Ontario Energy Board

Commission de l'Énergie de l'Ontario

Ontario

EB-2007-0746

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

AND IN THE MATTER OF an application by Barrie Hydro Distribution Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

BEFORE: Gordon Kaiser
Presiding Member

Cynthia Chaplin
Member

DECISION

BACKGROUND

Barrie Hydro Distribution Inc. ("Barrie") filed an application with the Ontario Energy Board on October 3, 2007, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that it charges for electricity distribution to be effective May 1, 2008. Barrie is the licensed electricity distributor for the communities of the City of Barrie, Bradford West Gwillimbury, Thornton, Alliston, Beeton, Tottenham and Penetanguishene.

Barrie is one of over 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and*

Distribution Applications on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On May 4, 2007, as part of the plan, the Board indicated that Barrie would be one of the electricity distributors to have its rates rebased in 2008. Accordingly, Barrie filed a cost of service application based on 2008 as the forward test year.

Barrie requested a revenue requirement of $35,008,572 to be recovered in new rates effective May 1, 2008. The application indicated that the existing rates would produce a revenue deficiency of $3.9 million for 2008. The resulting requested rate increase was estimated as 13.1% on the distribution component of the bill for a residential customer consuming 1,000 kWh per month.

The Board assigned the application file number EB-2007-0746 and issued a Notice of Application and Hearing dated October 19, 2007. The Board approved two interventions, one from the School Energy Coalition ("Schools") and the other from the Vulnerable Energy Consumers Coalition ("VECC"). Both were active in submitting interrogatories and submitting arguments. Board staff also posed interrogatories and made submissions. Barrie's reply argument was filed on January 7, 2008.

The full record is available at the Board's offices. The Board has chosen to summarize the record to the extent necessary to provide context to its findings.

THE ISSUES

The following issues were raised in the submissions filed by Board staff, Schools and VECC:

- Load Forecast
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Cost of Capital
- Cost Allocation and Rate Design
- Deferral and Variance Accounts

LOAD FORECAST

Barrie's load forecast was developed by multiplying a consumption estimate and a customer number forecast. Barrie used the 2004 normal average use per customer ("NAC") by customer class provided to it by Hydro One.

Average Use

Board staff questioned the assumption that use per customer would remain unchanged from 2004 in that it takes no account of improved energy efficiency. VECC shared this concern and added that this approach takes no account of changes in customer mix, particularly in the General Service classes, but concluded that there was no evidence to support a change in the average use value used by Barrie. In its reply, Barrie agreed with Board staff that energy efficiency may have impacted average use per customer, but submitted that "at this point in time we have no accurate way to forecast this effect."

Board Findings

The Board agrees with Barrie's submission that while average use per customer may have declined due to efficiency, there is no evidence at this time upon which to base an alterative forecast. The Board will accept the Hydro One 2004 NAC levels for purposes of load forecasting.

Customer Numbers

Barrie forecast customer growth of 1.9% from 2006 to 2008, compared to average annual customer growth of 2.9% during the 2002 to 2006 period. Schools submitted that while Barrie maintained that its system is experiencing slower growth, the number of residential customers increased by 3% in 2005 and 2.5% in 2006. Schools concluded that Barrie based the lower level of customer growth on experience to date in 2007 and submitted that such an approach was not a reasonable forecasting methodology. Schools also noted that in explaining line losses, Barrie commented that much of its area continues to experience rapid growth. Schools submitted that the forecast should be revised in line with historical trends. VECC voiced similar concerns and concluded that the customer growth in the General Service classes for 2008 should be increased to at least 1%. Barrie provided no submissions in reply on this topic.

Board Findings

The Board concludes that the growth in customer numbers for 2008 is not justified given the level of growth experienced since 2002. While Barrie has asserted that customer growth has slowed in its area, other aspects of the evidence point to continued strong customer growth. The Board will adjust the level of customer growth to reflect the historical experience between 2002 and 2006 (on a class basis) and will apply these rates of growth to Barrie's forecast for 2007. The table below sets out the average customer growth per class between 2002 and 2006, Barrie's 2007 customer forecast, and a revised 2008 forecast.

Barrie shall use this forecast, together with the 2004 NAC developed by Hydro One, to derive a revised 2008 volumetric forecast to be used for rate setting purposes. Barrie should file all relevant documentation with its Draft Rate Order showing the calculation of the revised forecast. The Board notes that Barrie's evidence includes one customer in the Large Use > 5,000 class for 2008. The Board has included this customer in its 2008 forecast.

Customer Number Forecast

Customer Class	Average Growth (2002-2006)	2007 forecast	2008 forecast REVISED
Residential	3.5%	61,684	63,820
GS < 50 kW	0.7%	5,441	5,515
GS > 50 to 5,000 kW	4.6%	802	844
Large Use > 5,000 kW	0.0%	-	1
USL	14.0%	777	892
Street Lighting	2.2%	14,414	14,904
TOTAL		**83,118**	**85,975**

OPERATING, MAINTENANCE & ADMINISTRATIVE ("OM&A") EXPENSES

The following table is derived from Board staff's submission and sets out amounts contained in Barrie's evidence and confirmed by Barrie to be accurate:

BARRIE
Controllable Operating, Maintenance and Administrative Expenses

	2006 Board Approved	2006 Actual	2007 Bridge Year	2008 Test Year
Operation	2,419,050	2,026,045	2,479,722	2,679,417
Maintenance	1,423,889	1,398,601	1,858,376	1,851,979
Billing and Collection (adj. for Collection charges)	1,360,752	1,280,176	1,487,745	1,541,251
Community Relations (excl CDM)	66,019	106,722	215,967	221,149
Administrative and General (adj. for Low Voltage)	3,491,030	3,661,761	3,345,343	3,756,801
Total Controllable OM&A	**8,760,740**	**8,473,305**	**9,387,153**	**10,050,597**

Board staff, in its submission, questioned whether Barrie had provided sufficient justification for the 18.6% increase in controllable expenses between 2006 and 2008. In Board staff's analysis, there is about $800,000 in unexplained cost between 2006 and 2008. Board staff questioned whether all of the requested increase was justified given the limited explanations provided in the interrogatory answers in areas such as tree trimming, IT services and maintenance, billing and collections, and wages and compensation.

Schools echoed this concern in its submissions. In Schools' view, Barrie provided insufficient explanation about the variances in its expenditures from year to year. Schools concluded that the 2008 Controllable OM&A should be $9.575 million (a 2% increase over the 2007 level of $9.387 million). Schools noted that this would still be a 13% increase over 2006. This would result in a disallowance of $475,707.

VECC also expressed concern about the level of OM&A costs. In VECC's view, "Barrie Hydro provided minimal to no explanation as to the reasons/cost drivers underlying the increases." VECC concluded that the OM&A spending should be reduced by between $500,000 and $800,000, noting that $500,000 is less than the $783,815 in unexplained differences between 2006 and 2008 and that $800,000 would capture the unexplained differences and address the deficiency associated with the explanations provided.

According to Board staff's analysis, labour costs have increased by 2.4% in 2007 and 3.0% in 2008. Schools noted the increase of 21% for benefit costs between Board approved and actual in 2006. In Schools' view, Barrie has provided no explanation for the increased health and dental premiums, what the additional benefits were or why they were negotiated. In Schools' view, this is a further evidence of a need for a reduction for unexplained cost increases.

In its reply argument, Barrie maintained that while the increase from 2006 actual to 2008 test year is 18.6%, a proper comparison is between the forecast for 2008 and the Board approved level in 2006, which was based on 2004 expenses. In Barrie's analysis, this represents a 14.7% increase over the four year period, or an average annual increase of 3.7%.

Barrie also pointed to the following factors:

- customer count has increased by 9.8% in 2008 from 2006 Board approved;
- asset values have increased so there is more plant to be maintained and operated; and,
- inflation and labour increases, which Barrie estimated to be 10% over the four years.

Barrie used a combined 19.8% increase (9.8% for customer additions and 10% for inflation) and subtracted a 1% efficiency factor to each of the four years to arrive at an illustrative increase of about 4% per year. Barrie compared this increase with its forecast average annual increase of 3.7% and concluded that its forecast was reasonable.

<u>Board Findings</u>

Barrie has attempted to justify its 2008 OM&A level on the basis of a comparison with its 2004 level, which became the Board approved level for 2006. Barrie developed a figure of 19.8% (or 4% per year) as a comparator value by which to judge the reasonableness of its forecast average annual increase of about 3.7%. The Board finds the comparator level of 19.8% to be of little value to the analysis. An increase in customer count may increase costs, but there is no evidence to support the conclusion that the increase in costs would be the same as the increase in customers. On the contrary, the Board would expect there to be economies of scale, so that a 10% increase in customers would lead to a lower than 10% increase in costs.

Further, and more importantly, while a comparison with 2004 actual costs may be relevant, it is not determinative. The Board is particularly interested in a comparison between the test year costs and the most recent actual costs. This actual level of spending (2006 in the case of Barrie) is good evidence of the level of expenditure which is necessary for the company and provides some indication of an efficient level of spending. In other words, the fact that 2006 actual costs are lower than 2006 Board approved costs (and therefore also lower than 2004 actual costs) is relevant to the Board's decision making and demonstrates the efficiencies which Barrie has been able to achieve in 2006. The Board finds that the 2008 OM&A must be reasonable in comparison to 2006 actual levels.

The increase from 2006 of 18.6% is not reasonable in the Board's view. Such a level of increase would only be justified with compelling evidence for the increase. Variance analysis forms a critical component of a rates application. It provides the explanation for changes in cost between Board approved and actual for the historical year and the explanation for year over year changes between all years. This analysis must include the level of the change experienced and the company's reasons for why the change is justified. The level or detail for the explanation should be proportionate to the amount in question. Ideally, these explanations should be included in the application. Alternatively, these explanations can be further explored through interrogatories. It is inappropriate to introduce new evidence through reply argument.

The Board finds that Barrie's explanations for the variances between 2006 actual and 2008 forecast are inadequate. The Board would note that the explanation provided in Barrie's reply argument for the increase in tree trimming expense is the type of evidence which should routinely be provided by distributors in their applications when explaining material cost variances from year to year.

Schools recommended that OM&A expense be reduced by about $475,000 to limit the increase between 2007 and 2008 to 2%. VECC recommended a reduction of between $500,000 and $800,000 as being representative of the unexplained cost increases.

The Board will reduce the 2008 Controllable OM&A to $9.675 million, a reduction of $375,000 which is equivalent to the unexplained increases between 2007 and 2008. The resulting 2008 controllable OM&A will be 3.1% higher than the 2007 forecast, which the Board finds to be a sufficient increase, particularly in light of the almost 11% increase between 2006 and 2007. This level of expenditure will be used for purposes of setting approved rates.

PAYMENTS IN LIEU OF TAXES ("PILS")

Both Schools and VECC questioned whether Barrie had appropriately incorporated recent changes in tax provisions into its PILs calculation. Specifically, VECC identified the new CCA classes for computer equipment and buildings. Barrie replied that it would leave it to the Board to determine whether new tax laws are to be implemented in rates or captured in deferral accounts.

Board Findings

The Board finds that Barrie should incorporate all known income and capital tax changes into its PILs calculations for 2008. This approach incorporates the most current information.

In calculating the PILs provision, the Board directs Barrie to reflect in its Draft Rate Order the new federal income tax rate (reduced to 19.5%, yielding a combined federal and Ontario income tax rate for 2008 of 33.5%), the change in the Ontario capital tax exemption amount to $15 million from $12.5 million, and the new CCA class rates applicable.

CAPITAL EXPENDITURES AND RATE BASE

Barrie forecast capital expenditures of $14.6 million for 2008, which is an approximate 10% reduction from 2006 actual capital expenditures. While the 2006 expenditures were comparable to the level of expenditures in 2004, they were substantially higher than the expenditures in 2002, 2004 and 2005.

Reliability Performance

The System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") are measures of reliability performance. Barrie filed its annual reliability numbers for the years 2001 through 2006 and also provided a three-year historic rolling average for each of the years 2003 through 2006.

Board staff submitted that Barrie is interpreting the requirements of the EDR Handbook in a way which “may not drive better performance” because Barrie has interpreted the Board’s guidance in the EDR Handbook to remain within the range of historical performance to mean the average of the last three years. Board staff suggested that a better comparator would be an absolute level or an external comparator, such as the LDC community.

In its reply, Barrie identified a number of programs and expenditures designed to improve its performance in this area.

<u>Board Findings</u>

The Board agrees with Board staff’s observation that reliance on a three-year rolling average as a measure of whether the utility is remaining within the range of historical performance does not provide an incentive to improve performance. Individual years of relatively poor performance have the effect of lowering the three-year average and therefore the range of historical performance. However, Barrie is remaining within its historical performance and this approach is consistent with the requirement of the EDR Handbook. In addition, Barrie has identified the programs it is undertaking to improve performance in this area. The Board is undertaking a separate consultation on Electricity Service Quality Regulation which is looking at these issues on an industry-wide basis. The Board concludes that no adjustment to the capital budget is required.

Assessment of Asset Condition and Asset Management Plan

Board staff submitted that on the basis of the evidence and the interrogatory answers it was unable to assess the adequacy of Barrie’s plan to maintain its infrastructure and improve its performance, and it was unable to determine if Barrie has an Asset Management Plan. VECC echoed this concern. In its reply, Barrie reported that it continues to work on developing its Asset Management Plan and that it is committed to completing it in 2008.

Board Findings

The Board notes Barrie's commitment to complete an Asset Management Plan in 2008 and directs Barrie to file the Asset Management Plan when it is completed. At that time, the Board will consider whether any additional steps need be taken. The Board believes that these plans are an important component of capital expenditure proposals, particularly when significant capital expenditures are contemplated.

Treatment of Construction Work in Progress

Barrie indicated that the allowance for funds used during construction (AFUDC) is not currently captured and that its understanding was that the recording of AFUDC was optional. Board staff submitted that the Accounting Procedures Handbook clearly states that the utility should record AFUDC.

Board Findings

In its reply, Barrie explained that it had been unable to implement AFUDC with its current software, but that it intended to do so with its new software, due to be implemented in 2008. The Board finds this approach to be acceptable. No adjustment will be made to 2008 rates.

Working Capital

VECC submitted that the cost of power component of Barrie's working capital determination should incorporate the lower transmission charges approved for 2008. In its reply, Barrie noted that its application pre-dated the change in transmission rates and estimated that the impact of incorporating the change would be about $11,000.

Board Findings

The Board concludes that the most accurate data should be used in the calculation of working capital. For this reason, Barrie is directed to recalculate working capital using the new lower transmission rates, including Hydro One's proposed rates. (This adjustment is further described below in the section Retail Transmission Rates.) The Board also directs Barrie to update the cost of power to reflect the November 1, 2007 RPP rate representing the all in supply cost of $0.054/kWh.

Conclusion

The Board will accept the 2008 forecast level of capital expenditures at $14.6 million for purposes of determining rates.

COST OF CAPITAL

The Board's guidelines for the cost of capital are set out in its *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation of Ontario's Electricity Distributors* (the "Board Report"). The Board's Report sets out the formulas to be used to determine the return on equity and the deemed costs of long term and short term debt and sets out the process by which these figures will be updated.

Barrie's proposed capital structure is 57.5% debt (53.5% long-term debt and 4.0% short-term debt) and 42.5% equity.

Barrie's debt consists of third-party debt, carrying an interest rate of 6.83%, and a shareholder promissory note carrying an interest rate of 6.5%. For the latter, Barrie used a deemed rate of 6.0% for its application but acknowledged that once the Board has determined the deemed rate for 2008, the debt rate will be set at the lower of the 2008 deemed rate and the actual rate. Similarly, Barrie used a short-term debt rate of 4.77% and a return on equity of 9%, but acknowledged that these would be updated in accordance with the Board's Report.

Board staff noted that Barrie's application is consistent with the Board's Report.

Board Findings

The Board finds that Barrie's proposals for the capital structure and cost of capital are in accordance with the Board's Report and are appropriate. The table below sets out the Board's updated costs for the various components of the capital structure, which reflects the Board's recently published cost of capital parameters. Barrie's weighted average cost of capital is 7.30%.

Board-approved 2008 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost (%)
Short-Term Debt	4.0	4.47%
Long-Term Debt	53.5	6.51%
Equity	42.5	8.57%
Preference Shares	-	
Total	**100.0**	**7.30**

COST ALLOCATION AND RATE DESIGN

The following issues are dealt with in this section:

- Revenue to Cost Ratios
- Line Losses
- Low Voltage
- Retail Transmission Rates
- General Service 50-4999 kW Time of Use Class
- Smart Meters
- Fixed/Variable Split

Revenue to Cost Ratios

The following table shows the revenue to cost ratios contained in Barrie's Informational Filing and the revenue to cost ratios for the test period:

Revenue to Cost Ratios (%)

Customer Class	Target Range	Informational Filing Run 2	Proposed Rates
Residential	85 - 115	118.8	115.1
GS < 50 kW	80 - 120	97.5	96.0
GS > 50 kW	80 - 180	79.0	86.3
Streetlighting	70 - 120	9.7	10.8
Unmetered Scattered Load	80 - 120	101.2	98.6

Board staff submitted that the ratios are within the ranges contained in the Board's November 28, 2007 report *Cost Allocation for Electricity Distributors* with the exception of Streetlighting. The proposed ratio for Streetlighting is 10.8%, while the bottom of the range in the Board’s report is 70%. The distribution rate impact for Streetlighting is an increase of 33.7%, but the increase is only 2.5% on a total bill basis. Board staff submitted that this impact will be further reduced by transmission rate reduction. VECC submitted that the ratio for Streetlighting should be raised.

Board staff also noted that the ratio for the General Service less than 50 kW class has moved away from the preferred level of 100%, from 97.5% to 96%. VECC submitted that the ratio for GS < 50 kW should not move away from 100%; it should be maintained at its current level.

VECC also proposed that the ratio for GS > 50 kW could be further increased (to at least 90% subject to bill considerations), given the bill impact for the typical customer is less than 1%. Schools noted that the distribution rate increase proposed for this class ranges from 16.4% to 23.1%, and that the total revenue increase is $427,555. In Schools’ view this increase is not just and reasonable, given the ratio is already within the target range and the proposed revenue increase for the Streetlighting class is only $20,000. Schools agreed with Barrie’s interrogatory response that any additional revenues collected from Streetlighting should be allocated to the Residential class as it is the only class with a ratio greater than 100%.

<u>Board Findings</u>

The Board finds that the revenue to cost ratio for Streetlighting should be raised further than proposed. The proposed increase from 9.7% to 10.8% results in an increase in the class distribution rate, but the level of the increase leaves this class ratio far short of the Board’s target range, which has a minimum of 70%. The Board finds that this level is not appropriate. More substantial progress must be made towards moving this class toward a ratio of 100%. Until that is accomplished, residential customers will continue to pay in excess of their allocated costs. The Board directs Barrie to increase the rate for this class so that the ratio is 25%. This increase is approximately one quarter of the way to the target minimum of 70%. This will further increase this class’ distribution rate; the total revenue increase will be approximately $187,500 which results in a total bill impact of about 20% based on Barrie’s application. However, the Board has made a number of adjustments throughout the application which will reduce the level of the rate increase and rate impact. The Board further directs Barrie to adjust Streetlighting rates annually so that the revenue to cost ratio increases by 15% increments each year during the Incentive Ratemaking Mechanism period.

The Board finds that the revenue to cost ratio for GS < 50 kW should not be reduced from 97.5% to 96.0% and directs Barrie to adjust the revenue allocation so as to maintain the ratio at 97.5%. The Board notes VECC's proposal that the GS > 50 kW could be further increased given the low total bill impact on this class. However, the Board concludes that the revenue to cost ratio increase is sufficient for the period, given the ratio is already within the Board's targeted range.

The Board notes that these adjustments, and the associated revenue rebalancing, will have the result of further lowering the Residential revenue to cost ratio towards 100%, in 2008 and in subsequent years as the Street Lighting ratio is increased.

Line Losses

Barrie is seeking approval of a Total Loss Factor of 1.0565. Barrie developed its forecast loss factor for 2008 on the basis of the three year average for 2004 to 2006 and stated that this is the same methodology used by the Board for 2006 EDR.

Board staff expressed concern with the actual Distribution Loss Factor experience and noted that it increased in each year in the 2004 to 2006 period (1.0450, 1.0533, and 1.0570 respectively). VECC agreed with Board staff that Barrie should indicate what action it intends to take to reduce losses.

Schools noted that the proposed Distribution Loss Factor of 5.18% (a different factor than the Total Loss Factor) would be amongst the highest in the province. In Schools' view, Barrie provided no evidence to support its claim that theft of power was a contributing factor. Schools submitted that the current line loss factor of 1.495 should be maintained and that Barrie be directed to develop an action plan to reduce line losses.

In its reply, Barrie acknowledged that it did not have an action plan for line losses, but submitted that line losses are considered in the system planning process and project costs to mitigate losses are considered against the benefits. Barrie further submitted that it expected to identify opportunities to reduce line losses through its work to optimize the configuration of the electricity distribution systems in 2008 and 2009.

Board Findings

The Board is concerned that Barrie is experiencing increased losses without a directed plan to address the deteriorating performance. The Board has identified two activities in the *2007-2010 Business Plan* related to line losses: audit reviews on utility performance improvement in line losses and a study of potential incentives associated with line loss reductions. The Board has recently completed the information gathering phase of the first activity and a summary report will be released shortly which will help inform policy development in this area.

While this policy development work will be important for long term consideration of this issue, the Board concludes that Barrie must take directed and specific action in this area. The Board directs Barrie to file with the Board an action plan related to losses at the same time it files its Asset Management Plan.

The Board approves the proposed total loss factor of 1.0565 for 2008.

Low Voltage

Barrie is an embedded distributor, served by the host distributor Hydro One. The forecast Low Voltage ("LV") charges are $1.2 million to be allocated in proportion to the revenue from the Retail Transmission Rate – Connection and to be collected through the volumetric rate.

Board staff submitted that the forecast of LV-Wheeling cost is reasonable and that the allocation of these costs and the derivation of the rate component are reasonable. Board staff did question the derivation of the LV component of the Large User class. Because there is no established record of class load and revenue, Barrie has used a forecast revenue figure for purposes of the calculation. Barrie replied that it had no other basis upon which to base the Large User allocation and pointed out that any adjustment to that level would affect the allocations to other classes.

Board Findings

The Board concludes that Barrie's proposals are appropriate. As a record of class load and revenue is established for the Large User class, this allocation can be adjusted accordingly in the future.

Retail Transmission Rates

VECC submitted that Barrie had not implemented the new retail transmission rates appropriately because the decreases Barrie proposed are substantially lower than the Board approved reductions in the underlying Wholesale Transmission rates. VECC submitted that the reductions should be consistent.

Barrie replied that charges to it (as an embedded distributor) by Hydro One have not been reduced and therefore the proposed reduction only takes account of the reduction in the charges by transmitters to the IESO.

Board Findings

The Board finds that Barrie should adjust its retail transmission rates to incorporate the new lower wholesale transmission rates and Hydro One's proposed sub-transmission rates as contained in Hydro One's 2008 rate application at Exhibit G1, Tab 6, Schedule 1, page 5, table 2. Although these Hydro One rates have not yet been approved, they are a direct flow-through from the new approved lower wholesale transmission rates and are therefore a more accurate reflection of the rates to be put in place.

General Service 50-4,999 kW Time of Use Class

Barrie proposed to retain the General Service 50-4999 kW Time of Use class and to maintain higher Retail Transmission Service rates for this class than for the non-interval metered General Service 50-4999 kW class. Board staff suggested that these classes might be harmonized given the reduction in transmission rates.

In its reply, Barrie referred to an interrogatory answer in which it had explained that it would be difficult to harmonize the rates because the billing determinants for the Retail Transmission Network rate are determined under different time periods. For interval metered customers the Retail Transmission Network rate will apply to an individual customer's non-coincident peak demand in the month during the peak period (7:00 am to 7:00 pm on weekdays that are not statutory holidays), whereas for non-interval metered customers the rate will apply to the customer's peak demand during the billing period. Barrie noted that for the Retail Transmission Line and Connection charges a common rate could be developed, but Barrie took the position that it would be impractical until the Retail Transmission Network rate can be harmonized.

Board Findings

The Board accepts Barrie's explanation and its proposal for maintaining a separate General Service 50-4999 kW Time of Use class. The Board notes that eventually all customers will be interval metered so the need for a separate class will fall away in any event.

Smart Meter Activity

Barrie has a smart meter rate rider of $0.27 per month, which was approved in the Board's April 12, 2007 Decision in EB-2007-0507. Barrie is not proposing to change the rider, since it is not one of the 13 distributors authorized to undertake smart metering activities. The Board approves the continuation of the rate rider for 2008. The Board reminds Barrie that any pilot program related to smart metering requires a separate application with the Board.

Fixed/Variable Split

VECC submitted that the fixed/variable split for rates should be determined by calculating the total 2008 revenue for each class using 2008 billing quantities and 2007 rates, excluding both the smart meter adder and the LV charge adder. VECC was of the view that Barrie had determined the split incorrectly by failing to remove the smart meter adder from the 2007 monthly charge. The result is that the smart meter adder impacts the monthly charge twice for each customer class. Barrie did not address this issue in its reply submissions.

Board Findings

The Board agrees with VECC's description of the appropriate determination of the fixed variable split. Barrie should ensure that in its Draft Rate Order it removes all adders from the 2007 rates before determining the appropriate increases to the fixed and variable charges.

DEFERRAL AND VARIANCE ACCOUNTS

The following table shows the deferral account balances Barrie is seeking to recover.

Deferral and Variance Accounts Proposed for Disposition
(balances forecast to April 30, 2008)

Account Number	Account Name	Balance requested for disposition ($)
1508	Other Regulatory Costs	890,105
1518	Retail Cost Variance Account – Retail	53,876
1548	Retail Cost Variance Account – STR	(11,507)
1550	LV Variance Account	19,598
1562	Deferred Payments in Lieu of Taxes	(62,649)
1565	CDM Expenditures and Recoveries	0
1566	CDM Contra	0
1580	RSVA – Wholesale Market Service Charge	(470,184)
1582	RSVA – One-time Wholesale Market Service	92,729
1584	RSVA – Retail Transmission Network Charge	325,605
1586	RSVA – Retail Transmission Connection Charge	(40,560)

Accounts 1518, 1548, 1580, 1582, 1584, 1586, 1588

Barrie did not request disposition of Account 1588 RSVA Power. This account is part of the Board's ongoing "Bill 23" process. The Board has recently announced (by letter dated February 19, 2008) that it intends to launch an initiative for the review and disposition of Account 1588 and that it will consider the use of "disposition triggers". The Board also indicated it will consider whether to extend this initiative to all of the RSVA and RCVA accounts. As a result, the Board will not order disposition of any of these accounts at this time.

CDM Accounts1565 and 1566

Board staff questioned why the balances for Account 1565 (CDM Expenditures) and 1566 (CDM Contra) were previously requested for disposition in the application but were cleared to zero in the continuity schedule. Barrie responded that it had undertaken a forecast of these balances in response to what it perceived as a concern of Board staff that the balances in the accounts were not declining. Given the nil impact, Barrie indicated that it had no position as to whether these accounts should be disposed of in this proceeding or not.

Board Findings

The Board will not order disposition of these accounts. These are monitoring accounts related to third tranche CDM spending. Reporting on these expenditures is done through an annual process separate from this rate proceeding.

Payments in Lieu of Taxes (PILs) Accounts 1562

Board staff expressed concerns with this account. Barrie pointed out that while Account 1562 was not included in the continuity schedule, it was included in answer to an interrogatory related to PILs and the company is seeking disposition of this account. Account 1562 includes a forecast balance. Barrie submitted that it made this forecast in an attempt to clear this account in total rather that to continue tracking it until the next rebasing.

Board Findings

The Board will not dispose of this account as part of this proceeding. The Board, by letter dated March 3, 2008, has announced that it will initiate a combined proceeding to determine the methodology that should be used for the calculation and disposition of account 1562.

Conclusions

The Board approves the proposed disposition of the balances in accounts 1508 and 1550.

IMPLEMENTATION

The Board has made findings in this Decision which change the revenue deficiency and change the deferral and variance account balances for disposition, and therefore the proposed 2008 distribution rates. These are to be properly reflected in a Draft Rate Order incorporating an effective date of May 1, 2008 for the new rates.

In filing its Draft Rate Order, it is the Board's expectation that Barrie will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Barrie to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Barrie's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Barrie should also show detailed calculations of the revised retail transmission rates and variance account rate riders reflecting this Decision.

A Rate Order and a separate cost awards decision will be issued after the processes set out below are completed.

THE BOARD THEREFORE ORDERS THAT:

1. Barrie shall file with the Board, and shall also forward to VECC and Schools, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. VECC and Schools shall file any comments on the Draft Rate Order with the Board and forward to Barrie within 20 days of the date of this Decision.

3. VECC and Schools shall file with the Board and forward to Barrie their respective cost claims within 26 days from the date of this Decision.

4. Barrie may file with the Board and forward to VECC and Schools responses to any comments on its Draft Rate Order within 26 days of the date of this Decision.

5. Barrie may file with the Board and forward VECC and Schools any objections to the claimed costs within 40 days from the date of this Decision.

6. VECC and Schools may file with the Board and forward to Barrie any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Barrie shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, March 25, 2008

Original Signed by

____
Gordon Kaiser
Presiding Member

Original Signed by

____
Cynthia Chaplin
Member