



WELLAND HYDRO-ELECTRIC SYSTEM CORP.

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February 3, 2009

Delivered by Courier and E-file

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Welland Hydro-Electric System Corp.
2009 Distribution Rates Application
Board File No. EB-2008-0247

Please find enclosed paper copies (2) and one electronic copy of a supplemental filing by Welland Hydro-Electric System Corp. in relation to the 2009 Cost of Service Rate Application EB-2008-0247. The filing contains a Manager's Summary and Revised Exhibits contained in the original filing of August 15, 2008 which result from changes in revenue and operating expenses detailed in the January 20, 2009 supplemental filing.

An electronic copy has been filed using the OEB's E-filing services.

Yours very truly,

Wayne Armstrong
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Welland Hydro-Electric System Corp.
Manager's Summary
Revisions to Application EB-2008-0247
Revised Exhibits-Original Application

1) Introduction

On January 20, 2009 Welland Hydro submitted a supplemental filing for the 2009 Rate Application EB-2008-0247. The supplemental filing presented a revised 2009 Revenue Deficiency as a result of changes in forecasted revenues due mainly to the loss of two large use customers. In addition to the changes in revenue, Welland Hydro proposed reductions to operating expenses to help offset the reduced revenues. As a result of these changes, Welland Hydro is filing revised Exhibits for both Revenue and Operating Expenses contained in the original application filed August 15, 2008. The revised exhibits reflect only the changes made in the January 20, 2009 supplemental filing with no additional adjustments.

2) Revenue

Exhibit 3 Tab 1 Schedule 2 Page 1 of 1 has been revised to reflect 2009 Test Year Revenues at Current Rates based on the revised Customer and Load Forecast contained in Exhibit 3 Tab 2 Schedule 2 Page 5 of 5. A summary of the changes is outline as follows:

a) Residential

The only change to Residential class is the use of the average kwh/customer from 2002-2007 of 8,383 versus the 2004 weather normalized 8,427 kwh/customers. This reduces the total kilowatt hours for the Residential class from 166,999,701 to 166,128,692. Actual 2008 billings for the Residential class totaled 158,305,609 kilowatt hours. As no weather normalized data is available for 2008 the amount of the reduction due to weather and the reduction due to conservation programs cannot be determined. However, it appears that even the use of the 2002-2007 average kwh/customer may still be high when adjustments for conservation programs are taken into account.

b) General Service/Large Use

Changes to the General Service classes and the Large Use class reflect the shutdown of one Large Use customer, the reclassification of one Large Use customer to General Service 50 to 4,999 kw, and the continued reduction in the General Service 50 to 4,999 kw customer classification. The loss of customers in GS 50 to 4,999 kw classification has been offset by growth within the General Service Less than 50 kw classification.

c) Other Operating Revenue

Exhibit 3 Tab 3 Schedule 1 Page 1 of 1 has been revised to reflect a reduction in forecasted Interest Income due to declining interest rates. Actual Interest rates have declined by another 0.5% since the January 20th supplemental filing.

3) Operating Expenses

Exhibit 4 Tab 2 Schedule 2 Pages 1-4 and Exhibit 4 Tab 2 Schedule 3 Pages 1-10 have been revised to reflect reductions to 2009 forecasted operating expenses outlined in the January 20, 2009 supplemental filing.

Total OM & A Expenses were originally forecasted to increase by 27.4% from 2006 to 2009. As a result of the proposed reductions the increase has been decreased from 27.4% to 22.6% as shown in Exhibit 4 Tab 2 Schedule 3 Page 1 of 10.

Total Wages and Benefits which had been forecast to increase by 40.0% from 2006 to 2009 has been reduced to 34.5% as a result of removing the apprentice lineperson position, reduced overtime, and the adjustment to Retiree Benefit costs. Inflation from 2006 to 2009 accounts for 14.0% of the 34.5% increase with the balance due to increased manpower and other adjustments.

Total OM & A Purchases which had been forecast to increase by 9.3% from 2006 to 2009 has been reduced to 5.5% as a result of adjustments for tree trimming and transformer PCB testing.

WELLAND HYDRO ELECTRIC SYSTEM CORP
SUMMARY OF OPERATING REVENUE TABLE 1
REVISED TO REFLECT 2007 PILS DECISION

	2006 Board Approved (\$)	2006 Full Yr Actual (\$)	Variance from 2006 Board Approved (\$)	2007 Full Yr Actual (\$)	Variance from 2006 Actual (\$)	2008 Bridge Yr Current Rates (\$)	Variance from 2007 Actual (\$)	2009 Test Yr Current Rates (\$)	Variance from 2008 Actual (\$)
Distribution Services Revenue-Monthly									
Residential	2,933,950	2,736,531	-197,419	2,889,520	152,989	3,037,723	148,203	3,063,071	25,348
General Service Less Than 50 kw	375,463	382,789	7,326	381,863	-926	389,104	7,241	394,155	5,051
General Service 50 to 4999 kw	474,512	440,493	-34,019	416,596	-23,897	412,029	-4,567	393,615	-18,414
Large Use	379,847	349,185	-30,662	285,374	-63,811	383,265	97,891	127,755	-255,510
Unmetered Scattered Load*	28,701	0	-28,701	14,697	14,697	24,702	10,005	24,236	-466
Sentinel Lighting	3,157	2,746	-411	2,833	87	3,154	321	3,115	-39
Street Lighting	14,308	12,909	-1,399	13,449	540	14,366	917	14,422	56
Total Distribution Revenue Monthly	4,209,938	3,924,653	-285,285	4,004,332	79,679	4,264,343	260,011	4,020,369	-243,974
Distribution Services Revenue-Volumetric									
Residential	1,984,137	1,899,135	-85,002	2,001,363	102,228	2,154,181	152,818	2,159,673	5,492
General Service Less Than 50 kw	304,260	311,182	6,922	320,337	9,155	366,084	45,747	370,835	4,751
General Service 50 to 4999 kw	338,952	294,461	-44,491	362,439	67,978	316,565	-45,874	354,709	38,144
Large Use	201,595	183,148	-18,447	170,800	-12,348	215,889	45,089	121,790	-94,099
Unmetered Scattered Load*	8,271	0	-8,271	5,779	5,779	7,328	1,549	7,188	-140
Sentinel Lighting	1,793	2,208	415	2,066	-142	2,159	93	2,133	-26
Street Lighting	9,849	9,067	-782	9,488	421	10,155	667	10,196	41
Total Distribution Revenue Volumetric	2,848,857	2,699,201	-149,656	2,872,272	173,071	3,072,361	200,089	3,026,524	-45,837
CDM Revenue									
SSA Administrative Revenue	83,845	74,486	-9,359	73,386	-1,100	72,249	-1,137	72,816	567
Transformer Allowance-General Service 50 to 4999 kw	-130,446	-121,987	8,459	-139,597	-17,610	-104,868	34,729	-136,548	-31,680
Transformer Allowance-Large Use	-172,141	-173,771	-1,630	-153,956	19,815	-180,333	-26,377	-101,732	78,601
Total Distribution Services Revenue	6,840,053	6,310,613	-529,440	7,255,151	944,538	7,123,752	-131,399	6,881,429	-242,323
Retail Services Revenue									
Service Transaction Requests	31,074	32,680	1,606	46,970	14,290	35,174	-11,796	35,174	0
Total Distribution Revenue	6,871,458	6,345,194	-526,264	7,304,181	958,987	7,160,966	-143,215	6,918,643	-242,323
Other Income & Revenue									
	691,540	835,856	144,316	856,451	20,595	589,456	-266,995	458,361	-131,095
Total Service Revenue	7,562,998	7,181,050	-381,948	8,160,632	979,582	7,750,422	-410,210	7,377,004	-373,418

* Unmetered Scattered Load Revenues were charged to the same general ledger account as GS<50 until May, 2007

TABLE 3

SUMMARY OF WELLAND HYDRO
 CUSTOMER AND LOAD FORECAST

		Historical Board Approved 2004	Historical Actual 2006	Historical Actual Normalized 2006	Historical Actual 2007	Historical Actual Normalized 2007	Bridge Year - Estimated 2008	Bridge Year Forecast Normalized 2008	Test Year Revised Forecast 2009
Year		2004	2006	2006	2007	2007	2008	2008	2009
Residential	#	19,142	19,399	19,399	19,512	19,512	19,664	19,664	19,818
	kWh	158,515,644	160,436,606	163,470,628	162,194,309	164,422,852	163,460,330	165,706,267	166,128,692*
									*2002-2007 Avg./Customer
GS < 50 kW	#	1,650	1,668	1,668	1,695	1,695	1,695	1,695	1,717
	kWh	49,218,700	50,499,927	50,499,927	53,259,754	53,259,754	54,639,337	54,639,337	55,348,528
GS > 50 kW	#	208	209	209	180	180	179	179	171
	kWh	146,428,658	149,058,851	149,058,851	162,260,470	162,260,470	135,398,886	135,398,886	160,782,066
	kW	419,308	411,399	411,399	441,430	441,430	393,395	393,395	440,796
Large Use	#	3	3	3	2	2	3	3	1
	kWh	122,885,824	106,279,181	106,279,181	85,814,110	85,814,110	111,296,111	111,296,111	49,804,199
	kW	286,901	289,619	289,619	256,593	256,593	300,555	300,555	169,553
USL	#	243	224	224	216	216	212	212	208
	kWh	1,196,517	1,220,558	1,220,558	1,170,025	1,170,025	1,147,547	1,093,788	1,072,774
Sentinel	#	728	747	747	739	739	730	730	721
Lights	kWh	1,020,158	1,026,925	1,026,925	1,110,764	1,110,764	1,097,430	1,111,656	1,098,311
	kW	2,697	2,742	2,742	2,711	2,711	2,589	2,623	2,592
Street	#	6,495	6,581	6,581	6,624	6,624	6,651	6,651	6,677
Lights	kWh	4,669,826	4,685,215	4,685,215	4,688,349	4,688,349	4,707,116	4,703,951	4,722,781
	kW	12,988	13,084	13,084	13,086	13,086	13,218	13,209	13,262
Total	# kWh	483,935,327	473,207,263	476,241,285	470,497,781	472,726,324	471,746,757	473,949,996	438,957,351

WELLAND HYDRO ELECTRIC SYSTEM CORP
SUMMARY OF OTHER OPERATING REVENUE
TABLE 8

	2006 Board Approved (\$)	2006 Full Yr Actual (\$)	Variance from 2006 Board Approved	2007 Full Yr Actual (\$)	Variance from 2007 Actual	2008 Bridge Yr Current Rates (\$)	Variance from 2008 Actual	2009 Bridge Yr Current Rates (\$)	Variance from 2009 Actual
Other Operating Revenue									
Rent from Electric Property	81,801	139,809	58,008	131,677	-8,132	149,031	17,354	149,031	0
Late Payment Charges	71,300	59,638	-11,662	68,984	9,346	66,000	-2,984	66,000	0
Misc-Account Status Fee	3,875	3,631	-244	3,811	180	3,960	149	3,960	0
Misc Service-NSF Charges	5,950	6,228	278	6,192	-36	6,480	288	6,480	0
Misc Service-Occupancy Related	93,260	58,084	-35,176	85,179	27,095	83,880	-1,299	83,880	0
Misc Service-Disconnect/Reconnect	23,648	13,424	-10,224	33,845	20,421	31,135	-2,710	31,135	0
Misc Service-Mark Up on Work Orders	38,545	55,795	17,250	31,189	-24,606	24,000	-7,189	24,000	0
Total Other Operating Revenue	318,379	336,609	18,230	360,877	24,268	364,486	3,609	364,486	0
Other Income & Deductions									
Gain on Disposition of Utility and Other Property	0	10,991	10,991	2,278	-8,713	0	-2,278	0	0
Capital Gains	0	59,968	59,968	109,985	50,017	0	-109,985	0	0
Scrap Metal Sales	5,387	20,669	15,282	27,919	7,250	12,000	-15,919	12,000	0
Miscellaneous Non Operating	4,740	3,674	-1,066	11,119	7,445	7,020	-4,099	7,020	0
Total Other Income & Deductions	10,127	95,302	85,175	151,301	55,999	19,020	-132,281	19,020	0
Investment Income									
Interest Income	363,034	400,834	37,800	342,528	-58,306	212,058	-130,470	87,995	-124,063
Dividend Income	0	3,111	3,111	1,745	-1,366	0	-1,745	0	0
Interest Variance Accounts	0	0	0	0	0	-6,108	-6,108	-13,140	-7,032
Total Other Income & Deductions	363,034	403,945	40,911	344,273	-59,672	205,950	-138,323	74,855	-131,095
Total Other Income & Revenue	691,540	835,856	144,316	856,451	20,595	589,456	-266,995	458,361	-131,095

OM&A Cost Table										
Operation	Expense Description	2006 Board Approved	2006 Actual	Variance from 2006 Board Approved	2007 Actual	Variance from 2006 Actual	2008 Bridge	Variance from 2007 Actual	2009 Test	Variance from 2008 Bridge
5005-Operation Supervision and Engineering		66,497	54,188	(12,309)	65,475	11,287	83,862	18,387	81,043	(2,819)
5010-Load Dispatching		86,097	58,589	(27,508)	74,914	16,345	76,867	1,953	79,101	2,234
5012-Station Buildings and Fixtures Expense		5,896	5,122	(774)	11,787	6,865	11,973	186	12,268	295
5014-Transformer Station Equipment - Operation Labour		0	0	0	0	0	0	0	0	0
5015-Transformer Station Equipment - Operation Supplies and Expenses		0	0	0	0	0	0	0	0	0
5016-Distribution Station Equipment - Operation Labour		8,050	8,698	648	11,993	3,295	15,552	3,559	17,280	1,728
5017-Distribution Station Equipment - Operation Supplies and Expenses		112,220	106,991	(5,229)	110,129	3,138	112,565	2,436	115,650	3,085
5020-Overhead Distribution Lines and Feeders - Operation Labour		74,734	55,838	(18,896)	67,768	11,930	87,931	20,163	91,528	3,597
5025-Overhead Distribution Lines & Feeders - Operation Supplies and Expenses		70,979	48,917	(22,062)	155,733	106,816	168,573	12,840	180,955	12,382
5030-Overhead Subtransmission Feeders - Operation		55,829	58,947	3,117	61,256	2,309	76,052	14,795	81,780	5,728
5035-Overhead Distribution Transformers - Operation		807	11,328	10,721	12,018	690	13,853	1,835	14,131	278
5040-Underground Distribution Lines and Feeders - Operation Labour		113,288	101,693	(11,595)	106,693	5,000	138,440	31,747	149,845	11,405
5045-Underground Distribution Lines & Feeders - Operation Supplies & Expenses		(2,262)	28,172	28,454	29,396	3,224	26,409	(2,987)	27,295	886
5050-Underground Subtransmission Feeders - Operation		16,867	29,219	12,352	34,319	5,100	42,382	8,063	45,887	3,305
5055-Underground Distribution Transformers - Operation		11,350	8,152	(3,198)	12,741	4,590	13,200	459	13,444	244
5065-Meter Expense		258,153	283,636	25,482	310,752	27,117	312,688	1,946	339,287	26,599
5070-Customer Premises - Operation Labour		2,077	1,317	(759)	5,865	4,547	7,806	1,741	8,366	760
5075-Customer Premises - Materials and Expenses		0	210	210	0	(210)	0	0	0	0
5085-Miscellaneous Distribution Expense		225,446	241,338	15,892	136,512	(104,826)	167,742	31,230	185,706	17,964
5095-Overhead Distribution Lines and Feeders - Rental Paid		19,649	22,349	2,701	6,230	(16,119)	21,966	15,736	22,405	439
5096-Other Rent		0	0	0	0	0	0	0	0	0
Sub-Total		1,105,257	1,122,603	17,426	1,213,581	90,898	1,377,671	164,090	1,465,771	88,100

OM&A Cost Table										
Maintenance	Expense Description	2006 Board Approved	2006 Actual	Variance from 2006 Board Approved	2007 Actual	Variance from 2006 Actual	2008 Bridge	Variance from 2007 Actual	2009 Test	Variance from 2008 Bridge
5105-Maintenance Supervision and Engineering		54,830	58,189	3,359	69,212	11,013	85,144	15,932	86,868	3,724
5110-Maintenance of Buildings and Fixtures - Distribution Stations		17,214	20,307	3,093	15,807	(4,698)	18,022	2,415	19,905	883
5114-Maintenance of Distribution Station Equipment		13,417	12,875	(543)	23,550	10,675	16,627	(6,923)	17,736	1,109
5120-Maintenance of Poles, Towers and Fixtures		29,640	60,648	31,008	38,262	(22,386)	45,281	7,019	47,869	2,388
5121-Maintenance of Subtrans		0	10,834	10,834	12,003	1,169	11,980	(23)	13,042	1,062
5125-Maintenance of Overhead Conductors and Devices		119,353	151,279	31,926	131,592	(19,887)	162,406	30,814	170,116	7,710
5126-Maintenance of Overhead Subtrans		0	33,077	33,077	54,597	21,520	86,512	11,915	69,883	3,371
5130-Maintenance of Overhead Services		93,402	150,522	57,120	155,952	5,430	181,594	25,642	189,462	7,868
5135-Overhead Distribution Lines and Feeders - Right of Way		186,526	94,131	(92,395)	146,128	51,997	204,588	58,460	169,166	(35,422)
5145-Maintenance of Underground Conduit		778	21	(757)	21,141	21,120	22,548	1,407	23,054	506
5150-Maintenance of Underground Conductors and Devices		49,771	67,675	17,904	132,448	64,774	143,766	11,318	150,889	7,123
5151-Maintenance Emergencies		55,974	12,743	(43,231)	16,331	3,588	20,728	4,397	21,443	715
5155-Maintenance of Underground Services		0	46,848	46,848	50,744	3,896	56,898	6,154	59,881	2,983
5160-Maintenance of Line Transformers		36,031	17,826	(18,205)	50,399	32,573	91,046	40,647	62,609	(28,437)
5175-Maintenance of Meters		11,048	3,237	(7,811)	4,242	1,005	3,701	(541)	3,813	112
5195-Maintenance of Other Installations on Customer Premises		0	266	266	3,851	3,585	4,994	1,143	5,096	102
Sub-Total		667,983	740,507	72,525	926,058	185,551	1,135,835	209,777	1,111,632	(24,203)

OM&A Cost Table										
Expense Description	2006 Board Approved	2006 Actual	Variance From 2006 Board Approved	2007 Actual	Variance from 2006 Actual	2008 Bridge	Variance from 2007 Actual	2009 Test	Variance from 2008 Bridge	Ref
Billing and Collections										
5305-Supervision	0	0	0	0	0	0	0	0	0	
5310-Meter Reading Expense	103,121	115,615	12,493	132,170	16,555	129,563	(2,607)	132,554	2,991	
5315-Customer Billing	404,692	364,572	(40,110)	395,966	31,394	397,246	1,280	409,365	12,119	
5320-Collecting	299,130	292,756	(6,374)	329,920	37,165	332,891	2,771	345,711	13,020	
5325-Collecting: Cash Over and Short	29	169	140	32	(137)	12	(20)	50	38	
5335-Bad Debt Expense	36,000	(434,303)	(470,303)	48,263	482,566	59,480	10,217	59,660	1,170	
5340-Miscellaneous Customer Accounts Expenses	33,199	0	(33,199)	0	0	0	0	0	0	
5350-Retail Billing	0	28,602	28,602	29,365	763	26,781	(594)	30,725	1,944	
5380-Retail STR	0	3,640	3,640	1,988	(1,652)	2,059	71	2,119	60	
Sub-Total	876,162	371,051	(505,111)	937,705	566,654	948,832	11,127	980,174	31,342	
Community Relations										
5405-Supervision	70,453	34,719	(35,734)	38,239	3,521	39,613	1,374	40,800	1,187	
5410-Community Relations - Sundry	24,363	8,334	(16,029)	5,366	(2,376)	4,978	(378)	5,536	558	
5415-Energy Conservation	0	95,392	95,392	95,904	512	15,000	(80,904)	95,274	80,274	A
5420-Community Safety Program	4,637	7,274	2,637	5,783	(1,491)	7,290	1,507	6,500	(790)	
5425-Miscellaneous Customer Service and Informational Expenses	3,363	621	(2,762)	60	(541)	111	31	100	(11)	
5510-Demonstrating and Selling Expense	0	0	0	0	0	0	0	0	0	
5515-Advertising Expense	12,652	6,512	(6,140)	9,548	3,036	10,502	954	11,457	955	
5520-Miscellaneous Sales Expense	0	0	0	0	0	0	0	0	0	
Sub-Total	115,488	152,851	37,363	154,910	2,059	77,494	(77,416)	159,667	82,173	

OM&A Cost Table										
Expense Description	2006 Board Approved	2006 Actual	Variance from 2006 Board Approved	2007 Actual	Variance from 2006 Actual	2008 Bridge	Variance from 2007 Actual	2009 Test	Variance from 2008 Bridge	Ref
Administrative and General Expenses										
5505-Executive Salaries and Expenses	295,529	228,724	(66,805)	360,871	122,147	313,443	(37,428)	327,398	13,955	
5610-Management Salaries and Expenses	27,885	243,200	215,315	391,994	148,794	393,151	1,157	403,659	10,518	
5615-General Administrative Salaries and Expenses	216,398	318,886	102,488	286,255	(32,631)	273,349	(12,906)	283,123	9,774	
5620-Office Supplies and Expenses	250,595	0	(250,595)	0	0	0	0	0	0	
5625-Administrative Expense Transferred Credit	0	(168,039)	(168,039)	(153,081)	12,957	(194,884)	(41,803)	(215,178)	(20,294)	
5630-Outside Services Employed	222,022	204,046	(17,977)	145,522	(68,524)	135,000	(10,522)	146,700	11,700	
5635-Property Insurance	0	0	0	0	0	0	0	0	0	
5640-Injuries and Damages	1,069	0	(1,069)	0	0	0	0	0	0	
5645-Employee Pensions and Benefits	106,467	115,191	8,723	112,687	(2,504)	111,064	(1,623)	74,300	(36,764)	
5655-Regulatory Expenses	26,057	86,738	60,680	43,837	(42,900)	45,800	1,963	66,500	20,700	
5660-General Advertising Expenses	0	0	0	0	0	0	0	0	0	
5665-Miscellaneous General Expenses	139,035	90,965	(48,070)	91,966	1,001	102,054	10,088	108,070	6,016	
5675-Maintenance of General Plant	646	0	(646)	0	0	0	0	0	0	
5680-Electrical Safety Authority Fees	3,327	7,962	4,635	8,007	45	8,023	16	8,263	240	
Sub-Total	1,289,011	1,129,472	(159,539)	1,278,057	148,586	1,187,000	(91,057)	1,202,845	15,845	
Taxes Other Than Income Taxes										
6215-Penalties	159	4,519	4,360	0	(4,519)	0	0	0	0	
Sub-Total	159	4,519	4,360	0	(4,519)	0	0	0	0	
Total Operating, Maintenance and Administration Expenses	4,054,059	3,521,084	(532,975)	4,510,311	989,227	4,726,832	216,521	4,920,089	193,257	
Amortization Expenses										
5705-Amortization Expense - Property, Plant, and Equipment	1,230,920	1,542,164	311,245	1,634,333	92,169	1,718,187	83,854	1,717,160	(1,027)	B
Sub-Total	1,230,920	1,542,164	311,245	1,634,333	92,169	1,718,187	83,854	1,717,160	(1,027)	
Total Distribution Expense Before Income Taxes	5,284,979	5,063,248	(221,731)	6,144,644	61,446	6,445,019	61,446	6,637,249	66,372	
Variance Determined as 1% of Total Distribution Expense before Taxes	52,850	50,632	(2,218)	61,446	61,446	64,450	64,450	66,372	66,372	
Materiality		50,632								

VARIANCE ANALYSIS ON OM&A COSTS:

Welland Hydro has provided a detailed OM&A cost table covering the periods from 2006 Board Approved, 2006 Actual, 2007 Actual, 2008 Bridge Year and 2009 Test Year including the variances year over year in Exhibit 4, Tab 2, Schedule 2, above. Before moving to a variance analysis for each account that exceeds the materiality threshold, a summary of total OM&A expenses (excluding depreciation) is presented below along with an analysis of the total movement from 2006 Actual to 2009 Test Year.

Welland Hydro OM & A Analysis						
	2006 Board Approved	2006 Full Yr Actual	2007 Full Yr Actual	2008 Bridge Yr Forecast	2009 Test Yr Forecast	Increase From 2006 to 2009 \$ %
Actual OM & A Expenses	\$4,054,059	\$3,521,084	\$4,510,311	\$4,726,832	\$4,920,087	
Depreciation Adjustment	-220,964					
Bad Debt Adjustment		492,555				
Adjusted OM & A Expenses	\$3,833,095	\$4,013,639	\$4,510,311	\$4,726,832	\$4,920,087	
OM & A Wages & Benefits		\$2,366,991	\$2,783,103	\$3,035,991	\$3,183,558	\$816,567 34.5%
OM & A Expenses		1,646,648	1,727,208	1,690,841	1,736,529	89,881 5.5%
Adjusted OM & A Expenses		\$4,013,639	\$4,510,311	\$4,726,832	\$4,920,087	\$906,448 22.6%
Analysis of Increase in OM & A Wages & Benefits 2006 to 2009						
New Positions - Wages & Benefits						
Regulatory Analyst					\$109,053	4.6%
Conservation & Demand Analyst					80,274	3.4%
GIS Analyst					74,534	3.1%
2 Lineman					153,352	6.5%
Total New Positions - Wages & Benefits					\$417,213	17.6%
Decrease in Amounts Charged 3rd Party						
Decrease in Amounts Charged Associates					28,254	1.2%
Decrease in Amounts Charged to Capital					3,727	0.2%
Adjustment Retiree Benefit Costs 2009					23,667	1.0%
Adjustment 2006 Pension Costs					43,000	-1.8%
					55,539	2.3%
Total Increase Before Inflation					\$485,400	20.5%
Wages & Benefits Inflation					331,167	14.0%
Total Increase OM & A Wages & Benefits					\$816,567	34.5%

The 2006 Board Approved numbers must be adjusted to reflect that prior to 2006 part of the depreciation expense was charged directly to OM&A expenses. Adjusting for depreciation allows for better comparison of actual expenses from year to year. It also better explains the increases in depreciation which are exclusively related to capital spending. The 2006 Actual

1 expenditures need to be adjusted to reflect the abnormal recovery of a previously written off bad
2 debt. The adjustment brings bad debt expense up to actual write offs without the large recovery.
3 Since 2006 Actual OM&A expenses were in line with 2006 Board approved amounts when
4 inflation is taken into account, no analysis of this difference is being provided and emphasis will
5 be placed on the difference between 2006 Actual and 2009 Test Year expenditures.

6 As can be seen from the analysis above Welland Hydro is requesting an increase in OM&A
7 spending in 2009 of \$906,448 or 22.6% compared with 2006 Actual. This amount is broken into
8 \$816,567 (34.5%) for wages & benefits and \$89,881 (5.5%) for outside purchases. The increase
9 in outside purchases is partially attributed to costs associated with filing this Application.
10 Account 5655 Regulatory Expenses has been increased by \$20,000 to cover one third of
11 estimated intervenor and OEB charges of \$60,000. Account 5630 has been increased by \$10,000
12 to cover one third of estimated consulting costs of \$30,000. The balance of the increase of
13 \$59,881 (3.6%) represents approximately 1.2% per year. Given the fact that the increase in
14 outside purchase expenditures is relatively when inflation is taken into account, Welland Hydro
15 will focus on detailing the increase in wages and benefits.

16 The increase in wages and benefits has been broken down into increase in employees, adjustment
17 to accounts charged, and wage increases.

18 In 2006 Welland Hydro had 36 full time equivalent ("FTE") employees which are the same as
19 included in the 2006 Board Approved rates. Welland Hydro has had actual increases to
20 headcount in both 2007 and 2008 and plans further increases in 2009. Details of the increase in
21 the number of employees are provided in Exhibit 4, Tab 2, Schedule 6. The increase in
22 personnel accounts for \$417,213 (17.6%) or just over half of the total OM&A increase required.

23 The adjustments show actual decreases in labour charged to receivable accounts and capitalized
24 assets since 2006. The reduction in capitalized assets is mainly due to no longer capitalizing
25 improvements to software made by IT personnel. The adjustment for pension represents the
26 amount charged to Deferred Account 1508 between January and April 2006. Only eight months
27 of pension expense was charged to OM&A expense in 2006. A decrease in Retiree Benefit Costs

1 has been added to reflect the most recent actuarial evaluation. Adjustments account for \$68,187
2 (2.9%) of the total increase required.

3 Wage and Benefit increases account for \$331,167 or 14.0%. This equals approximately 4.5%
4 per year. Although the contract increases have been 3% per year during this time frame, there
5 are other items which account for the 1.5% balance. The number of linepersons on standby after
6 business hours and on weekends was increased from one to two late in 2007 for safety and
7 service reasons. The apprentice linepersons hired in 2007 and 2008 will receive increases as
8 they change class levels when their education and training are completed. Welland Hydro
9 concluded a Management Performance and Compensation study in 2006 in which pay levels for
10 salaried employees was compared to other LDCs in the province of Ontario with the help of an
11 outside consulting firm. The increases recommended by this study were phased in over the 2007
12 and 2008 years.

13 **Variance Analysis:**

14 As mentioned above, the variance that triggers the required analysis is \$50,632 representing 1%
15 of Welland Hydro's total distribution expenses before PILs and Interest Expense. Welland
16 Hydro has reviewed the variance of each OEB USoA account to determine where explanations
17 are necessary. An identification reference has been assigned for each variance exceeding the
18 threshold and an explanation of each variance is presented in the following section.

19 **2006 ACTUAL VERSUS 2006 BOARD APPROVED:**

20 **Ref A: 5130 Maintenance of Overhead Services**

21 Maintenance of Overhead Services costs increased by \$57,120 compared to 2006 Board
22 Approved amount. In 2006 Welland Hydro added a 20% overhead charge to direct labour to
23 cover Administration cost. This accounts for \$17,528 of the increase. Outside material costs
24 account for only \$24,395 of the total \$150,522 spent in 2006. The balance represents inside
25 labour and equipment charges which can vary from year to year based on the work necessary to
26 be completed in the year.

Ref B: 5135 Maintenance Overhead Distribution Lines and Feeders Right of Way

This account collects costs associated with the clearing of overhead distribution lines. The main expense involves tree trimming performed by both internal manpower and outside contractors. Welland Hydro's tree trimming is scheduled by designated areas in a revolving three year plan. As areas are not of equal size, costs can vary from year to year. The \$92,395 decrease in 2006 is offset by increases of \$51,997 in 2007 and \$58,460 in 2008.

Ref C: 5335 Billings and Collections Bad Debt Expense

The 2006 actual Bad Debt expense of (\$434,303) was the result of the recovery of an amount written off in previous years. The actual dollar value of the accounts written off was \$58,252.

Ref D: 5415 Community Relations Energy Conservation

This account records the cost of expenses approved as part of the Third Tranche Conservation and Demand program. An offsetting amount was recorded as income in 2006.

Ref E/F/G/H: 5605 Executive Salaries and Expenses, 5610 Management Salaries and Expenses, 5615 General Admin Salaries and Expenses, 5620 Office Supplies and Expenses

A change in accounting process was made part way through 2006 to better reflect actual cost within each classification. As a result, no charges were made to 5620 in 2006 and future years. A sub account for office supplies has been set up within each department to collect these costs. In order to compare costs between the 2006 Board Approved amounts and actual 2006 results, the total of all four accounts should be compared. Results are as follows:

	2006	2006
	<u>Board</u>	<u>Actual</u>
5605 Executive	\$295,529	\$228,724
5610 Management	27,885	243,200
5615 General Admin	216,388	318,686
5620 Office	<u>250,585</u>	<u>0</u>
Total Expenses	\$790,387	\$790,610

There was no increase in 2006 Actual versus 2006 Board Approved despite two years of inflation as the Director of Finance position was vacant for a period of approximately three months in 2006. This will have an effect on the comparison of 2006 Actual versus 2007 Actual detailed later in this section.

Ref I: 5625 Administrative Expenses Transferred Credit

Prior to the 2006 year there was no method of allocating Administrative and IT cost to operations, maintenance, third party billings, and capital accounts. As a result, an overhead is now being applied based on actual labour costs incurred which will increase costs in those areas and decrease the total overall amounts charged as Administrative Expense.

1 **Ref J: 5655 Regulatory Expenses**

2 Detailed expenses charged to this account are as follows:

3		2006	2006	
4		<u>Board</u>	<u>Actual</u>	<u>Variance</u>
5	OEB Assessment	\$25,257	\$34,134	\$8,877
6	OEB Annual Reg.	800	800	0
7	Write off Transition Costs	0	43,942	43,992
8	EDA Expense	<u>0</u>	<u>7,812</u>	<u>7,812</u>
9	Total Regulatory	\$26,057	\$86,738	\$60,680

10 The write off of Transition Costs is related to market opening and Welland Hydro's election to
11 recover 90% of costs in the Regulatory Asset rate rider instead of 100% which would have
12 required a detailed audit and a more complex proceeding. This is a one time expense. The EDA
13 costs were incorrectly charged to this account and should have been charged to 5630 Outside
14 Services as it represented the cost for the actuarial report on retiree benefit liabilities which is
15 performed every three years.

16 **Ref K: 5705 Amortization Expense**

17 Actual depreciation expense in 2006 was \$311,245 over the 2006 Board Approved levels. The
18 2006 Board Approved amount is based on 2004 Actual. In 2004, actual depreciation expense
19 was \$1,451,613 with \$220,694 of this amount being charged directly to operations, maintenance,
20 customer service, and administration accounts. This accounting procedure was changed in 2006
21 to charge all depreciation to account 5705 and not charge depreciation directly to other accounts.
22 The balance of the variance in depreciation expenses of \$90,551 relates to 2005 and 2006 actual
23 capital spending.

2007 ACTUAL VERSUS 2006 ACTUAL:

Ref A/B: 5025 Overhead Distribution Lines & Feeders-Supplies and Expenses,

5085 Miscellaneous Distribution Expenses

Expenses in account 5025 increased by \$106,816 while account 5085 decreased by \$104,826. An effort was made to try and reduce the amount charged as "Miscellaneous" to get a better understanding of where linepersons are spending their actual time.

Ref C: 5135 Overhead Distribution Lines & Feeders-Right of Way

As indicated in the analysis for 2006 Board Approved versus 2006 Actual, expenses for tree trimming vary from year to year based on the areas being cleared. The increase in both 2007 (\$51,997) and 2008 (58,460) offsets the decrease in 2006 Actual (\$92,395) compared to Board Approved. The actual expenditures for both 2007 and 2008 are consistent with Board Approved amounts (2004 expenses) when inflation is taken into account.

Ref D: 5150 Maintenance of Underground Conductors and Devices

Total expenses increased by \$64,774 in 2007 compared to 2006 Actual. Material costs increased by \$17,678 in 2007 as a result of a major repair required. Material costs for 2008 Bridge Year were reduced by \$5,802 compared to 2007 to reflect an average yearly amount over the two years.

Ref E: 5335 Bad Debt Expense

As indicated in the analysis of 2006 Board Approved versus 2006 Actual expenses, the 2006 Actual bad debt expenses were affected by the recovery of significant bad debt which had been expensed in previous years. The actual write off in 2006 of \$58,252 was decreased to \$48,263 in 2007. Both years remain over the Board approved level of \$36,000 and remain a concern for future years.

Ref F/G: 5605 Executive Salaries and Expenses, 5610 Management Salaries and Expenses

As indicated in the analysis of 2006 Board Approved to 2006 Actual a change in accounting procedures resulted in reclassification of labor expenses among accounts 5605, 5610, 5615, and 5620. The change was made part way through and once again the total cost for all of these accounts should be used for comparison.

	2006	2007
	<u>Actual</u>	<u>Actual</u>
5605 Executive	\$228,724	\$350,871
5610 Management	243,200	391,994
5615 General Admin	<u>318,686</u>	<u>286,265</u>
Total Expenses	\$790,610	\$1,029,130

The total expenses increased by \$238,510 from 2006 to 2007. The following breakdown provides details of the increase:

Addition of Regulatory Analyst	\$57,458	(Wages and Benefits)
Reduction in Capitalized Labor	34,364	(IT Labor and Benefits)
Full Year Effect 2006 Vacancy	26,680	(Wages and Benefits)
Vacation Payout	34,982	(Wages and Benefits)
Expenses	22,141	(Computer Support/Travel & Conference)
Finance Summer Student	6,886	
Pension Increase	18,329	(12 months OMERS vs. 8 months)
Wage and Benefits Increase	<u>37,670</u>	(\$20,016 Wages/\$17,654 Benefits)
	\$238,510	

1 The addition of the Regulatory analyst is detailed in Exhibit 4, Tab 2, Schedule 6. The decision
2 to not capitalize IT labor as in previous years is based on the fact that the work performed would
3 not extend the life of the current software and a possible change in financial software in the next
4 few years. The full year effect of the 2006 vacancy is related to the Director of Finance position.
5 As a result of the increased work load personnel were unable to take available vacation and were
6 given payment in lieu thereof.

7 This cost was not included in the 2008 Bridge Year or 2009 Test Year wages. The pension
8 increase is the result of no longer deferring actual premiums for OMERS effective May 1, 2006.

9 **Ref H: 5630 Outside Service Employed**

10 The Regulatory Analyst hired in 2007 was working on a contract basis during 2006 and the costs
11 were charged to account 5630. Since joining Welland Hydro staff in 2007 these costs have been
12 charged to account 5610 resulting in a decrease in Outside Service costs within account 5630.

13 **Ref I: 5705 Amortization Expense**

14 The increase in depreciation expense is related to the 2007 Capital Expenditures.

15 **2008 BRIDGE YEAR VERSUS 2007 ACTUAL:**

16 **Ref A: 5135 Overhead Distribution Lines & Feeders-Right of Way**

17 As indicated in the analysis for 2006 Board Approved versus 2006 Actual expenses, tree
18 trimming expenses vary from year to year based on the areas being cleared. The increase in both
19 2007 (\$51,997) and 2008 (\$58,460) offsets the decrease in 2006 Actual (\$92,395) compared to
20 Board Approved. The actual expenditures for both 2007 and 2008 are in line with Board
21 Approved amounts (2004 expenses) when inflation is taken into account.

Ref B: 5415 Energy Conservation

The 2006 and 2007 expenditures (excluding capital) for the Third Tranche Conservation and Demand Management were charged to account 5415. The expenditures related to the Third Tranche were spent prior to September 1, 2007. Welland Hydro has not asked for any additional related CDM spending. Welland Hydro is committed to supporting CDM within its service area and has budgeted \$15,000 in expenditures in 2008. The result is a reduction in spending of \$80,904 (\$95,904-\$15,000).

Ref C: 5705 Amortization Expense

The increase in depreciation expense is the result of 2008 Capital Expenditures.

2009 TEST YEAR VERSUS 2008 BRIDGE YEAR:

Ref A: 5415 Energy Conservation

As indicated in Exhibit 4, Tab 2, Schedule 6 the 2009 Test Year includes the addition of a Conservation and Demand Analyst at a total cost of \$80,274 for wages and benefits. The importance of and demands related to CDM require Welland Hydro to add this position. The implementation of time of use rates and smart meters will only add to the workload of current staff.

Ref B: 5705 Amortization Expense

The increase in depreciation expense is the result of 2009 Capital Expenditures.