ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Grimsby Power Incorporated

EB-2007-0857

January 23, 2008

INTRODUCTION

Grimsby Power Incorporated ("GP") submitted an application on October 30, 2007, seeking approval for changes to the rates that GP charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 29, 2007, GP filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the "Board") with the submissions of Board staff after its review of the evidence submitted by GP.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

GP proposes to dispose of the balances in accounts 1584 and 1586 as of October 31, 2007 and anticipated variances up to April 2008 through a rate rider over a 2-year period. GP also proposes to reduce its RTR – Network Service Rate and its RTR – Line and increase the Transformation Connection Service Rate.

Discussion and Submission

To derive their proposed RTR adjustments, GP determined their annual wholesale transmission network and connection costs based on the Board rate order dated October 17, 2007 (EB-2007-0759) and readings for the August 2006 to July 2007 period. This 12 month reading period was seen as providing reasonable estimates of transmission related costs. Historical network costs payable to the IESO were adjusted to reflect the approved 18% reduction in the IESO's wholesale Network Rate. No changes were assumed for the charges payable to Hydro One. Similarly, GP adjusted its historical connection costs to reflect the 28% reduction in the IESO's Line Connection Rate. These adjusted wholesale transmission network and connection costs were subsequently compared to revenue generated through existing retail transmission rates for September 2006 to August 2007 period to determine cost/revenue ratios for network and connection. The calculated cost/revenue ratios for network and connection were then applied to existing retail network and connection rates to derive the proposed adjustments to retail network and connection rates.

The proposed rate rider was calculated by allocating the projected balance in accounts 1584 and 1586 as of April 30, 2008 based on 2006 kWhs by rate class, and dividing this result by the 2006 usage by rate class. GP included the rate riders in its proposed RTR. The approach used by the distributor to reflect the change in wholesale transmission rates appears to be reasonable.

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 disposition of deferral and variance account balances is generally dealt with in aggregate rather than clearing discrete accounts. The Board also typically disposes of these accounts through rate riders that are not incorporated into the rate itself.

Parties are asked to comment on whether the Board should consider the disposition of deferral and variance account balances be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and variance accounts until such time as GP applies for its distribution rates to be rebased, which is scheduled to occur in 2010.

Were the Board to consider the proposed disposition of account 1586 and 1584 in this application, the interest calculation should be adjusted coincident with the clearance of the accounts. Board staff is unclear if interest amounts are included in the balance provided for accounts 1584 and 1586, and if so, up to what period. How should the disposition period be used to mitigate adjustments to rates over time?

Finally, parties are asked to comment on whether the Board should consider further adjustments to GP's RTR that would assume that wholesale transmission charges payable to Hydro One would change by the same percentage as the wholesale transmission charges payable to the IESO.

All of which is respectfully submitted.