Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

January 22, 2008

Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: St. Thomas Energy Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0841

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

Original signed by

Alison Cazalet
Policy Advisor, Regulatory Policy Development

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

St. Thomas Energy Inc.

EB-2007-0841

January 22, 2008

INTRODUCTION

St. Thomas Energy Inc. (“St. Thomas) submitted an application on October 29, 2007, seeking approval for changes to the rates that St. Thomas charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 30, 2007, St. Thomas 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 St. Thomas.

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.

St. Thomas calculated new RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate by customer class, with and without the inclusion of the balances in variance accounts 1584 and 1586 respectively at October 31, 2007. St. Thomas proposes to use the RTR by customer class that includes the variance account balances.

Discussion and Submission

As its first step in the calculation, St. Thomas forecasted its wholesale transmission network and connection costs for the period November 2007 to April 2009, based on the new Uniform Transmission Rates. Actual monthly information from 2006 to 2007 was used to estimate wholesale transmission costs from November 2007 to April 2009. No allowance was made for load growth.

The variance account balances as of October 31, 2007 for network and connection respectively were then added to the forecast wholesale transmission costs. Carrying charges were not included. This wholesale transmission revenue requirement for network and connection was then allocated to each customer class based on their respective contribution to system co-incident peak. St. Thomas reports that this allocation is consistent with the system co-incident peak data provided in St. Thomas' Informational Cost Allocation study that was previously filed with the Board. A minor adjustment was made to recognize a shift in consumption pattern from the unmetered scattered load class to the General Service < 50 kW class.

For each class, the revenue derived from the existing RTR — Network Service Rate and RTR — Line and Transformation Connection Service Rate was calculated for the period November 2007 to April 2008. Actual monthly information from 2006 to 2007 was used to estimate revenue under existing RTR from November 2007 to April 2009. No allowance was made for load growth.

These revenues were subtracted from the class wholesale transmission revenue requirement derived in the previous steps, thereby factoring into the new RTRs the forecast variance to be accumulated in accounts 1584 and 1586 for the November 1, 2007 to April 30, 2008 period. These resulting net amounts were divided by forecast consumption by customer class for the period May 1, 2008 to April 30, 2009, to determine the new RTR by customer class effective May 1, 2008.

Staff notes that as a result of St. Thomas' methodology of reducing its wholesale transmission revenue requirement for the period November 2007 to April 2009 to account for the over-collection for the period November 2007 to April 2008, St. Thomas' proposed RTR rates may not be reflective of wholesale transmission costs at the new Uniform Transmission Rates. As such, unless St. Thomas' RTR are adjusted again in May 2009, St. Thomas' rates may not be adequate to meet its wholesale transmission revenue requirement. Parties are asked to comment on whether the variances in the period November 2007 to April 2008 should be tracked in accounts 1584 and 1586 for future disposition.

In addition, 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 also generally dealt with in aggregate rather than clearing discrete accounts. As well, the Board 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 whether 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 should consider waiting for the review of the disposition of all deferral and variance accounts until such time as St. Thomas 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 1584 and 1586 in this application, the interest calculation should be adjusted coincident with the clearance of the accounts.

All of which is respectfully submitted.