested an ongoing funding adder of $1.01/month for the recovery of its 2010 revenue requirement for smart meters installed up to 2009 and to recover the revenue requirement on additional investments in smart meters in 2010 and 2011.

Brampton submits that it will continue to require an ongoing Smart Meter Funding Adder for costs incurred for 2010 & 2011 until the smart meter program is completed and final disposition is approved by the Board. Although 93.7% of smart meters have been installed, Brampton plans to spend an additional $5.7 million in smart meter capital costs, which is about 22% of the total smart meter program capital. Brampton requests that this funding adder remains available to ensure ongoing cash flow support until the project is completed. It is Brampton's plan to seek final disposition of the Smart Meter Program as part of its next cost of service rate filing in 2015, rather than seek final disposition during a separate interim proceeding.

Stranded meter costs

Brampton followed the Smart Meter Funding and Cost Recovery Guideline G-2008-0002 and included its stranded meter costs in rate base in this Application. Brampton submits that it continues to be appropriate to retain its stranded meters in rate base and have concurrent rate base treatment for smart meters. Brampton invested in legacy conventional meters with the expectation of earning a regulatory return on those meters. Brampton submits that it should be able to continue to earn a return on stranded meters, as the reasons for stranding the legacy meters were outside of its or the industry's control: it was government legislation that required the removal of legacy meters. Brampton submits that the reference to the "used and useful" rule is not relevant in this case giventhat the costs of stranded meters have been in rate base for a number of years since they were removed, per the Board's Smart Metering guideline. Brampton asserts that nothing has occurred that would warrant a change in the Board's previous position whereby stranded meters were included in rate base. When the Board initially made its policy choice for dealing with stranded meters, another option the Board had was for distributors to revise the service lives of meters and allow recovery (with return), or write off the carrying value to a loss account and defer it in a regulatory deferral account. If the Board had charged the loss to a deferral account until recovered, under the deferral standard model that deferral account would have been interest-improved to reflect financing cost. This approach would give recognition to the view that recovery of historical dollars only would be inconsistent with past deferral account treatments for stranded assets or cancelled projects. Since the Board determined that the appropriate approach was to adopt the rate base model rather than deferral model, Brampton submits that these costs should be rate-based and that it should be permitted to earn a return on the stranded meter assets.

Brampton therefore submits that its recovery of stranded meter costs should be as filed through revenue requirement.

G. LOST REVENUE ADJUSTMENT MECHANISM (LRAM) / SHARED SAVING MECHANISM (SSM)

Brampton included in this Application a request to recover lost revenues associated with Conservation and Demand Management undertakings through 2008, as well as shared savings using the Lost Revenue Adjustment Mechanism (LRAM) and Shared Savings Mechanism (SSM), respectively. The LRAM and SSM claims are $1,937,159 and $458,438, respectively.

Brampton submits that this claim was developed using methodologies consistent with those prescribed by the Board. Board staff's final submission in this Application concurs with this.

Based on some of the concerns of some intervenors, the appropriateness of a particular dataset to be used in calculating lost revenues is not based on who funded the program, but on the quality of the data, the, source, and the methodology by which the data was determined. The data used in Brampton's LRAM calculation for the 2006 and 2007 EKC programs are from an evaluation of those specific programs that was commissioned by the Ontario Power Authority. The results for the EKC programs in 2006 and 2007 are taken from the same OPA verification of CDM programs that VECC accepts in section 11.4 of its submission for "OPA-funded" programs.

In support of its argument, VECC makes reference to the Horizon decision (EB-2009-0158/EB-2009-0192) of October 8, 2009, in which the Board required Horizon to update its input assumptions. However, this decision addressed the vintage of generic input assumptions to be used and on whether the Board's direction to use the most current datasets for LRAM purposes applied to programs offered before 2007. It was not about choosing between results from a program-specific evaluation and the most current 'generic' data, nor did it make a distinction in the dataset to be used based on the source of funding for the program.

The net energy savings estimates used by Brampton in its LRAM claim for the 2006 and 2007 EKC programs were those provided by the OPA after conducting a program-specific evaluation. The OPA reports that the results are prepared in a manner consistent with OPA current practice and are the same values used to report progress against provincial conservation targets. Further, the Board states in the Guidelines for Electricity Distributors Conservation and Demand Management (p.28), "The Board would consider an evaluation by the OPA or a third party designated by the OPA to be sufficient."

Regardless of whether the 2006 and 2007 programs are classed as OPA-funded or LDC-funded, the OPA provided verified results for these programs. Brampton therefore submits that the use of the OPA evaluation results for these programs is sufficient and appropriate, and Brampton stands behind its LRAM claim.

H. OPERATING REVENUES

Other Revenues

Miscellaneous Revenues

Brampton submits that historically the gain on sale of vehicles was so insignificant that it was not included in its 2011 business plan or in this Application. Brampton submits that no further adjustments are required in this Application pertaining to gain on sale of vehicles.

The category "Miscellaneous Energy Charges" was used in prior years to capture one-time settlements not covered by specific charges. The explanation given that the Miscellaneous Energy charge related to revenues reported for Set-up Charges and Collection of Account Charges is incorrect. The Miscellaneous Energy Charges for each year from 2006 to 2010 were one-time revenues that did not reoccur in any of those years, nor would any of these historical one time revenues recur in 2011. In summary, Brampton does not expect to have any one-time Miscellaneous Energy Charges revenue for 2011. Hence, there was no budget for such revenue.

I. JANUARY 1 IMPLEMENTATION

Brampton submits that it made its submission for a calendar year rate year as soon as it could subsequent to the Board staff paper relating to the calendar year rate year. Brampton submits that this first application for a calendar year rate year is not indicative of the timing that will be required by the Board in future rate applications and submits that a calendar year rate year, with an effective date of January 1, 2011, with implementation date yet to be determined, is the most appropriate implementation approach for this Application. Brampton submits that rates should ultimately be set to allow for recovery of the full 2011revenue requirement over the remaining months in 2011.

January 26, 2010

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

_______Originally signed by Michael Engelberg_______

Michael Engelberg, Counsel for Hydro One Brampton Networks Inc.