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January 21, 2008

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

Dear Ms. Walli:

Barrie Hydro Distribution Inc. (licence ED-2002-0534) is one of the LDCs that under the Multi-year Electricity Distribution Rate Setting Plan (EB-2006-0330) is filing a 2008 rebasing application (EB-2007-0746). The information following in this file represents Barrie Hydro Distribution Inc.'s reply submission to submissions made by Board Staff, School Energy Coalition and Vulnerable Energy Consumers Coalition. This reply response has been filed through the RESS system. As well two hard copies will be forwarded to you. Electronic copies of the interrogatories will be forwarded to the intervenors and our Project Advisor at the Board as well. Please contact me if any further information is required.

Sincerely,

Stephen Perry, C.M.A.
Manager of Regulatory Affairs & CDM
Barrie Hydro Distribution Inc.
705-722-7244 ext 278

BARRIE HYDRO DISTRIBUTION INC.'S

REPLY SUBMISSION TO

BOARD STAFF SUBMISSION

SCHOOL ENERGY COALITION SUBMISSION

VULNERABLE ENERGY CONSUMERS COALITION SUBMISSION

CONCERNING BARRIE HYDRO DISTRIBUTION INC.'S

2008 ELECTRICITY DISTRIBUTION RATE APPLICATION

EB-2007-0746

REPLY TO BOARD STAFF SUBMISSION

Barrie Hydro Distribution Inc. (BHDI) has received the Ontario Energy Board Staff Submission concerning our 2008 Electricity Distribution Rate Application (EB-2007-0746) and thanks the Board for the opportunity to reply by way of comments on that submission.

The first area that Board Staff has raised as a concern is that of OM&A expenses. Board Staff has commented that from 2006 actual to 2008 test year that OM&A expenses increased 18.6%, we do not dispute that amount. When BHDI was developing the OM&A forecast for the test year 2008, we went through a rigorous forecasting process to create what the filing guidelines requested as a “normalized year”. We believe that we can all acknowledge that each year of operations involves different circumstances such as weather, capital requirements, customer growth, etc. and as such expenses can fluctuate greatly from year to year based on these factors. Not only can total costs fluctuate from year to year but the type and area of expense that is required from year to year can fluctuate as well; example operation, maintenance, distribution stations, administration, etc.. After developing what BHDI considered a normalized test year OM&A budget for 2008, our internal test for reasonableness was to compare the average yearly cost increase over a period of years. The last application of a Cost of Service type for which the same rigor and analysis and reporting was performed was the 2006 EDR process, which developed rates for May 1, 2006, was filed in 2005, and was based on 2004 expenses (2006 Board approved). BHDI felt that this was the starting point under which to compare 2008 expenses under an “apples to apples” methodology. We therefore took 2006 Board approved (2004) expenses and compared them to 2008 forecasted test year expenses as a reasonableness test. For ease of comparison in this document we will use the amounts from page 3 of Board Staff’s OM&A expense table. The 2006 Board Approved amount was $8,760,740, 2008 test year amount is $10,050,597, difference of $1,289,857, percent increase of 14.7%. **Please note that this 14.7% increase represents a change over a four year period (2004 – 2008), this equates to an average yearly increase of 3.7%.** For BHDI to understand whether this was a reasonable increase or not further analysis was undertaken which is explained in the following paragraph.

BHDI is a growing utility; therefore we are servicing additional customers, maintaining & operating increased plant, etc. This is indicated in Exhibit 3,Tab 2, Schedule 4, page 13, which shows our customer count increasing from a 2006 board approved level of 77,225 to a forecasted 2008 test year level of 84,768, an increase of 9.8%. As well in Exhibit 2, Tab 1, Schedule 2, page 3 the increase in our asset values have increased from $168 million to $233 million over this four year period reflecting the additional plant BHDI is now maintaining & operating. BHDI also recognized that over this four year period that there have been inflationary pressures. In the 2007 & 2008 IRM rate processes an inflationary factor of 1.9% has been used, BHDI used this 1.9% as an inflationary factor for 2008 non labour expenses. As stated in our application and as reiterated by Board Staff on page 6 of their submission BHDI labour & benefits is forecasted to increase at 3% and 10% respectively over 2007 and 2008. In 2005 & 2006 labour increased by 3% per year as well. If we use the 1.9 % inflationary rate for 2005 and 2006 as well, an equally weighted yearly inflationary and labour increase would be 2.5%, equated for four years this would be a 10% increase. If we were to add our growth percent of 9.8% and our inflationary and labour increases of 10%, the combined percent increase is 19.8%. In our internal analysis we recognized two additional factors, 1) not all costs will increase at the same rate as our growth factor and 2) in the last two IRM years the Board had used an efficiency target of 1% reduction. We started with the 19.8% combined increase and subtracted a 1% efficiency factor for each of the four years leaving us at a calculated increase of 15.8% for a four year period or 4.0% per year. When comparing the 4.0% yearly calculated increase to the 3.7% forecast yearly increase as represented by the 2008 test year OM&A amounts BHDI concluded that this was a reasonable amount. Please see table following.

	2006 BOARD APPROVED (2004)	**2008 TEST YEAR**	**DIFF**	**% CHANGE OVER 4 YEARS**	**AVG % YEARLY CHANGE**	
OM&A COSTS	$ 8,760,740	$ 10,050,597	$ 1,289,857	14.7%	**3.7%**	
CUSTOMERS & CONNECTIONS	77,225	84,768	7,543	9.8%	2.5%	
AVG INFLATIONARY & LABOUR (2.5%/YR)	0%	10%		10.0%	2.5%	**4.0%**
4 YEAR IRM EFFICIENCY REDUCTION	0%	-4%		-4%	-1.0%	
GROSS ASSETS	$168,000,000	$233,000,000	$65,000,000	38.7%		

As further justification of our four year comparison and the fluctuations in costs from year to year we would note that 2006 Actual OM&A expenses were lower at $8,473,305 than the 2006 Board Approved (2004) of $8,760,740.

To further assist the Board in its review of our application we will attempt to further clarify some of the cost issues raised by Board Staff.

For 2008 on page 4 of the submission Board Staff has identified $377,124 of "Unexplained Difference".

This $377,124 is due to:
1. $27,000 increase for inflationary 1.9% as compared to 2007
2. three additional Administrative management positions, IT Manager $60,000, HR Manager $82,000, Regulatory Analyst $76,000. The IT and HR Managers positions have been unfilled for a number of years but due to growth, health & safety requirements, implementation of new computer software it was determined they are now required to maintain our standards of service. The Regulatory Analyst position is needed to deal with additional regulatory requirements from OEB and IESO.
3. Labour & Benefits increase for Administration staff – 3% increase of $124,000. We would note that this increase is in addition to the $135,178 noted by Board Staff. The $135,178 is for O&M staff only. It appears that Board Staff calculated this amount from Exhibit 4, Tab 2, Schedule 7, page 13 from the section "Total of Labour & Benefits Costs charged to O&M ($)". The amounts in this section are for Operations & Maintenance staff only.

On page 7 of Board Staff's submission a comment concerning further explanation of the increase for Meter Reading Account 5310 is noted. BHDI would comment that factors driving this Account are inflationary increases, customer count increases and an increase in the number of specialty meter reads required.

On page 7 of Board Staff's submission under B. Operational Cost Drivers, comment is made concerning the cost increase of $185,000 for tree trimming. BHDI has as a part of its maintenance planning put more rigor to understanding the best spend levels for tree trimming in order to effectively mitigate outages due to forestation. As part of that review it was determined that a normalized level for tree trimming was that which was developed in the 2007 & 2008 plan as opposed to tree trimming amounts incurred in 2006, hence the $185,000 increase.

As well on page 7 of Board Staff's submission under B. Operational Cost Drivers a $95,000 increase in IT services & maintenance is mentioned. This was further explained in the VECC Interrogatory, Question 18 B. $60,000 for GIS software maintenance & $35,000 for the development of a Business Continuity Plan.

On page 7 of the Board Staff submission under C. Regulatory Expenses, the amounts for Regulatory Expenses have been questioned, these costs represent Ontario Energy Board cost assessment amounts and to the best of our knowledge these amounts will continue each year. The 2008 test year amount of $220,000 represents the most current information BHDI had available.

Under the section of the Board Staff submission entitled "Cost of Capital" we note that no concerns were raised.

Under the section of the Board Staff submission entitled "Capital Expenditures" we note that questions were raised in thee areas; Reliability Performance, Assessment of Asset Condition and Asset Management Plan and Treatment of Construction Work in Progress.

Concerning the area of Reliability Performance, BHDI references the response to Board Staff Interrogatory Question 7. The programs identified in the noted reference will impact reliability statistics as follows. Concerning 44kV Switch Automation, Barrie Hydro has an ongoing program to install automated switches on the system. The switches will allow the control room to quickly switch the 44kV feeders and isolate sections of line in the event of a fault. This will aid in reducing restoration time and improve SAIDI. Concerning Protection Upgrades, BHDI has a three to four year program to upgrade fusing on the system to coordinate properly with upstream devices. By changing fusing, unnecessary outages to entire feeders due to an isolated fault in a section of line will be avoided. This will aid in a reduction of SAIFI. Additionally, as noted in earlier responses, BHDI undertakes a variety of capital and operations and maintenance programs designed to maintain a reliable electrical distribution system. Those include annual tree trimming, insulator washing (as required), pole testing and replacement, vault maintenance, pole rehabilitation, underground plant rehabilitation, lightning arrestor installation, transformer betterment, among others. Further, an ongoing process has been established with Hydro One to explore possibilities of improving reliability due to loss of supply as a result of our embedded structure in several service areas.

Concerning the area of Assessment of Asset Condition and Asset Management Plan, BHDI would submit the following additional comments. In 2008 BHDI is committed to create a multi-year action plan to address the assessment and replacement of our existing electrical plant. Elements of the overall plan have been built such as Engineering Planning documents that establish criteria for the ongoing operation, expansion, and replacement of physical plant assets. Beyond the programs listed above, more work will be done to build a complete Asset Management Plan. Five and ten year Capital Construction plans have been developed and will be revised as part of finalizing the overall Asset Management Plan.

Concerning the area of, Treatment of Construction Work in Progress BHDI would submit the following additional comments. Board Staff's comments center around the treatment of allowance for funds used during construction (AFUDC). The Board Staff submission references comments and interrogatory responses previously provided. BHDI had reviewed attempting to implement this procedure in late 2006. Due to limitations in our current ERP software package we were not able to perform this calculation in a cost efficient manner. We are currently planning to implement a new ERP software system in 2008 and due to the concerns raised will attempt to implement this process as part of that implementation. We would agree with Board Staff's comments that our current practice results in reduced rates to our customers.

In the area of the submission entitled "Load Forecasting" our understanding of Board Staff's comments are that they have no issues with the use of the forecasts as presented in BHDI's filed application. Clarification of the Weather Normalization methodology and the normalized average use per customer (NAC) are provided in Exhibit 3, Tab2, Schedule 1 to Schedule 5. As well we recognize and agree with Board Staff that energy efficiency may have impacted average use per customer, at this point in time we have no accurate way to forecast this effect. We would acknowledge though that the declining percent load consumptions used in the application may assist in alleviating any effect this may have.

In the area of the submission entitled "Low Voltage" we acknowledge Board Staff comments that the, "allocation of LV costs and the derivation of the rate component are also reasonable". We understand the comments regarding the Large User class rates. BHDI would submit that we have no other basis on which to derive the Large User rate and since the rates for the other classes are reasonable as submitted we would not request any changes to the Large User rate which would cause a change to the other classes rates.

Under the section of the Board Staff submission entitled "Customer Classification" we note Staff's concern regarding the possible harmonization of the General Service 50-4999kW time-of-use class and the General Service 50-4999kW class for the Retail Transmission Service rates. We would reference BHDI response to VECC Interrogatory Question #2 as to our reasoning for not harmonizing the Retail Transmission Service rates at this time.

In the area of the submission entitled "Revenue to Cost Ratios", Board Staff has commented on the Streetlighting class ratio. We would reference BHDI interrogatory responses to Board Staff Question 47, VECC Question 20 B, SEC Question 23 B. BHDI feels that the adjustment as filed in the rate application is an appropriate change at this time.

Under the section of the Board Staff submission entitled "Line Losses" we note that questions were raised regarding an action plan to decrease the DLF. We would reference comments in our filed application Exhibit 4, Tab 2, Schedule 9, page 16; response to Board Staff Interrogatory question 15; response to SEC Interrogatory Question 5 F. In reply to this issue BHDI would also submit the following additional comments. An action plan has not been developed for line losses specific to the system. System line losses are considered in the system planning process. Project costs to mitigate losses are considered against the benefits. BHDI is currently undertaking the process of updating our existing electrical distribution systems modeling software with the objective to optimize the configuration of these electrical distribution systems in 2008 and 2009. Opportunities to reduce line losses are one of the anticipated outcomes of an optimized system.

Under the section of the Board Staff submission entitled "Deferral and Variance Accounts" Board Staff has invited further comments from BHDI in a few areas which we will respond to. BHDI would also like to make comment on an area where we feel that clarification is required in the Board Staff submission.

On page 17 of the Board Staff submission the accounts listed for disposal are listed. We would note that Account 1588 RSVA – Power is not listed. On page 18 of the submission under the section entitled "Concerns About Amounts for Disposition", we would note that Account 1588 is listed as being requested for disposition and immaterial differences exist between the amount requested in the filed application and in the Continuity Schedule provided as part of the interrogatories. On page 19 of the submission under the section entitled "Forecasting Balances for Disposition", Account 1588 is not mentioned. We would note that the amount for Account 1588 requested for disposition in the filed application is a credit amount of ($1,558,225), we would like to clarify that BHDI is requesting that this amount be disposed of in this application and be returned to our customers through our new approved rates.

Board Staff has invited comments re the balances requested for disposition for Accounts 1565 & 1566. In response to Board Staff Interrogatory Question 44 C i, BHDI acknowledges that carrying charges were erroneously shown on Account's 1565 & 1566; this was corrected in the continuity schedule filed as part of the Board Staff interrogatories. Board Staff interrogatory Question 44 C iii, indicated concern that in the filed application, the December 31, 2006 balances for accounts 1565 & 1566 were not forecasted to decline beyond this date. BHDI interpreted this comment to request that the balances for these accounts be forecasted past December 31, 2006 to the September 30, 2007 date upon which all Third Traunche CDM spending (Accounts 1565 & 1566) must be completed. We therefore forecasted these balances in the continuity schedule included in the interrogatories. On page 18 & 19 of the Board Staff submission under the section entitled "Forecasting Balance for Disposition" BHDI's understanding of Board Staff's comments are twofold, one that only the amounts up to December 31, 2006 should be requested for disposal and two, due to the fact that these accounts are part of a separate Board review that any balances should not be approved for disposal as part of this process. BHDI does agree with Board Staff's statement at the bottom of page 19 that the impact of accounts 1565 & 1566 on the total claim is nil. Since the disposition or non disposition of these accounts 1565 & 1566 will have a nil impact on the rates asked for in this application we will defer to the Board's decision as to whether these accounts should be disposed of as part of this application or not.

Under these same sections Board Staff raised concerns about the disposition of Account 1562 (Deferred PILS) and asked for BHDI's comments. From BHDI's understanding, Board Staff's concerns center around the facts that the account 1562 amount was omitted from the continuity schedule submitted with the interrogatories and that the amount being requested for disposal for account 1562 includes principal adjustments after December 31, 2006.

In response to the first concern raised by Board Staff concerning Account 1562, the amount for account 1562 was not entered in the continuity schedule requested as part of the interrogatories due to the fact that in the continuity schedule template provided by

Board Staff, in the row identified as Account 1562 it references “ see PILS reconciliation requested”. Based on this comment BHDI’s understanding was that the amounts were not to be input in this continuity schedule but were to be included in a separate PILS reconciliation sheet which we filed as Attachment 45 of the Board Staff interrogatories.

In response to the second concern raised by Board Staff we would reference Exhibit 5, Tab 1, Schedule 3, page 4, the explanation notes the reasoning for including a 2007 principal adjustment as an attempt to clear this account in total at this time as opposed to continued tracking until the next rebasing application.

In the Board Staff submission on page 20 a concern was raised regarding Account 1592. In our reply to Board Staff interrogatory question 45 M, we erroneously commented that “we have not adjusted for this amount”, we have adjusted for this amount but in a retroactive fashion. We had not recorded this amount in 2006, but as part of the 2007 IRM rate application the need to track this amount came to our attention. We commenced recording of Account 1592 on our 2nd quarter 2007 RRR reporting. The principal amount as of December 31 2006 would have been a credit of ($36,384).

As one final point of clarification BHDI would refer to Board Staff Interrogatory Question 52 A i. This question dealt with BHDI’s authority under which to undertake smart meter activity in 2008. As an update to our response to this question of, “having spoken to Board Staff and Ministry of Energy Staff”, we would note that we now have a meeting scheduled for the end of January with Ministry of Energy staff. We would anticipate that this meeting will lead to approval for BHDI to undertake smart meter activities in 2008.

Through information filed by BHDI as part of this rate application process (original application, interrogatory replies and reply submission), BHDI feels we have sufficiently indicated to the Board the need and reasoning for the requests made in this rate application. Deferral and variance accounts need to be disposed of, some in favour of our customers, some in favour of BHDI. The revenue requirement needs to be updated from rates that are currently based on 2004 amounts to 2008 test year amounts. This will allow for the first time in a number of years that rates being collected in a year (2008) are based on the expected capital and expenses for that same year (2008), a future test year.

REPLY TO SCHOOL ENERGY COALITION SUBMISSION

Barrie Hydro Distribution Inc. (BHDI) acknowledges receipt of the School Energy Coalition's (SEC) submission comments surrounding BHDI's 2008 Distribution Rate Application (EB-2007-0746).

As a reply comment BHDI would note that the areas of the rate application where SEC has made comment in their submission mirror the areas of comment made in the Board Staff submission. As such BHDI would reference our reply submission to the Board Staff submission as reply to any concerns raised by SEC in their submission.

BHDI would make one further point of clarification in response to a comment made in the SEC submission. On the last page of the SEC submission (page 6), in the last paragraph, SEC makes the comment, "Therefore, SEC agrees with BHD's proposal to allocate new revenues from Street Lighting to the Residential rate class on the basis that that is the only rate class whose revenue to cost ratio is greater than 100%". We believe this comment from SEC is based on BHDI's response to SEC Interrogatory Question 23 B. As such we would like to make it clear that BHDI's response was based on a hypothetical scenario posed by SEC in their Interrogatory question.

REPLY TO VULNERABLE ENERGY CONSUMERS COALITION SUBMISSION

Barrie Hydro Distribution Inc. (BHDI) acknowledges receipt of the Vulnerable Energy Consumers Coalition (VECC) submission comments surrounding BHDI's 2008 Distribution Rate Application (EB-2007-0746).

BHDI welcomes the opportunity to reply comment on this submission. Some of the areas of comment by VECC mirror those areas commented on by Board Staff in their submission, we will reference those comments in the appropriate sections.

In section 1.2 of VECC's submission they reference an increase in distribution rates of 20.6%. We would note that the distribution revenues at current rates is base distribution revenues (not including smart meter recovery or LV charges), therefore a more appropriate comparison would be as shown in response to Board Staff Interrogatory Question 1 B, attachment 1 B, the revenue deficiency amount of $3,890,008 as compared to $28,562,491 results in a increase of 13.6%.

In section 2.2, VECC comments on BHDI's asset management plan, we would reference the comments made regarding this topic in our reply to Board Staff's submission. Regarding the capital estimate for an ERP system, VECC has referenced BHDI's interrogatory comments on this issue. Concerning VECC's comments regarding the Geographical Information System, BHDI had identified this project in response to VECC's interrogatory. As per the requirements for materiality levels on capital in the filing guidelines, this GIS project falls below those guidelines. The dollar amount VECC has indicated for detailed comments appears to be an arbitrary one.

In section 2.3 VECC comments that BHDI has not taken into account proposed decreases in Transmission Charges for its Working Capital Requirement calculation. BHDI would note that our rate application had already been filed previous to these new rates being announced. We have reviewed this as to what the impact would be and calculated the adjustment to revenue requirement to be a reduction of approx $11,000. We would note that this amount of the $35 million revenue requirement represents .03%.

For section 3.3 regarding customer growth forecast we would reference BHDI's comments made in the reply to Board Staff submission.

Regarding VECC's comments made in section 4 regarding OM&A costs we would reference the comments made in our reply to Board Staff's submission. We would note that the comment made by VECC under section 4.3 that "the Board should reduce Barrie Hydro's OM&A spending by $500,000 to $800,000" appears to be based on minimal to no explanation as to how that amount was derived.

In section 8.1 VECC makes comment concerning PILS calculations. We would note their reference of Exhibit 4, Tab 3, Schedule 1 and Appendix 4-8 as to the calculation of our PILS amount. We would leave to the Board's decision as to whether new tax laws are to be implemented in rates or captured in deferral accounts.

For VECC's comments in Section 9 concerning Cost Allocation we would reference our comments on this topic in our reply to Board Staff's submission.

In VECC's submission section 11, their comments center around the proposed new Retail Transmission Rates which BHDI filed in response to Board Interrogatory question 51 A. BHDI would note the following concerning these proposed rates. BHDI's understanding of the new Wholesale Transmission Rates is that those new rates approved are rates to be charged to the IESO from Transmitters which will then be passed on to distributors by the IESO. BHDI has a number of connection points to the transmission system where we are considered to be embedded and as such on these points we are charged Network and Connection rates from Hydro One Networks, not the IESO. Our understanding is that the Network & Connection rates Hydro One will be charging for these embedded points has not been approved to change at this time. Based on an October 2005 to September 2007 timeframe Network Service charges from the IESO to BHDI were $12,656,745, Network Service charges from Hydro One were $5,183,842, total Network Service charges were $17,840,587, percent of total from IESO 70.9%, Hydro One 29.1%. Based on this distribution of charges and the fact that Hydro One charges on embedded points were not changed, the reduction in BHDI's proposed Network Service charges is a lesser percent than that of the new approved Wholesale Transmission rates. Likewise for Line & Transformation Connection Service charges, some charges to BHDI come directly from the IESO, some on our embedded points from Hydro One. We would note that the Line Connection portion of the connection charges from IESO for the October 2005 to September 2007 timeframe are $3,879,087 (25.4%), Transformation Connection charges from the IESO were $7,095,897 (46.5%), and Hydro One Retail Connection charges were $4,291,298 (28.1%). We would note that for the new Wholesale Transmission Rates the Line Connection rate decreased from $0.82 to $0.59, the Transformation Connection rate actually increased from $1.50 to $1.61(please note that this represents the highest percent of our charges 46.5%), and at this time the Hydro One rates have remained constant. The weighted average of these factors represents the reduction factors in the proposed BHDI Retail Transmission Rates.

All of which is respectfully submitted on the 21st of January 2008.