



June 30, 2011

Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario  
M4P 1E4

ATT: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli,

**EB – 2011-0103  
Response to 2012 Distribution Rates  
Cost of Service Deferral Request  
Wasaga Distribution Inc.**

Wasaga Distribution Inc. is responding to the Ontario Energy Boards' letter dated June 17, 2011 regarding the Cost of Service deferral beyond the year 2012.

Wasaga Distribution has not completed a Cost of Service Application since it rebased in 2006. Wasaga Distribution was on the list of utilities to complete a Cost of Service Application for 2011. In August of 2010, Wasaga made a request to defer for at least another year and the following response was received by the Ontario Energy Board on September 20, 2011. *"The Board recognizes Wasaga's current circumstances as outlined in your letter and grants a one year deferral of your next cost of service application. In the event that Wasaga wishes to seek a further deferral of its next cost of service rate review, the Board expects Wasaga to update the Board by correspondence similar to its August 27, 2010 letter."* As stated by the Board and with Wasaga Distribution being in circumstances similar to those stated in its 2010 letter, Wasaga Distribution sent in a request dated April 07, 2011 to defer its Cost of Service for another year. As a result, Wasaga Distribution did not expect to receive the Boards' letter dated June 17, 2011 asking for more information to support the deferral instead of granting a deferral.

The charts and explanations on the next pages of this response fulfill the requirement for Wasaga Distribution's return on equity for 2009 and 2010. The calculations provided exclude Smart Meter costs currently reflected in a variance account and should be considered by the Board in their decision on granting a deferral for one more year. To date, Smart Meter Capital purchases totaled approximately \$1.6 million and the net increase on the depreciation expense (including stranded meters) total approximately \$200,000 for both years.



Wasaga Distribution wishes to thank Board staff for providing Wasaga Distribution with other models that were used for the RRR filing requirement 2.1.5.6. Using these other models, tables 1-3 show that Wasaga Distribution is within the dead band of plus or minus three percent (3%) of our Return on Equity at time of rebasing of nine percent (9.00%) and therefore not exceeding our level of return that underpins its rates.

<b>Table 1 - Rideau St. Lawrence Distribution Inc. Model (ROE)</b>			
		2009	2010
Capital Stock	\$	100.00	\$ 100.00
Retained Earnings		3,677,496.00	4,210,783.00
Miscellaneous paid-in-capital		5,175,468.00	5,175,468.00
Total Shareholders Equity	\$	<u>8,853,064.00</u>	<u>\$ 9,386,351.00</u> (1)
After tax earnings	\$	<u>740,295.00</u>	<u>\$ 783,288.00</u> (2)
Return on Equity- (ROE)		<u>8.36%</u>	<u>8.34%</u> (2)/(1)
<b>Table 2 - Hydro Ottawa Limited Model (IRM - ROE)</b>			
		2009	2010
Total Shareholders Equity	\$	<u>8,853,064.00</u>	<u>\$ 9,386,351.00</u> (1)
After tax earnings	\$	<u>740,295.00</u>	<u>\$ 783,288.00</u> (2)
Return on Equity- (ROE)		<u>8.36%</u>	<u>8.34%</u> (2)/(1)
<b>Table 3 - Enersource Hydro Mississauga - Model (ROE)</b>			
		2009	2010
Beginning Sharehold equity, Jan 1	\$	8,132,769.00	\$ 8,853,064.00
Ending Shareholder equity, Dec 31		8,853,064.00	9,386,351.00
Average Shareholders Equity	\$	<u>8,492,916.50</u>	<u>\$ 9,119,707.50</u> (1)
After tax earnings	\$	<u>740,295.00</u>	<u>\$ 783,288.00</u> (2)
Return on Equity- (ROE)		<u>8.72%</u>	<u>8.59%</u> (2)/(1)

As seen in Tables 1-3 that were used by other utilities for Filing Requirement 2.1.5.6, and using Wasaga Distribution's data, Wasaga Distribution has a Return on Equity which is within the OEB's required range of return.

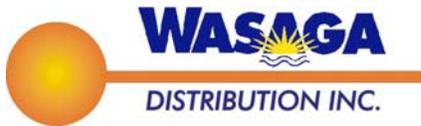


Board staff also provided a model used by Horizon Utilities but in Wasaga Distribution's view this model does not take into account Wasaga Distribution's significant difference in the actual equity/debt ratio compared to the deemed equity/ debt ratio. As a result, Wasaga Distribution has prepared the following table to provide the return on equity for 2009 and 2010 when the actual capital structure is moved to the deemed capital structure.

Table 4 demonstrates that Wasaga Distribution's filing for 2.1.5.6 may have not provided enough information to properly interpret the results. It should be noted that Wasaga Distribution's actual capital structure differs from the Boards' deemed capital structure, as such, the results can vary significantly and the difference has been adjusted for the deemed amount. Table 4 shows that Wasaga Distribution has an acceptable Return on Equity. The adjusted Net Income (2) as shown is within the acceptable range of (\$233,331 to \$466,663) based on the RRR Filing requirement 2.1.5.6 filed by Wasaga Distribution on April 30, 2011.

**Table 4 - Wasaga Distribution Inc. (ROE)**

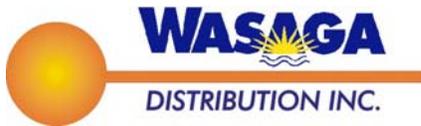
	2009	2010
<b>Actual Capital Structure</b>		
Actual Equity	71% \$ 8,853,064.00	72% \$ 9,386,351.00
Actual Debt	29% 3,593,269.00	28% 3,593,269.00
	\$ <u>12,448,342.00</u>	\$ <u>12,979,620.00</u>
↕		
<b>Deemed Capital Structure</b>		
Deemed Equity	40% \$ 4,979,336.80	\$ 5,191,848.00 (1)
Deemed Debt	60% 7,469,005.20	7,787,772.00
	\$ <u>12,448,342.00</u>	\$ <u>12,979,620.00</u>
Net Income Before Taxes	\$ 1,137,178.00	\$ 973,863.00
Add: Interest Expense	240,695.00	218,876.00
Less: Prior Year Rent Revenue Adjust.	-288,000.00	-
Less: Depreciation Adjust. (Smart meters)	-70,000.00	-130,000.00
	<u>1,019,873.00</u>	<u>1,062,739.00</u>
Less: Deemed Interest Expense (Deemed Debt * 6.35%)	-474,281.83	-494,523.52
Adjusted Net Income Before Taxes	545,591.17	568,215.48
Est. Tax Expense ( actual overall % for yr.)	190,956.91 (35%)	111,370.23 (19.6%)
Net Income After Taxes	\$ <u>354,634.26</u>	\$ <u>456,845.24 (2)</u>
Return on Equity (ROE)	<u>7.12%</u>	<u>8.80% (2)/(1)</u>



Wasaga Distribution would ask the Board to take into consideration reasons other than financial requirements for requesting a deferral of the 2012 cost of service rate Application.

- A Green Energy Plan is a requirement of a cost of service application for a 2012 test year, as of the date of this letter a Green Energy Plan has not been completed and must be approved by the OPA before it is even submitted with our application, this would delay our application significantly.
- Due to the implications of IFRS we have had to change our “antiquated” software to a software solution that would be able to handle the demands of IFRS requirements. This software conversion started in April and the implementation, configuration and testing that is required is taking up a considerable amount of our two person Finance departments time. The estimated completion date for the conversion is January 2012.
- The conversion of our Property, Plant and Equipment for IFRS also requires a considerable amount of the Finance team’s time and although we are well into the process we still have outstanding issues to resolve and the Finance team has yet to address the Property, Plant and Equipment financial implications of Modified IFRS.
- Wasaga Distribution has been notified that we are to have a 1598(RPP) audit in September. This audit will involve not only the Finance team but the Manager of Energy Services (who is heavily involved in the Smart Meter implementation) due to the fact that it covers part of a period for which the current Manager of Finance was not with Wasaga Distribution. Again, this is another resource demand of a now stretched thin Finance team.
- Wasaga Distribution is well into its’ Smart Meter implementation and testing. With an approved start date of November 2011, this conversion process will also put a strain on our Finance and Management team.

If a Cost of Service application were to be added to this already demanding schedule it would require resources that are not available internally and this would result in a large outside cost that subsequently would be of limited value to our customers.



Therefore, based on the financial and resource implications provided in this letter Wasaga Distribution is requesting a deferral of the Cost of Service application and requests that in its' place an IRM3 application be completed for the 2012 rate year. Wasaga Distribution would like to assure the Board that it is currently planning for a Cost of Service application to be completed for the 2013 rate year and will not be requesting a deferral for the 2013 rate year.

Respectfully submitted,

*Original signed by*

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