

October 26, 2009

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

AND IN THE MATTER of an Application by Guelph Hydro
Electric Systems Inc. for an Order or Orders approving or
fixing just and reasonable rates and other charges for
2010 Electricity Distribution Rates

Applicant Name: Guelph Hydro Electric Systems Inc.
Applicant Address: 395 Southgate Drive
Guelph, ON N1G 4Y1
File Number: EB-2009-0226
Licence Number: ED-2002-0565

APPLICATION

1. Introduction

Guelph Hydro Electric Systems Inc. (the "Applicant") hereby applies to the Ontario Energy Board (the "Board") for approval of 2010 Distribution Rate Adjustments, based on Chapter 3 of the Filing Requirements for Transmission and Distribution Applications issued July 22, 2009, and the Filing Instructions issued by the Board as follows:

- 2010 3rd Generation Incentive Regulation Mechanism (IRM3) issued August 24, 2009
- 2010 Incentive Regulation Mechanism Supplemental Filing Module issued August 24, 2009
- 2010 Incentive Regulation Mechanism Deferral and Variance Account Workform issued August 24, 2009

The Applicant utilized the Board's 2010 Rate Model in the preparation of this filing, which consists of the following files:

- 2010 OEB IRM3 Rate Generator
- 2010 OEB IRM3 Supplemental Filing Module
- IRM Deferral and Variance Account Workform

The 2009 rate adjustments include:

- A revenue to cost ratio adjustment for the Street Lighting Class. This is the result of the Board's direction in the Applicant's 2008 Cost of Service (COS) filing, to reach a revenue to cost ratio of 70% for the Class by 2010.
- A K-factor adjustment resulting from the transition to a deemed capital structure of 60% debt and 40% equity in 2010.
- A Price Cap Adjustment.
- A Z-Factor adjustment resulting from changes in corporate and capital tax rates that have occurred since the Applicant filed its 2008 COS filing.
- An adjustment of Retail Transmission Service Rates in accordance with Board Guidelines.
- An adjustment for the disposition of all Group 1 variance account balances (including carrying charges). With the one exception being for the RSVA power account and the RSVA power sub-account Global Adjustment.

2. Distributor Profile Summary

Guelph Hydro Electric Systems Inc. is a corporation incorporated pursuant to the Ontario *Business Corporations Act* with its head office in the City of Guelph. Guelph Hydro carries on the business of distributing electricity to approximately 49,000 customers within the City of Guelph and the Village of Rockwood. The Applicant services a total area of 93 sq km. 100% of the service area is urban.

The Applicant does not have any special conditions in its licence, nor is the Applicant exempt from any of the conditions of its licence.

The Applicant is embedded at one service point with Hydro One Networks Inc. and is a Host Distributor to Hydro One Networks Inc. The adjacent Distributor is Hydro One Networks Inc.

3. Details of the Applicant's Electricity Distribution Rate Application

3.1 2009 Board Approved Tariff of Rates and Charges

The Applicant has input into the Board's Rate Model, the 2009 Board Approved Tariff of Rates and Charges in its entirety. This was done for all General rate classes. The Applicant does not have any Unique rate classes.

3.2 Revenue to Cost Ratio Adjustment

On November 28, 2007 the Board released a policy document titled *Application of Cost Allocation for Electricity Distributors* (EB-2007-0667). The document established a range of targets around revenue to cost ratios of one for each class of customers. Cost of Service (COS) Decisions in 2008 and 2009 approved individual

ratios. Some decisions allowed for a phase-in for each distributor's customer classes that were outside the prescribed target range to arrive ultimately at the Board approved ratio within the range.

The Board found, in recent 2009 COS Decisions, that the starting points for adjusting revenue-to-cost ratios needed to be corrected due to a misallocation of the transformer ownership allowance in the 2006 EDR cost allocation model. To address this issue, the 2010 IRM model removes the cost of the transformer ownership allowance from the original cost allocation model as well as the revenues associated with the transformer ownership allowance. The corrected ratios are then calculated based on the revised distribution revenue net of transformer ownership allowance. These new starting points will then be used to adjust revenue-to-cost ratios to move applicable classes into the target range set by the Board.

In its 2008 COS filing, the Applicant accounted for the transformer allowance adjustment (TOA), and submitted a revised Cost Allocation Model. The revised revenue-to-cost ratios were used as a new starting point to adjust the revenue-to-cost ratios into the target ranges set by the Board. **Since Worksheet B 2.2 (CA Information) of the 2010 Incentive Regulation Mechanism Supplemental Filing Module was created for applicants that did not account for the TOA, the Applicant has populated the worksheet with the figures from the revised Cost Allocation Model without filling out the TOA columns (A and E).**

Column A of Worksheet B 2.3 (New Starting Point) reflects the revised revenue-to-cost ratios from Worksheet B 2.2. Columns B

and C reflect the changes approved by the Board via the 2008 and 2009 Rate Decisions to move the revised revenue-to-cost ratios into the target ranges. Column D shows the final phase-in adjustments for the customer classes that were outside the prescribed target range. More specifically, the Board directed the Company to raise rates for the Street Lighting class to achieve a revenue to cost ratio of 44% for 2008, with the expectation that the Company reach the 70% Board target range by 2010 in equal increments.

The additional revenue from the Street lighting class has been allocated to reduce the revenue to cost ratios for the GS<50 kW and the GS 50-999 kW classes in proportion to their revenues.

3.3 K-Factor Adjustment

2010 is the final adjustment year for the three year capital structure transition to the deemed 60% Debt and 40% Equity level. The Supplemental Filing Module is classifying the Applicant as “Med-Small”. For the 2008 and 2009 Rate Applications, the Applicant was classified as a “Small” distributor. As a result, in 2010 Guelph will be impacted by a K-Factor adjustment amounting to -.37%. The factor has been applied against the Base Distribution Rates of all of the Applicant’s rate classes.

3.4 Price Cap Adjustment

In calculating 2010 rates, the Applicant has applied a Price Cap Adjustment of 1.18 % to its Base Distribution Rates and Low Voltage volumetric rates. The following default values were used in the determination of the Price Cap Adjustment:

Price Cap Adjustment

Price Escalator (GDP-IPI)	2.30%
Less: Productivity Factor	-0.72%
Stretch Factor	-0.40%
Price Cap Adjustment	1.18%

The Applicant understands that the final Decision will include a Price Cap Adjustment based on GDP-IPI data published by the Board. The Applicant also understands that the productivity factor will remain fixed throughout the 3rd Generation IR plan, and that the Stretch Factor will be adjusted once the Board has completed the distributor benchmarking exercise and has released the 2010 stretch factor results.

3.5 Z-Factor Tax Change Adjustment

The Applicant has a Z-Factor Tax Change Adjustment resulting from the decrease in tax rates. A rate rider has been calculated based on a sharing of 50% of the tax reduction. This amount will be refunded to customers over a 12 month period commencing May 1, 2010 and ending April 30, 2011. The amounts are to be refunded via a volumetric rate rider.

3.6 Incremental Capital Adjustment

The Applicant is not applying for an Incremental Capital Adjustment at this time.

3.7 Adjustment of Retail Transmission Service Rates

The Applicant is applying for an adjustment of its Retail Transmission Service Rates based on the percentage changes

resulting from Board approved uniform transmission rates (UTR) effective July 1, 2009.

Network Service Rate	3.5%
Transformation Connection Service Rate	-2.2%

The applicant understands that the UTR percentage changes are to be used as a proxy adjustment pending finalization of 2010 RTSR adjustments.

3.8 LRAM/SSM Adjustment

The Applicant is not applying for an LRAM/SSM Adjustment at this time.

4. Deferral and Variance Accounts

The Applicant is seeking the disposition of the following Deferral and Variance Accounts (DVAs) described below:

1550 LV Variance Account

On a monthly basis, this account shall be used to record the net of: (i) the amount charged by a host distributor to an embedded distributor for transmission or low voltage services and (ii) the amount billed to the embedded distributor's customers based on the embedded distributor's approved LV rate(s).

1580 Retail Settlement Variance Account - Wholesale Market Service Charges

This account is used to record the net of: (i) the amount charged by the Independent Electricity System Operator ("IESO"), based on the settlement invoice, for the operation of the IESO administered markets

and the operation of the IESO-controlled grid (as defined in the *Electricity 11 Act, 1998*), specified by the Board and (ii) the amount billed to customers using the Board approved Wholesale Market Service Rate.

1584 Retail Settlement Variance Account - Retail Transmission Network Charges

This account is used to record the net of: (i) the amount charged by the IESO, based on the settlement invoice, for transmission network services and ii) the amount billed to customers for the same services using the OEB approved Retail Transmission Network Charge Rate. For embedded distribution operations, this account is used to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission network services and the amount billed to customers using the Board-approved Transmission Network Charge Rate.

1586 Retail Settlement Variance Account - Retail Transmission Connection Charges

This account is used to record the net of: (i) the amount charged by the IESO, based on the settlement invoice, for transmission network services and (ii) the amount billed to customers for the same services using the OEB approved Retail Transmission Connection Charge Rate. For embedded distribution operations this account is used to record the net difference between the amount charged by the host distributor (based on the settlement invoice) for transmission connection services and the amount billed to customers using the Board-approved Transmission Connection Charge Rate.

1590 Recovery of Regulatory Asset Balances

This account is used to record the regulatory asset or liability balances authorized by the Board for recovery in rates or payments/credits made to customers.

4. Deferral and Variance Accounts (continued)

Calculation of Balances by Account

The IRM Deferral and Variance Account Workform Version #3 (the "Workform"), contains a continuity schedule (2005-2008), for each account balance submitted for disposition. The 2005 and 2006 schedules on the Workform include amounts from Wellington Electric Distribution company with whom the Applicant merged effective at the end of March 31, 2006.

The last Board approved balances (including carrying charges) are noted in Worksheet B-1.1 *2006 Reg Assets* of the Workform, and include all principal amounts as of December 31, 2004, Hydro One Charges to April 30, 2006, and Carrying Charges to April 30, 2006. These balances were approved for disposition as part of the 2006 EDR process. All Board approved amounts were transferred to Account #1590 as part of this process.

Appendix A lists the Deferral and Variance Accounts for which the Applicant is seeking disposal as part of the 2010 3rd Generation Incentive Regulation Mechanism process. The Principal amounts are based upon December 31, 2008 balances derived at by using the accrual basis of accounting. Carrying charges have been projected to April 30, 2010. All carrying charges have been calculated using the methodology and rates prescribed by the Board.

Consistent with Board policy noted in *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*,

the balances in the accounts for which the Applicant is seeking disposal have been allocated to the various rate classes based on KWH billed. The Applicant is seeking to dispose of the balances via a one year volumetric rate rider calculated based actual volumetric data from 2008.

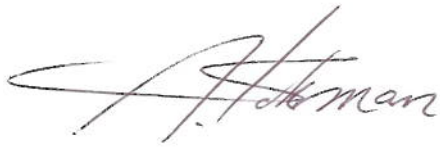
4. Rate Impacts

Rate impacts are shown on the O Series sheets of the “OEB 2010 IRM3 Rate Generator – Guelph 20091026”. Specific rate impacts are noted on the following schedules:

<u>O1.1 Sum of Chgs To MSC&DX Gen</u>	Shows Summary of Changes To General Service Charge and Distribution Volumetric Charge
<u>O1.2 Sum of Tariff Rate Adders</u>	Shows Summary of Changes To Tariff Rate Adders
<u>O1.3 Sum of Tariff Rate Rider</u>	Shows Summary of Changes To Tariff Rate Riders
<u>O2.1 Calculation of Bill Impact</u>	Bill Impact Calculations

The key contact information is:

Guelph Hydro Electric Systems Inc.
395 Southgate Drive
Guelph, ON N1G 4Y1

A handwritten signature in cursive script, appearing to read "A. Stokman".

Arthur Stokman, P.Eng.
President
email: astokman@guelphhydro.com
(519) 837-4715
(519) 836-1055 (fax)

APPENDIX A

Guelph Hydro Electric Systems Inc.

Request for Clearance of Deferral and Variance Accounts

Account Description	Account Number	Principal Amounts	Interest Amounts	Total Claim
		A	B	C = A + B
LV Variance Account	1550	(110,559)	(4,938)	(115,496)
RSVA - Wholesale Market Service Charge	1580	3,455,609	170,625	3,626,234
RSVA - Retail Transmission Network Charge	1584	1,354,830	17,911	1,372,741
RSVA - Retail Transmission Connection Charge	1586	1,870,619	(165,794)	1,704,826
RSVA - Power (Excluding Global Adjustment)	1588	0	0	0
RSVA - Power (Global Adjustment Sub-account)	1588	0	0	0
Recovery of Regulatory Asset Balances	1590	0	42,155	42,155
Disposition and recovery of Regulatory Balances Account	1595	(6,570,499)	(59,959)	(6,630,458)
Total		0	0	0