

**Ontario Energy
Board**

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BY EMAIL

January 24, 2008

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
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Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Kingston Electricity Distribution Limited
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0869**

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

Yours truly,

Original signed by

John Vrantsidis
Policy Advisor, Regulatory Policy Development

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Kingston Electricity Distribution Limited

EB-2007-0869

January 24, 2008

INTRODUCTION

Kingston Electricity Distribution Limited (“KEDL”) submitted an application on October 31, 2007, seeking approval for changes to the rates that KEDL charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On January 18 and January 23 2008, KEDL filed addendums outlining in greater detail how it proposed to adjust 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 Kingston Electricity.

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.

KEDL’s proposes to decrease its RTR- Network Service Rate and RTR - Line and Transformation Connection Service Rate by 25 % and 15% respectively for all customer rate classes as of May 1, 2008. KEDL’s proposal is based on the assumption that the new rates would be in effect for two years and that retail transmission rates would be revisited and reviewed when KEDL’s distribution rates are rebased in 2010.

Discussion and Submission

KEDL’s proposal took into account the Board’s rate order dated October 17, 2007 (EB-2007-0759) which decreases, on average, wholesale transmission rates payable to the IESO by 12% effective November 1, 2007. KEDL’s proposal also reflects a partial disposition of account balances forecast to be accumulated in variance accounts 1584 and 1586 as of April 30, 2010.

KEDL estimates that as of December 21, 2007, the estimated balance in variance accounts 1584 and 1586 are credits of \$917, 221 and \$497,670. KEDL expressed the opinion that these variance account balances are too high.

KEDL states that the proposed RTR will have the effect of lowering the forecast balances in accounts 1584 and 1586 by an estimated 50% with balances of approximately \$500,000 by May 1, 2009. KEDL does not wish to drive these variance account balances to zero since KEDL acknowledges that there are a number of other variance accounts, some of which may be in a debit position.

The 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 since some accounts may contain debit balances while others have credit balances. KEDL recognized that in its application and therefore proposed a partial disposition of forecast account balances in variance accounts 1584 and 1586. Also, the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

KEDL's proposal is based on the assumption that the new rates would be in effect for two years and that retail transmission rates would be revisited and reviewed when KEDL's distribution rates are rebased in 2010. KEDL is asked to provide further clarification on the rationale underlying this assumption.

Given that one of the intents of the Incentive Regulation Mechanism is 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 KEDL applies for its distribution rates to be rebased, which is scheduled to occur in 2010.

KEDL is an embedded LDC to Hydro One Networks Inc. (Hydro One) for the Gardiners TS. In its estimation of forecast account balances in variance accounts 1584 and 1586, KEDL assumed no changes to the transmission rate payable to Hydro One on the grounds that the rates that will come into effect as of May 1, 2008 are currently unknown. Parties are asked to comment on whether the Board should consider further adjustments to KEDL'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.