



February 21, 2008

Ms. Kirsten Walli
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Dear Ms. Walli:

**Re: Board File Number EB-2007-0879
Veridian Connections Inc. 2008 Incentive Regulation Mechanism Rate Application, Reply to Board Staff
Submission**

Please find accompanying this letter, two copies and an electronic version of Veridian Connection Inc.'s reply to Board staff's February 8th submission under the above referenced proceeding. This submission has also been filed through the Board's web portal.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours truly,

Original signed by

George Armstrong
Manager of Regulatory Affairs and Key Projects

cc Laurie Stickwood
Dave Clark
Michael Angemeer
Axel Starck
Rob Scarffe

The power to make your community better.

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ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
being Schedule B to the *Energy Competition Act, 1998*, S.O. 1998,
c.15;

AND IN THE MATTER OF an Application by Veridian
Connections Inc. for an Order or Orders approving or fixing just
and reasonable rates for distribution service effective May 1st,
2008.

REPLY SUBMISSION

OF

VERIDIAN CONNECTIONS INC.

February 21, 2008

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INTRODUCTION AND PROCEDURAL MATTERS

Veridian Connections Inc. (“Veridian”) submits this reply pursuant to direction provided by the Ontario Energy Board (“the Board”) in its Procedural Order No. 1 as issued under file number EB-2007-0879. This proceeding involves an application for an order or orders approving 2008 Incentive Regulation Mechanism (IRM) rate adjustments and harmonization of distribution rates and other charges, including Retail Transmission Rates, all with an effective date of May 1st, 2008.

This reply responds to the submissions of Board Staff. There were no intervenors participating in this proceeding.

Veridian’s reply is structured to comment on issues raised in the Board Staff submission and to respond to direct requests for comments.

TIMING OF HARMONIZATION

In its submission, Board Staff comments that Veridian did not provide an explanation of why it would be preferable for rate harmonization to be implemented as part of the 2008 IRM process, rather than be delayed until Veridian’s scheduled cost of service application in 2010.

Veridian responds to this statement by re-iterating its responses to Board Staff Interrogatory Question #1. In that filing Veridian identified the following advantages related to the implementation of rate harmonization in advance of Veridian’s 2010 cost of service application:

- **Consistent with Cost Allocation Informational Filing**

Veridian submitted two Cost Allocation Informational Filings with the Board on March 16th 2007 (EB-2007-0002). The filings were prepared in accordance with the Board’s Cost Allocation model and guidelines. One filing was based on a load profile for Veridian’s service area in the community of Gravenhurst and the other on a single harmonized load profile for all other service areas combined, including that in Scugog.

Veridian’s revenue to cost ratios under both its Veridian and Veridian_Scugog distribution rate schedules are largely within the acceptable ranges established by the Board’s Report on Cost Allocation. The only minor exceptions relate to street and sentinel light rates and large use rates. Veridian’s harmonization proposal would not cause any further deviations from the acceptable revenue to cost ratios established by the Board.

Harmonization of Veridian and Veridian_Scugog distribution rates in 2008 will level the impact of any subsequent rate adjustments associated with the adoption of the harmonized cost allocation study.

- **Fulfills a Provision of Veridian's Scugog Hydro Purchase Agreement**

The 2005 purchase and sale agreement between Veridian and the Township of Scugog was based on the premise of rate harmonization in 2007. This intent was confirmed in the Board's June 20th 2005 Decision and Order granting leave for the sale of shares of Scugog Hydro to Veridian (EB-2005-0256).

- **Reduces Cross Subsidization In Advance of Rebasing in 2010**

As explained in response to Board's staff interrogatory number 2, Veridian submits that its harmonization proposal will reduce current levels of cross subsidization between customers covered under its Veridian and Veridian_Scugog tariff schedules. If rate harmonization were to be deferred until rebasing, this cross subsidization would perpetuate until 2010, as Veridian is not currently scheduled for rebasing until that time.

- **Harmonization Impacts Mitigated by Overall Rate Decreases**

As detailed in Addendum 1 to Veridian's 2008IRM application (filed on November 23rd 2007), the proposed distribution and retail transmission rates provide for total bill reductions for all customer classes covered by Veridian and Veridian_Scugog tariff schedules. Veridian submits that it is in its customers' interests to implement harmonization of distribution rates concurrent with the proposed reductions in retail transmission rates, as this will mitigate any harmonization impacts.

- **Consistent with Prior Adoption of Harmonized Net System Load Shape**

By adopting harmonized distribution rates and loss factors for customers currently covered by Veridian and Veridian_Scugog tariff schedules, all affected customers would have both their distribution and commodity related charges assessed on a consistent basis. Veridian adopted a common net system load shape for these customers in 2005 as provided for in the Board's Retail Settlement Code. Board notice of this decision was filed on June 30th 2005.

Veridian also notes that Board Staff's submission confirms that the proposed rate harmonization methodology employed by Veridian is consistent with the harmonization proposal submitted by PowerStream, as approved in the EB-2007-0074 Board Decision and Order.

Veridian submits that, for the reasons outlined above, Veridian's 2008 IRM rate harmonization proposal is appropriate and should not be deferred.

METHODOLOGY USED FOR CALCULATING ADJUSTMENT TO RETAIL TRANSMISSION SERVICE RATES

The Board Staff submission includes the following request for comments:

“Parties are asked to comment on whether the Board should consider to further adjust VCI’s proposed RTR by assuming that the wholesale transmission charges payable to Hydro One would change by the same percentage as the wholesale transmission charges payable to the IESO.”

In calculating its proposed adjustments to Retail Transmission Service Rates (RTRs) Veridian determined that it was not appropriate to ‘assume’ that the wholesale transmission charges payable to Hydro One would change by the same percentage as the wholesale transmission charges payable to the IESO. Hydro One had not yet obtained Board approval for updates to its retail transmission rates used to assess costs to embedded distributors, and Veridian had no means of assessing the validity of such an assumption. Veridian, therefore calculated the RTR adjustment based upon the known impacts of the approved Ontario Uniform Transmission Rate Order, EB-2007-0759 as directed by the Board’s letter of October 29th, 2007.

Veridian is one of many LDCs embedded, either partially or wholly, within Hydro One Network Inc’s distribution network. All of these embedded LDCs will be impacted by the pending adjustments to Hydro One’s retail transmission rates.

Veridian submits that assumptions on changes to these embedded LDC RTRs from Hydro One and the use of these assumptions in calculation of adjustments to their respective RTRS should be considered a generic issue applicable to all embedded LDCs. Veridian submits that it would be inappropriate for the Board to make a decision on a generic issue such as this on a utility by utility basis.

Veridian submits that customers will experience a significant reduction in their total bills due to the proposed 20% reduction in RTRs and the proposed negative rate rider to clear the associated variance account. It is prudent to review the further impact on RTRs once Hydro One rates are approved. Veridian intends to submit, in 2008, an application for recovery of LRAM and SSM amounts associated with 3rd tranche CDM activities and it may be that further reductions in RTRs will offset impacts associated with recovery of these amounts and thereby contribute to rate stability.

Veridian further submits that adjustments to its proposal for RTR adjustments would likely delay a decision in this proceeding, as it would require that a revised application be filed and reviewed by Board Staff prior to review by a Board Panel.

VARIANCE ACCOUNTS TO BE INCLUDED IN DISPOSITION

The Board Staff submission includes the following request for comments:

“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.”

Veridian points out that direction on the disposition of RTR variance account balances was provided to all electricity distributors by the Board Secretary in a letter dated October 29th 2007. The letter, entitled ‘Ontario Uniform Transmission Rate Order, EB-2007-0759: effect on Distributor Retail Transmission Rates’, includes the following statement:

“The Board directs each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.”

Veridian complied with this direction by proposing disposition of the associated variance account balances, specifically Account 1584 – RSVA Network Service Transmission Charges, and Account 1586 – RSVA Line and Transformation Connection. No direction was provided related to disposition of variance account balances not associated with retail transmission rates.

The Board routinely reviews distributor variance account balances to determine if disposition is required. Following its most recent review, the Board issued its Decision EB-2007-0950 of December 28th, 2007, which states:

“The Board has considered the balances in the RSVA power account and the RSVA power sub-account Global Adjustment (Account 1588) for all the LDCs for the three month period, July 1, 2007 to September 31, 2007, and finds that there is no requirement for disposition at this time. The Board issues this Order to all LDCs listed in appendix A.

THE BOARD ORDERS THAT:

1. The balances in Account 1588 shall remain on the regulatory books of accounts of the utilities listed in Appendix A without disposition pending further direction from the Board.”

Veridian notes that it was listed in appendix A of that order. Therefore, the Board found no requirement for disposition of the balance of Veridian's variance Account 1588.

Veridian submits that differing factors contribute to accumulation of balances within differing variance accounts. Balances within Account 1584 – RSVA Network Service Transmission Charges and Account 1586 – RSVA Line and Transformation Connection Charges are directly related to wholesale transmission charges incurred by the distributor. It is reasonable then, that the Board direct distributors to make changes to RTRs and disposition of variance account balances when a significant change in wholesale rates is approved. There is, however, no such generic decision or change in rates that would have a significant impact on other RSVA account balances at this time.

TIMING OF VARIANCE ACCOUNTS DISPOSITION

The Board Staff submission includes the following request for comments:

“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 VCI applies for its distribution rates to be rebased, which is scheduled to occur in 2010.”

As stated previously, Veridian's proposal for disposition of Account 1584 and 1586 was in direct response to direction provided by the Board Secretary in a letter issued to all distributors on October 29th, 2007. Veridian followed this direction in good faith and filed an addendum to its original 2008 IRM application on November 23rd 2007 to address the issue of retail transmission rate adjustments.

Veridian is concerned that re-visiting this earlier direction provided by the Board at this time may jeopardize the timely issuance of a Board order approving Veridian's proposed May 1st 2008 distribution rates.

Veridian submits that the direction in the Board's letter for disposition of transmission related variance accounts was a generic direction to all distributors, regardless of their status in relation to 2008 rebasing or IRM. Veridian further submits that a decision on whether review of disposition of all deferral and variance accounts should be completed only when a distributor is scheduled for rebasing is a generic issue affecting all distributors filing 2008 IRM applications. This matter should not be addressed on an individual utility basis.