ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

BARRIE HYDRO DISTRIBUTION INC.

EB-2007-0746

January 7, 2007

INTRODUCTION

Barrie Hydro Distribution Inc. ("Barrie Hydro" or the "utility") is the licensed electricity distributor for the communities of the City of Barrie, Bradford West Gwillimbury, Thornton, Alliston, Beeton, Tottenham and Penetanguishene. The distributor serves about 68,000 customers.

Barrie Hydro submitted an application for 2008 electricity distribution rates on October 3, 2007. The application was based on a future test year cost of service methodology. On December 10, 2007, Barrie Hydro submitted its response to interrogatories from Board staff and the two intervenors, the School Energy Coalition ("SEC") and the Vulnerable Energy Consumers Coalition ("VECC").

These submissions reflect observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses made by the utility, and are intended to assist the Ontario Energy Board (the "Board") in evaluating Barrie Hydro's application and setting reasonable and just rates.

THE APPLICATION

Barrie Hydro has requested a revenue requirement of $35,008,572 to be recovered in new rates effective May 1, 2008.

OM&A

Background

Barrie Hydro's Summary of Operating Costs is found at Ex.4, Tab 1, Sch. 2, p. 3 of the application. Using the Summary of Operating Costs as its base, Board staff created three different tables and asked interrogatories concerning each table. The table for interrogatory 33 compared 2006 Board approved OM&A expenses with 2006 actual expenses; the table for interrogatory 37 compared Board 2006 actual expenses with the 2007 bridge year; and the table for interrogatory 39 compared the 2007 bridge year with

the 2008 test year. In response to those interrogatories, Barrie Hydro confirmed the accuracy of each of the tables. The information found in all three tables is found below (Summary of OM&A Expenses).

OM&A Expenses	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Operation (Working Capital)	$ 2,419,050	$ 2,026,045	$ 2,479,722	$ 2,679,417
Maintenance (Working Capital)	$ 1,423,889	$ 1,398,601	$ 1,858,376	$ 1,851,979
Operation & Maintenance	**$ 3,842,939**	**$ 3,424,646**	**$ 4,338,098**	**$ 4,531,396**
Billing and Collections *(Adjusted For Collection Charges)*	$ 1,360,752	$ 1,280,176	$ 1,487,745	$ 1,541,251
Community Relations *(CDM Removed - see Below)*	$ 66,019	$ 106,722	$ 215,967	$ 221,149
Administrative and General Expenses *(adjusted for Low Voltage)*	$ 3,491,030	$ 3,661,761	$ 3,345,343	$ 3,756,801
Total Controllable OM&A Expenses	**$ 8,760,740**	**$ 8,473,305**	**$ 9,387,153**	**$ 10,050,597**
Low Voltage *(From Administrative and General Expenses)*	$ 1,242,398	$ -	$ -	$ -
CDM Expenses *(From Community Relations - see Above)*	$ -	$ 314,334	$ 460,000	$ -
Reallocation of Collection Charges *(From Billing and Collections)*	$ -	-$ 430,854	$ -	$ -
Other Operating Costs (taxes & donations)	$ 334,723	$ 375,740	$ 395,000	$ 402,505
Total OM&A Expenses	**$ 10,337,861**	**$ 8,732,525**	**$ 10,242,153**	**$ 10,453,102**

Discussion and Submission

Of particular concern to Board staff are the Controllable OM&A Expenses. Barrie Hydro proposes to increase controllable operations expenses in the amount of $1.577 million or 18.6% over the two year period from 2006 to 2008. For the reasons set out below, Board staff questions whether Barrie Hydro has provided sufficient evidence to support the increase in spending requested. In particular, there was a lack of supporting documentation for the cost drivers and cost increases. To justify such a deviation from its pattern of historical OM&A spending, Board staff suggests that Barrie Hydro provide further explanation of both the cost drivers and the cost increases in its reply submission. Without further explanation to justify the significant increases sought, the Board may wish to consider an annual increase in line with Barrie Hydro's historical OM&A spending pattern. Board staff invites Barrie Hydro to respond to all of the concerns expressed below, and particularly the possibility of a disallowance of the increases sought, in its reply submission.

Using the OM&A Expenses table above, Board staff reviewed the Controllable OM&A Expense increases by work categories. Board staff expanded the OM&A table above to show the percentage increases in various categories of OM&A expense and the corresponding variances of 2008 versus 2006 actual.

OM&A Expenses	2006 Actual	Variance 2007/2006	2007 Bridge	Variance 2008/2007	2008 Test	Variance 2008/2006
Operation (Working Capital)	$ 2,026,045	*$ 453,677* *5.4%*	$ 2,479,722	*$199,695* *2.1%*	$ 2,679,417	*$ 653,372* *7.7%*
Maintenance (Working Capital)	$ 1,398,601	*$ 459,775* *5.4%*	$ 1,858,376	*-$ 6,397* *-0.1%*	$ 1,851,979	*$ 453,378* *5.4%*
Operation & Maintenance	**$ 3,424,646**	***$ 913,452*** *10.8%*	**$ 4,338,098**	***$193,298*** *2.1%*	**$ 4,531,396**	*$ 1,106,750* *13.1%*
Billing and Collections *(Adjusted For Collection Charges)*	$ 1,280,176	*$ 207,569* *2.4%*	$ 1,487,745	*$ 53,506* *0.6%*	$ 1,541,251	*$ 261,075* *3.1%*
Community Relations *(CDM Removed - see Below)*	$ 106,722	*$ 109,245* *1.3%*	$ 215,967	*$ 5,182* *0.1%*	$ 221,149	*$ 114,427* *1.4%*
Administrative and General Expenses *(adjusted for Low Voltage)*	$ 3,661,761	*-$ 316,418* *-3.7%*	$ 3,345,343	*$411,458* *4.4%*	$ 3,756,801	*$ 95,040* *1.1%*
Total Controllable OM&A Expenses	**$ 8,473,305**	***$ 913,848*** *10.8%*	**$ 9,387,153**	***$663,444*** *7.1%*	**$ 10,050,597**	*$ 1,577,292* *18.6%*

Drivers for 2008 Controllable OM&A Cost Increases (as compared to 2006)

To assist in understanding Barrie Hydro's increases in Total Controllable OM&A expenses, Board staff prepared a Cost Driver Review table. The review starts with the 2006 Board Approved costs of $8.76 million and progresses forward to the 2008 Test year amount of $10.05 million. Board staff reviewed the application and the interrogatory responses and had limited success in identifying specific cost drivers. There are significant cost increases that remain unexplained ("Unexplained Difference") in each year, as shown at the bottom of the following table. Board staff invites Barrie Hydro to address those differences in its reply submission.

Cost Driver Review	2006	2007	2008
Opening	$ 8,760,740	$ 8,473,305	$ 9,387,153
Labour and Benefit increases	$ 376,758	$ 107,616	$ 135,178
5135 - Increase in Tree Trimming	$ -	$ 185,000	$ -
5310 - Meter Reading	$ 1,319	$ 36,463	$ 32,920
5330 - Bad Debt Expense	$ 9,907	$ 10,230	$ 13,040
5420 - Community Safety Program	$ 40,703	$ 109,245	$ 5,182
5680 - ESA Fees	$ 26,000	$ -	$ -
5630 - Additional IT Costs	$ -	$ -	$ 95,000
5855 - Regulatory Expenses	$ 60,490	$ 58,603	$ 5,000
Unexplained Difference	-$ 802,612	$ 406,691	$ 377,124
Closing	$ 8,473,305	$ 9,387,153	$ 10,050,597

A. Increase in Compensation and Staffing

Ex. 4, Tab 2, Sch. 7, pages 12-13 of the application contain information concerning employee compensation and also provides a breakdown of labour costs. Based upon information contained in the application, Board staff prepared the Compensation and Benefits table below. Board staff confirmed that Barrie Hydro has not made any changes in their capitalization policies or estimates (Board staff interrogatory 32). This is evidenced below by the year over year consistency in the resultant percentage splits.

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Compensation	$ 7,575,006	$ 7,829,235	$ 7,984,714	$ 8,456,294
Pension and Benefits	$ 1,630,968	$ 1,930,533	$ 2,012,908	$ 2,126,355
Incentive Pay	$ -	$ 101,610	$ 107,772	$ 111,006
Total Compensation	$ 9,205,974	$ 9,861,378	$ 10,105,394	$ 10,693,655
Captitalized	$ 5,184,420	$ 5,463,066	$ 5,599,466	$ 6,052,549
OM &A	$ 4,021,554	$ 4,398,312	$ 4,505,928	$ 4,641,106
Total Compensation	$ 9,205,974	$ 9,861,378	$ 10,105,394	$ 10,693,655
Captitalized	56.3%	55.4%	55.4%	56.6%
OM &A	43.7%	44.6%	44.6%	43.4%

In comparing the utility's labour costs to Total Controllable OM&A, Board staff notes that labour is approximately 50% of operation costs:

		2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
O M &A Labour	A	$ 4,021,554	$ 4,398,312	$ 4,505,928	$ 4,641,106
Total Controllable OM&A Expenses	B	$ 8,760,740	$ 8,473,305	$ 9,387,153	$ 10,050,597
Labour as a percent of O M & A	C = A / B	45.9%	51.9%	48.0%	46.2%

Board staff prepared the following table to identify the final value of labour cost drivers:

	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
O M &A	$ 4,021,554	$ 4,398,312	$ 4,505,928	$ 4,641,106
Annual Labour Changes		$ 376,758	$ 107,616	$ 135,178
% Change		9.4%	2.4%	3.0%

Ex. 4, Tab 2, Sch. 7 shows a forecast of increased total compensation, which includes incentives and benefits. In response to Board staff interrogatory 31, Barrie Hydro stated that this increase was due to average wage increases of 3% in 2007 and 2008; incentive pay increases; and benefit increases of 10% per year for health plans. In response to SEC interrogatory 17, Barrie Hydro claimed that the large differential between the 2006 Board approved benefits level and the actual benefits amount was the result of the inclusion of additional benefits in the union contract, which came into effect in May 2005. Barrie Hydro further stated that all employees received these additional benefits and that the utility has experienced a yearly premium increase of 10% in health and dental benefits. While Board staff understands that this was a result of a collective bargaining process, it nevertheless questions the acceptance, without review, of the terms of any contract signed by company management having a ratepayer impact. Signing a contract may not, in and of itself, be a sufficient justification for a rate increase.

A comprehensive review of 2008 cost increases was not possible as incomplete information was provided. For example, in response to Board staff interrogatory 36(e) reproduced in full below, cost drivers were identified but not quantified:

> e) Please provide a detailed explanation with drivers to explain the increase for Billing and Collections expenses of $207,759.
> Response
> Account 5305 $34,000 -step increases plus 3% labour & 10% benefit increase
> Account 5310 $36,000 – this is contracted out, increase in rates and volumes
> Account 5315 & 5320 - $127,000, increase of 1 FTE plus 3% labour & 10% benefit increase

In this example, Barrie Hydro provided the accounting changes but did not provide the reasons why the Billing and Collection costs are escalating. A detailed breakdown, with accompanying reasons, would be more helpful to Board staff than what was provided. Without the reasons, the Board may wish to consider whether this spending request is adequately supported by the evidence.

B. Operational Cost Drivers

The Board staff table identified as the Cost Driver Review (found on page 4) identifies other drivers for the increases, in addition to compensation. Barrie Hydro proposed a cost increase of $185,000 for tree trimming, but does not discuss what gave rise to the increase (Board staff interrogatory response 37a).

Similarly, there is a cost increase of $95,000 for IT services and maintenance but no explanation of the need for additional IT services and maintenance is given and no breakdown of the amount between services and maintenance is provided (Board staff interrogatory response 39 b).

Board staff interrogatory 37e asked for 'a detailed explanation with drivers to explain the increase in Billing and Collections expenses of $207,759', part of which included a 2007 cost increase of $36,463 and a 2008 cost increase of $32,920 for meter reading operations. Barrie Hydro's response was "Account 5310 $36,000 – this is contracted out, increase in rates and volumes".

For each of these answers, Board staff invites Barrie Hydro to provide a more fulsome explanation in its reply submission.

The Board may wish to consider whether these answers provide sufficient information to justify the cost increases sought.

C. Regulatory Expenses

Board staff has noted that the treatment of regulatory costs, especially in respect of costs incurred for the preparation and filing of 2008 Cost of Service applications, has varied among distributors. Board staff is concerned about the inclusion of the full cost of these filings in the 2008 expenses when the costs are likely one-time costs. For Barrie Hydro, Board staff has noted that regulatory costs have been increased by $58,603 in 2007 and further, by $5,000 in 2008 (see Exh2/T4/S1 in the application). Due to lack of disclosure in the interrogatories with respect to the nature and longevity of these increases, it is not clear if Barrie Hydro has included any one-time costs for filing its 2008 Cost of Service application. Board staff invites Barrie Hydro to clarify and specify the nature of its regulatory costs in the proposed 2008 revenue requirement,

and which costs are expected to be on-going and sustained, and which are not, in its reply submission.

COST OF CAPITAL

The Board has documented its Cost of Capital methodology in the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Board Report"), issued December 20, 2006. While the Board Report is only a guideline, any departures from the methodology in the Board Report should be adequately supported.

Barrie Hydro has provided its proposed Cost of Capital in Exhibit 6, which is summarized in the table below:

Cost of Capital Parameter	Barrie Hydro's Proposal
Capital Structure	57.5% debt (composed of 53.5% long-term debt and 4.0% short-term debt) and 42.5% equity
Short-Term Debt	4.77%, but to be updated in accordance with section 2.2.2 of the Board Report.
Long-Term Debt	6.46%, as a weighted average of 6.83% for third-party debt and 6.00% for a renewed demand note to the municipal shareholder (affiliated debt).
Return on Equity	9.00%, but to be updated in accordance with the methodology in Appendix B of the Board Report.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	7.47% as proposed, but subject to change as the short-term debt rate and ROE are updated per the Board Report at the time of the Board's Decision.

Discussion and Submission

Board staff reviewed the details of Barrie Hydro's approach to its capital structure, long and short-term debt rates and ROE. Barrie Hydro's approach appears to be consistent with the methodology in the Board Report.

CAPITAL EXPENDITURES

Background

In its application, Barrie Hydro has projected $14,619,000 for its 2008 capital expenditures, a decrease of approximately 10% as compared to the 2006 actual Capital Expenditures of $16,242,000.

Board staff notes that the major reason for the reduction in overall capital expenditures in 2007 and 2008 as compared to 2006 appears to be related to reductions in the expenditures in new subdivisions.

Discussion and Submission

In response to Board staff interrogatory 6d, Barrie Hydro provided the summary tabled below, listing the Net income, Actual and Allowed ROE%, Retained Earnings, Dividends to shareholders, and Total Capital Expenditures for the period 2002 to 2008.

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Year	2002	2003	2004	2005	2006	2007	2008
Net Income	$3,414	$6,513	$ 4,262	$ 5,776	$ 4,486	$ 5,746	$ 5,730
Actual ROE (accounting figures)	1.4%	9.9%	6.1%	7.8%	5.8%	7.2%	6.9%
Allowed ROE	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Retained Earnings	$ 856	$7,396	$10,532	$ 14,479	$ 16,055	$20,087	$ 24,098
Dividends to Shareholder	-	-	$ 1,100	$ 1,800	$ 2,900	$ 1,724	$ 1,719
Total Capital expenditures	$6,616	$9,970	$13,399	$ 7,467	$ 16,242	$13,971	$ 14,619

Reliability Performance

The data in the following table is extracted from data received in response to Board staff interrogatory 7 and shows a generally deteriorating reliability performance trend.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
SAIDI	.9865	1.3987	4.6320	1.3438	2.5467	3.5102
3 yr average			2.3391	2.4582	2.8408	2.5002

The SAIDI is the System Average Interruption Duration index. The higher the SAIDI, the longer is the total duration of interruption in service in a given year. Reliance on a 3-year moving average can give rise to interpretation problems. For example, in 2005 the target 3-year average for SAIDI would have been 2.4582, (the average of the years 2002, 2003 and 2004). In 2005 the actual SAIDI was 2.5467 and the target was not met. However, the 2006 target which is the 3-year average ending in 2005 increased to 2.8408, a lower standard than was required for 2005. (Note that in 2006 the 3-year average declined, not because of better performance, but because bad performance in 2003 was removed from the calculation of average)

In the EDR Handbook, the Board states that utilities which have at least 3 years of data on service reliability indices should, at a minimum, remain within the range of their historical performance. In response to Board staff interrogatory 7, Barrie Hydro provided overall reliability data which shows the utility is interpreting the requirements of the EDR Handbook in a way that may not drive better performance as the utility has interpreted maintaining indices at their historical level to mean the average of the last three years.

In response to Schools Energy Coalition interrogatory 12, Barrie Hydro states "We review and evaluate outage data to identify trends or issues that might instruct us on specific programs (for example rehabilitation of underground plant with high fault/failure levels)". No further detail of the review or evaluation process is included.

It is clear from the above that there needs to be either an absolute reference for the index, such as a fixed value of 2 hours duration, or there must be a comparator using external data, such as the LDC community. In the absence of a second round of interrogatories there is no opportunity to delve into the process for relating system deficiencies to capital expenditure programs in a more thorough way.

Board staff remains unclear on the manner in which Barrie Hydro will deploy capital to improve the reliability of its system in the future and invites Barrie Hydro to provide a more detailed explanation in its reply submission.

Assessment of Asset Condition and Asset Management Plan

In response to Board staff interrogatories 9a and 9b, Barrie Hydro advised it has a number of ways of examining the condition of assets. These include:

1. a review of substation assets according to "BHDI OEB inspection" program;
2. a review of 1/3 of distribution assets every year, and
3. a pole testing program.

In response to Board staff interrogatory 9c, the utility stated it is working on an overall Asset Condition Assessment Plan but failed to provide details concerning the plan. As a result Board staff has insufficient information to assess the adequacy of the utility's plan to maintain its infrastructure and increase its performance.

On the question of an Asset Management Plan, which would use the results of the condition assessment to drive an action plan that would proactively address facilities which are deteriorating, Board staff was unable to determine if Barrie Hydro has such a plan. Barrie Hydro may wish to comment on its intentions to develop an Asset Management Plan.

Treatment of Construction Work in Progress

At Ex. 1, Tab 3, Sch. 4, page 44, Barrie Hydro indicates that the allowance for funds used during construction (AFUDC) is not currently captured by the utility. In Ex. 1, Tab 1, Sch. 9, at page 20, Barrie Hydro states it is in compliance with the OEB's accounting guidelines. In response to Board staff interrogatory 42, Barrie Hydro confirmed its understanding that the recording of AFUDC by LDCs was optional. The Accounting Procedures Handbook (APH) clearly states that the utility should record AFUDC.

Barrie Hydro did not provide the dollar impact on rate base and revenue requirement of not recording AFUDC in the interrogatory response, nor did it state that it will start recording AFUDC prospectively. In theory, not capitalizing interest means that the rate base is lower over the long term, which results in lower return. This will decrease the appropriate funds to be collected in Barrie Hydro's rates.

Board staff invites all parties to comment on Barrie Hydro's interpretation of the recording of AFUDC and whether the utility should be recording AFUDC prospectively.

LOAD FORECASTING

Background

Exhibit 3 of Barrie Hydro's application discusses how the customer count and load forecast is developed. Using a simple trend growth, the historical number of customers is projected to obtain both Bridge Year (2007) and Test Year (2008) customer counts by class. The kWh forecast - and the kW forecast for appropriate classes – is presented by customer class. Variance analyses based on a number of reference points are also presented in support of the forecasts.

As requested by Board Staff, Barrie Hydro provided data based on an alternate customer growth scenario.

Discussion and Submission

Barrie Hydro's evidence indicates that this load forecast was developed using a consumption estimate multiplied by a customer forecast. It first developed the

normalized average use per customer ("NAC") by customer class. The NAC value by class was based on 2004 consumption data that had been weather-normalized for it by Hydro One. Barrie Hydro assumed the NAC value for each class remained constant over time and thus used the 2004 NAC value for the 2008 Test Year load forecast.

In response to Board Staff interrogatory 14 (and attachments), Barrie Hydro provided supplementary information that indicated its 2008 load forecast would be about 2% higher if it had followed the historic trend.

Board Staff is concerned that the methodology chosen utilizes only a single year of historical load data to determine the future load; in fact, the load forecast is essentially in lockstep with the forecasted number of customers. Board Staff is of the view that to simply assume that the NAC value remains constant over a number of years is questionable. This assumes that no improvement in energy efficiency has occurred during the past few years and that none is expected in the immediate future.

Weather Normalization

Barrie Hydro noted that Hydro One carried out the weather normalization that was performed, albeit only for the year 2004. Since the details of Hydro One's weather normalization process were not presented, no assessment of its appropriateness is possible.

Results

Barrie Hydro's customer forecast shows a 1.9% annual average growth in customer numbers from 2006 to the 2008 Test Year. This compares with an average annual customer growth of 2.9% during the 2002 to 2006 period.

The utility's load forecast shows a 2.9% annual average load growth from 2006 to the 2008 Test Year. (The historical load growth during the 2002 to 2006 period was 3.8% p.a.) This 2.9% compares with an average annual customer growth of 1.9% during the 2006 to 2008 period as noted above but is consistent with the 2.9% customer growth experienced in the 2002 to 2006 period.

Aside from the concerns expressed above, Board staff has no issues with the use of forecasts as presented by Barrie Hydro.

COST ALLOCATION AND RATE DESIGN

LOW VOLTAGE

Background

Barrie Hydro is an embedded distributor, served by the host distributor Hydro One. The amount of Low Voltage (LV) cost approved for inclusion in 2006 distribution rates was $1,242,398. In accordance with the 2006 EDR model, the LV amount was allocated to the customer classes in proportion to the revenue from the Retail Transmission Rate – Connection. In this application, the forecast cost of LV charges is $1,215,380, to be allocated to classes on the same basis as in the previous approval. The cost is to be recovered from each class as a component of its volumetric rate, as in the previous approved rates.

The proposed components of the volumetric rates that are designed to cover the cost of LV – Wheeling are listed in Ex. 9, Tab 1,Sch.1,Table 10. The components are approximately equal to or slightly lower than the corresponding amounts in the 2006 application.

The Large User class does not have a revenue record to serve as the basis for the allocation. The basis of the assumed revenue is the load forecast times the approved Retail Transmission Rate – Connection for the General Service 50 – 4999 kW Time of Use class. The component of the kW rate is proposed at $0.3943, which is nearly $0.10 higher than the nearest comparable rate component, applicable to the GS> 50 kW class.

Board staff submits that the forecast of LV – Wheeling cost is reasonable and that the allocation of LV costs and derivation of the rate component are also reasonable. Board staff notes that the derivation of the LV component for the Large User class is not based on an established record of class load and revenue, which means that the derivation of the relatively high amount is not as well supported by the evidence as for the other customer classes. Barrie Hydro may wish to address in its reply submission whether some other basis might provide a more valid starting point for the derivation of the Large User class LV component.

CUSTOMER CLASSIFICATION

Barrie Hydro proposes to retain the General Service 50 – 4999 kW Time of Use class, and proposes that the rates to this class would be identical to the General Service 50 – 4999 kW class except for the Retail Transmission Service rates. These two rates are higher for the Time of Use ("TOU") customers than for the non-TOU customers. The proposal mirrors the currently approved rates in this way.

Board staff submits that there is insufficient evidence documenting the benefits for this aspect of the proposed rate structure. With the transmission rates being reduced, Barrie Hydro may wish to address why these rates could not be harmonized at this time.

REVENUE TO COST RATIOS

Background

Barrie Hydro has submitted its Informational Filing, which yielded Revenue to Cost Ratios found in the second column of the following table. Comparing the proposed rates and revenues against class revenue requirements (derived as a constant escalation from the Informational Filing), revenue to cost ratios in the test period are found in the final column. The data are found in Barrie Hydro's application in Ex.8, Tab 1, Sch.2, Tables 1 and 3 respectively.

%	Informational Filing Run 2	Proposed Rates
Customer Class		
Residential	117.5	115.1
GS < 50 kW	97.9	96.0
GS > 50 kW	80.6	86.3
Streetlighting	9.3	10.8
Unmetered Scattered Load	101.2	98.6

Discussion and Submission

Board staff submits that the ratios based on the proposed rates are within the range of the Board's report "Cost Allocation for Electricity Distributors", November 28, 2007. The

notable exception is the streetlighting class, which has a very low ratio based on current approved rates, and is proposed to remain very much below the lower end of the range for this ratio found in the Board report. The proposed ratio is 10.8% compared to 70%.

Barrie Hydro submits that the impact on streetlight rates is 33.7%, and that it would be unreasonable to impose an impact higher than this (Response to Board staff Interrogatory 47). Board staff notes that, according to Appendix 9-1 of the Application, the impact is only 2.5% when considered on the total bill. Further, this impact is based on no adjustment for the transmission rate reduction. Board staff notes that the 2.5% impact is well within the total bill mitigation threshold of 10% (page 89 of the May 11, 2005 Report of the Board on the 2006 EDR Handbook). Barrie Hydro may wish to explain why a further change to streetlighting rates should not be made at this time.

Board staff also notes that the proposed ratio for the GS < 50 kW class has moved further from the preferred point of 100%, and questions why Barrie Hydro cannot maintain the current ratio.

LINE LOSSES

Background

In response to Board staff interrogatory 15, Barrie Hydro reaffirmed that the Distribution Loss Factor ("DLF") for 2008 is computed as a three year average of the actual DLF for 2004 to 2006 and confirmed that the Supply Facilities Loss Factor ("SFLF") used to convert DLF to the corresponding Total Loss Factor ("TLF") is 1.0045.

Discussion and Submission

Board staff is concerned with the steady increase in the actually observed DLF in the 2004 to 2006 period (1.0450 to 1.0533 to 1.0570). Barrie Hydro's application states that load growth in areas distant from transformer stations causes this increase in line losses. Barrie Hydro may wish to address in its reply submission why an action plan has not been developed to decrease the DLF during the test year (2008) and/or during a longer planning period.

DEFERRAL AND VARIANCE ACCOUNTS

Background

Barrie Hydro has requested that the accounts and balances, as per the Regulatory Asset Continuity Schedule, and submitted as part of Board Staff Interrogatory response 44a) in Attachment 44, be cleared for disposition as of April 30, 2008. There are differences in the balances claimed in the Exhibit 5, Tab 1, Schedule 3, appendix5-1.xls spreadsheet in the original application, when compared to the interrogatory responses. The Discussion section below will highlight these differences.

Per the continuity schedule in the interrogatory responses, the following accounts are being requested for disposition as at April 30, 2008:

1508 Other Regulatory Assets $890,105
1518 Retail Cost Variance Account – Retail $53,876
1548 Retail Cost Variance Account – STR ($11,507)
1550 LV Variance Account $19,598
1565 CDM Expenditures and Recoveries $0 (includes forecasted principal balance)
1566 CDM Contra $0 (includes forecasted principal balance)
1580 RSVA – Wholesale Market Service Charge ($470,184)
1582 RSVA – One-time Wholesale Market Service $92,729
1584 RSVA – Retail Transmission Network Charge $325,605
1586 RSVA – Retail Transmission Connection Charge ($40,560)

1562 Deferred Payments in Lieu of Taxes ($62,649) (includes forecasted principal balance) is being requested for disposition as at April 30, 2008 in the original application and as per the written portion of Interrogatory response 44a), but the claim of this balance is not listed in the continuity schedule. The Applicant's submission on its claim of 1562 is included in Exhibit 5, Tab 1, Schedule 3, appendix5-1.xls spreadsheet, as at April 30, 2008.

Discussion and Submission

Continuation of Deferral and Variance Accounts Request

The Board has already approved and defined, through the APH and associated letters, the period and functionality of deferral and variance accounts for the electricity distribution sector. Therefore, it is not necessary for Barrie to request permission to continue using open deferral and variance accounts as per the APH.

Concerns about Amounts for Disposition

Barrie Hydro is requesting that the accounts and balances, as per Ex. 5, Tab 1, Sch. 3, appendix5-1.xls spreadsheet, be cleared for disposition as of April 30, 2008. Comparing the balances requested for disposition as at April 30, 2008 in Ex. 5, Tab 1, Sch. 3, appendix5-1.xls spreadsheet, to the Regulatory Asset Continuity Schedule, as provided in interrogatories, there are immaterial differences (differences of $1 or $2) for some accounts (1508, 1550, 1582, 1588); however, there are two material differences:

1. The 1562 account balance of ($62,649) requested for disposition as at April 30, 2008, in the Application, was omitted from the continuity schedule.

2. 1565 CDM Expenditures and Recoveries and 1566 CDM Contra balances previously requested for disposition as at April 30, 2008 in the Application were cleared to zero balances in the continuity schedule.

Barrie Hydro may wish to address this in its reply.

Forecasting Balances for Disposition

Except for 1565, 1566 and 1562, the accounts being applied for disposition are using December 31, 2006 principal balances plus accrued interest to April 30, 2008. Barrie Hydro is forecasting both principal and carrying charges for 1565, 1566, and 1562 accounts that it is proposing to clear. Accounts 1565 and 1566 are discussed below.

Board staff notes that in the natural gas sector, utilities do forecast principal and interest on deferral and variance accounts for disposition to the end of the current test year. However, generally, these forecasts do not exceed two or three months once the applicant provides an update before the decision is released. The forecasted balances are then trued up to the actual and any differences are placed in a deferral account for

disposition at the next rate case. This approach has not been used for electricity distributors.

In the electricity distribution sector, it has not been Board practice to order disposition of forecasted balances of principal transactions on deferral and variance accounts. Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The most recent Barrie Hydro balances that have been independently audited are the December 31, 2006 balances. It would be inconsistent with the Board's past uniform practice in this sector to dispose of forecasted principal balances.

Therefore, for accounts 1508, 1518, 1548, 1550, 1580, 1582, 1584 and 1586, Barrie is following standard regulatory process on forecasting only interest on finalized, audited balances that are being requested for disposition. For accounts being requested for disposition, accounts 1562, 1565, and 1566 are not following standard regulatory process.

Treatment of 1565 and 1566

1565 CDM Expenditures and Recoveries and 1566 CDM Contra balances previously requested for disposition as at April 30, 2008 in the Application, with balances of ($511,709) and $511,709 respectively, were revised to ($482,198) and $482,198 respectively in the continuity schedule. These balances were then cleared to zero balances in the continuity schedule, as principal balances were forecasted beyond December 31, 2006. These revisions resulted from Board Staff Interrogatories which questioned why Barrie Hydro was not following the APH and Frequently Asked Questions (FAQ) December 2005.

Barrie Hydro has restated these balances to $0 as of September 2007, as per the continuity schedule.

Accounts 1565 and 1566 are part of the CDM spending, i.e., the Third Tranche CDM Activities proceeding (RP-2004-0203), which was subject to a separate review by the Board. Approval for additional spending that was to be a part of 2006 and 2007 rates was not obtained by Barrie Hydro. The impact of accounts 1565 and 1566 on the total claim is nil, as the balances offset each other. However, ordering disposition of these

balances may indicate that Barrie Hydro has completed its obligations as per RP-2004-0203.

Treatment of Account 1562 and 1592

Barrie Hydro is not correctly following the APH on 1592 and the dollar impact is unclear.

In the response to Board Staff Interrogatory 43 a), Barrie Hydro stated that account 1592, 2006 PILs & Taxes Variance, replaces account 1562, Deferred Payments in Lieu of Taxes. It is unclear whether Barrie Hydro is using account 1592 correctly and following the APH, as account 1592 does not simply replace account 1562. However, Barrie Hydro showed a zero balance in this account as at December 31, 2006, as per 2.1.1 filing of the Board's Reporting and Record Keeping Requirements.

In response to Board Staff Interrogatory 45 m), Barrie Hydro stated that it has not recorded the retroactive repeal of Large Corporations Tax ("LCT") in the period May 1, 2006 to April 30, 2007 in account 1592. By not recording LCT in 1592, Barrie Hydro's approach is inconsistent not only with the Board's policy but also the Board's electricity distributor's rate decisions made for 2007.

Barrie Hydro may wish to respond to these inconsistencies and any other irregularities expressed in the deferral and variance accounts section.

~ All of which is respectfully submitted ~