Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Oakville Hydro Electricity Distribution Inc.

EB-2007-0834

January 23, 2008

INTRODUCTION

Oakville Hydro Electricity Distribution Inc. ("OHED") submitted an application on October 30, 2007, seeking approval for changes to the rates that OHED charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 9, 2007, OHED 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 OHED.

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.

OHED is proposing rate riders embedded in the RTR to dispose of the variance account balances as of September 30, 2007. OHED is also proposing further adjustments to its RTR in order to minimize the prospective variance in the associated variance accounts 1584 and 1586. Overall, OHED proposes to increase its RTR — Network Service Rate by 39.98% and reduce its RTR — Line and Transformation Connection Service Rate by 43.18% for all its rate classes.

Discussion and Submission

OHED is proposing to adjust its current RTR by the cost/revenue ratios using September 30, 2007 account balances for network and connection respectively. The proposed cost/revenue ratio for network is 1.71 while the proposed cost/revenue ratio for connection is 0.60. In deriving their cost/revenue ratio for network, OHED combined the September 30, 2007 balances of accounts 4714 (Network Charges) and 1584 (RSVA Network) to establish the costs. The cumulative balances of these accounts were divided by the balance in account 4066 (Network Billed amounts) to determine a cost/revenue ratio. This process was repeated to determine the cost/revenue ratio for connection. The calculated cost/revenue ratios were then applied to the current approved RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate. Board staff is unclear about consistency of these calculations since the balances in variance accounts 1584 and 1586 are cumulative while accounts 4714 and 4066 are cleared on an annual basis. Parties are asked to comment on this approach.

OHED further calculated the percentage decrease in the wholesale transmission rates resulting from the Board Rate Order dated October 17, 2007 (EB-2007-0759). OHED is proposing to further adjust the RTR – Network Service Rates and its RTR – Line and Transformation Connection Service Rates to reflect a decrease of 18% and 5% respectively in the wholesale transmission charges payable to the IESO effective November 1, 2007 for network and connection. Since OHED is an embedded distributor and given that the change in transmission charges payable to Hydro One are unknown at this time, OHED assumed that the existing transmission rates would vary in the same proportion as the changes to the IESO's wholesale transmission rates.

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 should 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 may wish to consider waiting for the review of the disposition of all deferral and variance accounts until such time as OHED 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. OHED is invited to clarify this point.

All of which is respectfully submitted.