# ONTARIO ENERGY BOARD

## STAFF SUBMISSION

## 2009 ELECTRICITY DISTRIBUTION RATES

## Centre Wellington Hydro Ltd.

## EB-2008-0225

**Feb 13, 2009**

## INTRODUCTION

Centre Wellington Hydro Ltd. (“Wellington”) is a licensed electricity distributor serving approximately 6,239 customers. Wellington filed its 2009 rebasing application (the “Application”) on August 18, 2008. Wellington requested approval of its proposed distribution rates and other charges effective May 1, 2009. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers’ Coalition (“VECC”), the School Energy Coalition (“SEC”), and the Association of Major Power Consumers in Ontario were granted intervenor status.

This submission reflects Board staff’s review of the pre-filed evidence and interrogatory responses made by Wellington, and is intended to assist the Board in evaluating Wellington’s application and in setting just and reasonable rates. Staff has determined that comments on the issues of Operations, Maintenance and Administration and Depreciation Expense are not necessary.

## THE APPLICATION

In the Application Wellington requested a revenue requirement of $2,916,601 to be recovered in rates effective May 1, 2009.

### Rate Base

Wellington is requesting approval of $8.8 million for the 2009 rate base. This amount is a 0.2% increase ($21,351) from Wellington’s 2007 actuals and a 2.4% increase ($210,340) from its 2006 actuals[1].

[1] Revised Exhibit 2/Tab 1/Schedule 2 – Page 1

## Capital Expenditures

### Background

Wellington has proposed 2009 capital expenditures of $815,600. This represents an increase of approximately 60% compared to the 2008 projected level of $512,600, and 2007 actual capital expenditures of $510,941.

### Discussion and Submission

Table 1 lists the percentage change of the capital expenditures from the 2007 actual to the 2009 Test year.

**Table 1**[2]

| | 2007 Actual | 2008 Bridge | 2009 Test |
|---|---|---|---|
| **Capital Expenditures** | $510,941 | $512,600 | $815,600 |
| **% change as compared to the prior year** | | 0.32% | 59.1% |

The largest increases are in the following categories:

**Table 2**

| Gross Capital Asset Account | 2008 Projected Additions | 2009 Projected Additions | Percentage increase over 2008 |
|---|---|---|---|
| 1830 – Poles, Towers & Fixtures | $ 70,700 | $ 110,500 | 56% |
| 1835 – Overhead Conductors & Devices | $ 82,300 | $ 136,300 | 66% |
| 1850 – Line Transformers | $ 147,000 | $ 306,000 | 108% |
| 1920 – Computer Equipment - Hardware | $ 13,000 | $ 29,000 | 123% |
| 1930 – Transportation Equipment | $ 0 | $ 45,000 | - |

A number of capital expenditures are related to reconstruction of power lines and these are reflected in Accounts 1830 and 1835. Wellington also intends to replace a pick up truck which gives rise to the expenditure of $45,000 related to transportation equipment.

[2] Based on Exhibit 2/Tab 3/Schedule 2

One area of concern is the large increase in expenditures related to line transformers. In response to Board Staff Supplementary Interrogatory Number 5, Wellington has indicated that of the $306,000 expenditure for purchase of line transformers, 24 transformers at a cost of $161,300 will be ordered to replace depleted stock and the remaining 26 transformers at a cost of $144,700 will be used as replacements or new installations.

Wellington has also indicated in the prefiled evidence that until about 2004/05 Wellington purchased surplus transformers from neighbouring utilities. However, this practice has become cost prohibitive because of the requirement to have test reports for each transformer, new or used. Consequently, Wellington's stock of padmount transformers was depleted and it is now building up an inventory of new transformers. In response to Board staff interrogatory number 22 Welland stated:

> It has been the Applicant's policy not to replace equipment until it is determined whether or not it is deemed necessary. Because of the instability of the industry the Applicant has held off purchasing replacement transformers until it was no longer an option. The transformers are required in order to meet the ongoing needs of our customers.

For Test Year 2009, Wellington has included in rate base 24 transformers at a cost of $161,300 that will be held as spare. Since Wellington purchased transformers from neighbouring utilities in prior years, historical information may not be available. It is also not clear whether the intended purchase of spare transformers exceeds Wellington's requirement during the multi-year IRM period. In such a case, Wellington will be earning a return on these spares when in fact some of them could be required far into the future.

It is not clear to Board staff that the transformers that will be held as spares are expected to be used by Wellington during their IRM period and staff notes that it would be of assistance if further clarity was provided on this issue.

## Payment in Lieu (PILs) of Taxes

## 1. Income Tax

### Discussion and Submission

In the prefiled evidence, Wellington claimed a Total PILs expense of $10,466. This amount was changed to $27,207 in the manager's summary attached to interrogatory responses. Wellington removed Donations, and Revenues and Expenses from Non-Utility Operations from the PILs calculations and also made some other adjustments that impacted the PILs payable amount. Wellington did provide an impact sheet and the resulting calculations but did not provide a schedule similar to that filed in the original Application. An excel spreadsheet was later filed at the request of Board staff[3].

Documents submitted by Wellington supporting their request for the revised PILs amount indicate that it used a total income tax rate of 22% in their calculation. Wellington referred to KPMG's assessment[4] that the income tax rate on interest income is 22% because interest income is supposed to be investment income. Wellington's argument was that its income was essentially interest income and the income tax rate should therefore be 22%.

In the supplemental round of interrogatories, Board Staff asked[5] Wellington to justify the 22% rate on account of the fact that municipalities are not taxable and do not pay taxes on dividends received from the utilities they own. In its response, Wellington emphasized that it is treated as a Canadian-controlled private corporation or "CCPC" for tax purposes. When CCPC's earn investment income, such as interest, the amount earned is subject to tax at a higher rate than that applicable to regular business income. At the present time investment income earned by a CCPC is subject to tax at a rate of 48.7%. However, of this tax, 26.67% is added to Wellington's Refundable Dividend Tax on Hand ("RDTOH") account. When taxable dividends are paid out to shareholders, a dividend refund equal to the lesser of one-third of the dividend paid and the balance in the RDTOH account is

[3] Filed on February 3, 2009
[4] Documents filed by Wellington on January 15, 2009
[5] Board Staff Supplemental IR No. 7

refunded to Wellington. Wellington provided the following calculation to derive the income tax rate used in its PILs calculation:

| | |
|---|---|
| Federal Investment Income Rate | 34.7% |
| Provincial Investment Income Rate | 14.0% |
| Subtotal | 48.7% |
| Less: RDTOH | 26.67% |
| Investment Income Rate | 22% |

Board staff submit that Wellington's argument is focused on calculating the tax rate for actual income tax purposes. The arguments of Wellington are valid for tax filing purposes; but calculating regulatory PILs taxes to be included in rates is a regulatory concept based on guidelines which are established by the Board.

The Board's guidelines are based on the concept that benefits follow costs. Ratepayers do not gain any benefit when a dividend is paid to the municipality. When a dividend is paid to the municipality, it will pay no tax but the utility will be able to deduct the dividend refund on its tax return.

The higher tax rate on investment income is calculated on page 7 of the T2 return. It relates to a section called "Refundable dividend tax on hand" on page 6. This tax is refundable when a dividend is paid. The idea is to make the tax payable by the shareholder when dividends are received. And dividends are taxed at a lower level than interest. Since municipalities are not taxable, the whole income tax integration issue is moot.

The taxes paid would also be impacted based on when the dividend is paid out. If the LDC pays the appropriate dividend in the same year as the investment income is earned, there would be no impact in the tax return. Wellington and its shareholder(s) decide what the dividend policy will be. The ratepayers and the Board have no say in the determination of the dividend policy unless it would render the LDC no longer financially viable.

Moreover, dividends are not considered in the Board's rate-making framework. Dividends, refundable dividend tax on hand, dividend refund, etc. are specific to the shareholder. Ratepayers do not benefit, therefore, they should not bear the cost of a higher tax rate.

Board staff submit that the appropriate regulatory income tax rate for Wellington on a standalone basis is 16.5% based on the evidence submitted in the application.

## 2. Capital Tax

### Discussion and Submission

Wellington has used a capital tax rate of 0.285% to determine the Ontario Capital Tax in its PILs calculation for 2009. Board staff submit that the appropriate rate to calculate the Ontario Capital Tax as of January 1, 2009 is 0.225%. This reduces the Ontario Capital Tax payable from $2,839 to $2,242.

### Submission

Board staff submit that the total PILs amount payable is $19,309 using the appropriate regulatory income tax rate and the Ontario Capital Tax rate consistent with the Board’s regulatory principles and methodology.

## Cost of Debt

### Background

Wellington has provided its proposed Cost of Capital in Exhibit 6. The following table summarizes its proposals in this area:

**Table 3**

| Cost of Capital Parameter | Wellington's Proposal |
|---|---|
| Capital Structure | Requesting Board approval of a capital structure of 56.67% debt and 43.33% equity. This is to comply with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006 (the "Board Report"). |
| Short-Term Debt | Requesting a 4% short-term debt component with a rate of 4.47% in accordance with the letter from the Board of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications, consistent with the Board's Report |
| Long-Term Debt | Proposing a long term debt rate for 2009 of 7.25% |
| Return on Equity | Proposing a return on equity rate for the 2009 Test year of 8.57% in accordance with the Board's letter of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications consistent with the Board's Report. |

## Discussion and Submission

### Capital Structure

Wellington states that it has a current (2008) capital structure of 53.3% debt and 46.7% equity and is requesting Board approval of a capital structure of 56.67% debt and 43.33% equity. It is requesting this change primarily to comply with the Board Report which requires all licensed Ontario electricity distributors to move toward a 60% debt and 40% equity ratio. Wellington believes the requested capital structure and the proposed cost of capital will continue to provide appropriate financing of the utility's capital and operating plans at reasonable rates.

Board staff notes that Wellington's proposal appears to be consistent with the Board Report.

### Short Term Debt

Wellington has included a 4% short-term debt component as part of its proposed capital structure and is proposing a short-term debt rate for the 2009 Test year of 4.47% in accordance with the letter from the Board of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications, consistent with the Board Report.

The Board will update the short-term debt rate in early 2009 for rates effective May 1, 2009. Wellington has not indicated whether it has adopted the short term debt rate without prejudice to any revised rate that may be adopted by the Board in early 2009.

Board staff invite Wellington to indicate to the Board whether it has adopted the short term debt rate without prejudice to any revised rate that may be adopted by the Board in early 2009.

**Long Term Debt**

Wellington has proposed a long term debt cost of 7.25% for 2009. The Promissory Note (the “Note”) is for an amount of $5.05 million due to the Township of Wellington.

In its prefiled evidence, Wellington noted that the Board has determined “that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated”. Wellington claims that these specific directions and policy conclusions from the Board’s Cost of Capital Report (pp. 12-13) support the continued use of the 7.25% proposed in the current proceeding. Wellington further indicated that the 7.25% rate was reconfirmed by the Board as an appropriate long term debt rate in the Applicant’s 2006 EDR case.

Board staff asked for a copy of the Note and questioned the use of a long term debt rate that was higher than that proposed under the Board’s Cost of Capital Report.

In Response to Interrogatories, Wellington indicated that the Note has not been revised or amended since it was issued in November 2000 as long-term debt. Wellington further noted that there is no intention on the part of either party to change the current arrangements since they were put in place to provide long-term financial certainty on flexible terms that will benefit Wellington and its ratepayers.

Wellington also confirmed that under the terms of the Note it can repay all or part of the principal without notice or bonus if it is not in default on its interest payments, but despite the inclusion of this term and a similar capability for the Township there is no intention on the part of either party to change the rate or the long-term nature of the Note. The mutual expectation of Wellington and the Township was that the Note would remain in place to finance the assets of Wellington at a long-term market rate approved by the Board.

Wellington further noted that the fixed interest rate was established at the time of incorporation when the deemed debt rate was 7.25%. The fixed rate of 7.25% was agreed upon (using the OEB guideline) in order to provide both Wellington and the Township of Wellington with a predetermined rate of interest and for the shareholder a known consistent revenue stream.

Wellington further added that there are no restrictive covenants associated with the Note relating to operations, capital spending or financing and Wellington has benefited from being able to phase in the interest payments. The Note does not require Wellington to pay back the principal or expose the utility to a refinancing risk as the Township has confirmed its intention to continue to provide the required long-term financing under the current terms. Wellington claims that the financing arrangements between Wellington and the Township are designed to benefit the ratepayer while ensuring a fair return to the shareholder.

Board staff invites parties to the proceeding to comment upon whether or not they view Wellington's proposed 7.25% long term debt rate to be appropriate.

**Common Equity**

Wellington is proposing a return on equity ("ROE") rate for the 2009 Test year of 8.57%, in accordance with the Board's letter of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications, consistent with the Board's Report. Wellington has confirmed that its use of an ROE of 8.57% is without prejudice to any revised ROE that may be adopted by the Board in early 2009.

Board staff notes that Wellington's proposal appears to be consistent with the Board Report.

## Smart Meters

### Background

In the prefiled evidence, Wellington indicated that it is waiting to be included in the provincial regulations to allow proceeding with the purchase and installation of smart meters. Accordingly, it requested continuation with the previously approved smart meter rate adder of $0.27/mth per metered customer. However, in the Manager's Summary attached to interrogatory responses, Wellington requested an increase to the rate adder claiming that it has received authorization to begin Smart Meter deployment and it intends to begin by the middle of 2009. Accordingly, the utility has requested a $1.00 per month per metered customer rate adder based on the October 22, 2008 Board Guideline on Smart Meter Funding and Cost Recovery.

Wellington estimates installing 6,169 meters in the 2009 Test Year. These meters have a capital cost of $1.3 million or $215.25 per smart meter as well as 2009 OM&A costs of $145,189. These costs are based on the London Hydro Request for Proposal and internal estimates of installation, AMI, computer hardware and software requirements. Wellington is expected to complete installation of all smart meters by December 2009.

Wellington has confirmed that its Smart Meter Plan does not include costs to support functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 and has not incurred or expects to incur any costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

### Discussion and Submission

In Board staff supplementary interrogatory number 7 Wellington was asked to complete a table providing information on its smart meter program. Wellington in its response noted annual estimated OM&A costs for 2009, 2010 and 2011 to be $160,662, $187,431 and $158,918 respectively. However, in the Manager's Summary, Wellington noted an amount of $145,189 as OM&A costs for 2009.

Board staff submits that it would be helpful for the Board to have clarification on the above noted variance and the discrepancy in the 2009 OM & A costs.

## Line Losses

### *Background*

Wellington is an embedded distributor of Hydro One, with three meter points. Of these meter points, two are owned by Hydro One Networks Inc. ("Hydro One") resulting in an uplift charge equivalent to 1.0340, and the third meter point, located at the Fergus transformer station, solely meters the Town of Fergus. Centre Wellington owns the 44kV line within the licensed service area of the Town of Fergus, which results in a lower uplift charge of 1.0063 associated with the third meter point.[6]

In its original application, Wellington requested a Distribution Loss Factor ("DLF") of 1.0370. Wellington's actual DLF varied over the 5-yr period from 2003 to 2007, and is shown in table 4 below:

**Table 4**

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | three-year average (2005-2007) |
|---|---|---|---|---|---|---|
| Actual DLF | 1.0606 | 1.1067 | 1.0447 | 1.0288 | 1.0376 | **1.0370** |

In response to an interrogatory, Wellington revised its DLF values.[7] The new DLF values are presented in table 5 below:

[6] Board staff interrogatory number 12
[7] Response to Board staff interrogatory number 13

**Table 5**

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | three-year average (2005-2007) |
|---|---|---|---|---|---|---|
| Actual DLF | 1.0369 | 1.0360 | 1.0335 | 1.0291 | 1.0308 | **1.0308** |

Wellington revised its requested DLF to 1.0308. Due to the changes in DLF, Wellington revised its Total Loss Factor ("TLF") for 2009, from 1.0681 to 1.0449.[8]

### *Discussion and submission*

Board staff notes that Wellington's determination of DLF and TLF is based on a 3-year average. Board staff notes that the use of a 5-year average would result in similar DLF and TLF values.

Board staff submits that Wellington's proposed DLF of 1.0308 and proposed TLF of 1.0449 are consistent with other partially embedded distributors of similar size and profile.

## Cost Allocation and Rate Design

### Low Voltage Costs

### *Background*

In its original filing, Wellington requested Low Voltage ("LV") costs of $91,000. These LV charges did not take into account consideration of Hydro One's proposed rate changes.[9]

Wellington's proposal is to allocate LV costs to the customer classes on the basis of the Transmission Connection component of the Retail Transmission Service

[8] Exhibit 4, Tab 2, Schedule 8 (Revised)
[9] Exhibit 5, Tab 1, Schedule 2

("RTS") rates. Wellington indicated that LV costs would be allocated on the basis of 2009 normalized kWh load.

### *Discussion and Submission*

Staff notes that two events have occurred subsequent to the second round of interrogatories that affect the cost forecast. The final Hydro One LV rates were approved on January 28, 2009, and are lower than the interim rates. Second, Hydro One has applied for new rates to take effect May 1, 2009 (EB-2008-0187). Staff submits that Wellington should assume that the latter rates will determine its costs in 2009 and that Wellington may wish to provide an update to its LV cost forecast in its reply submission.

In its response to VECC supplementary interrogatory number 47, Wellington proposed to allocate the LV costs to classes on the basis of actual Billed-LV (Account 4750) from Hydro One. Wellington advised that using kWh would not result in refunding the overpayment on the same basis on which it was charged to the customer. Wellington further stated that LV costs would be allocated on the basis of 2009 normalized kWh load.

Staff submits that as a future test year cost of service application, Wellington is properly assigning LV charges based on 2009 figures.

## Retail Transmission Service Rates

### *Background*

In the Application Wellington filed information regarding transmission costs.[10] Wellington indicated that its proposed 2009 retail transmission service ("RTS") rates are designed to more accurately reflect the costs of these services from Hydro One. Wellington indicated that the large credit balance in the connection deferral variance account (Account 1586) was the cause for the request to dispose of the balances in two accounts (Account 1584 and 1586) in this rate application.

[10] Exhibit 4, Tab 2, Schedule 11

The response to Board staff interrogatory number 2 includes a new calculation of RTS rates that reflects the Uniform Transmission Rates (wholesale) that came into effect January 1, 2009. Wellington's proposed RTS rates match the change in the wholesale rates.

As part of the response to Board staff interrogatory number 2, Wellington indicated that its analysis determined that if the Transmission Connection and Network charges are not adjusted, the Deferral Variance account balances will continue to grow. Wellington noted that it had considered this in its original application, and provided a further update to take into consideration the growing balances.

**Discussion and Submission**

The Board's guidelines on RTS rates states, "The pattern over time of the amounts being recorded in these accounts can guide the distributor as to what adjustments may be needed to maintain the balance of the deferral accounts at a reasonable level."[11] Staff notes that the balances are positive $14,278 in account 1584 and negative $733,449 in account 1586. These accounts reflect historic disparities in the Network and Connection rates respectively. The amounts are the balances as of December 31, 2007 plus interest to April 30, 2009.

Staff submits that the response provided by Wellington at Board staff interrogatory number 2 takes into account the update to Hydro One's Uniform Transmission Rates, and the trend analysis provided by Wellington addresses the concern regarding the growing credit balance in account 1586. Staff submits that the updated RTS rates are designed to collect the associated revenues appropriately.

**Revenue to Cost Ratios**

***Background***

The revenue to cost ratios for each class from the informational filing appear in column 3 in Table 6 below.[12]

[11] Page 3, second paragraph
[12] Table reproduced from Response to Board staff interrogatory number 4

Wellington's application involves a re-balancing of class revenues to better reflect the results of the cost allocation model. The proposed revenue to cost ("R/C") ratios are shown in the second column.

For convenience, the Board's Cost Allocation Report target range for each class is shown in column 2, which are based on the Board Report.[13]

**Table 6 – Response to Board Staff Interrogatory #4**

| Customer Class | CA Report[14] Range | CA Info. Filing | 2009 Rate Application, as requested | 2010 IRM | 2011 IRM |
|---|---|---|---|---|---|
| | | | | | |
| Residential | 85-115 | 106.51 | 103.00 | | |
| GS < 50 | 80-120 | 109.71 | 106.62 | | |
| GS > 50 kW – regular | 80-120 | 114.91 | 112.82 | | |
| GS > 50 kW - intermediate | 85-115 | 65.07 | 87.20 | | |
| Street Lighting | 70-120 | 8.72 | 40.47 | 55.23 | 70.00 |
| Sentinel Lighting | 70-120 | 16.01 | 45.23 | 57.61 | 70.00 |
| USL | 80-120 | 138.26 | 112.08 | | |

**Discussion and Submission**

Board staff notes that the proposed ratios are within the Board's range for all classes except Street Lighting and Sentinel Lighting, and that the changes proposed are in-line with the Board's policy, insofar as they move the ratios closer to unity in all instances.

[13] *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667

[14] Report of the Board, *Application of Cost Allocation for Electricity Distributors,* November 28, 2007

The proposed R/C ratio for Street Lighting is at the midpoint between the status quo and the lower boundary of the Board's policy range. A number of recent decisions have found this ratio to be acceptable in this type of situation. Many of those decisions have gone on to require that the revenue re-balancing continue in subsequent years, culminating in a ratio that would be in the policy range before the expected next cost of service application.

In response to Board staff interrogatory number 4(b) Wellington provided assurance that it will reach the lower boundary of the policy range by 2011 for Street and Sentinel Lighting. In many recent decisions, LDCs have been required to meet the lower boundary of the target range in the year subsequent to the approved rate year. In the case of Wellington, this would constitute a minimum of a 70% R/C ratio for both Street and Sentinel Lighting by the 2010 rate year. Staff submits that Wellington should be required to reach 70%, the lower boundary for revenue-to-cost ratio, for Street and Sentinel Lighting in the 2010 rate year, rather than the 2011 rate year as Wellington has proposed.

## Deferral and Variance Accounts

### Accounts requested for disposition by Wellington

***Background***

Wellington is requesting clearance of the accounts in the table below.[15] The balances for disposition as of April 30, 2009 have since been updated as per the revised continuity schedule, Schedule #2 to Responses to Supplemental Board Staff Interrogatories. The Balances provided below include December 31, 2007 balances with interest forecasted up to April 30, 2009:

| Account Number | Account Description | Balance |
|---|---|---|
| | | |
| 1508 | Other Regulatory Assets | $90,549 |
| 1550 | LV Variance Account | ($106,720) |
| 1584 | 1584 RSVA – Retail Transmission Network Charges | $14,278 |
| 1586 | 1586 RSVA – Retail Transmission Network Charges | ($733,449) |
| | Total | ($735,342) |

[15] Exhibit 5, Tab 1, Schedule 2

The Applicant's proposal is to collect these amounts from rate payers over three years beginning May 1, 2009 via rate riders. It is proposed that the three year rate rider be a variable rate rider.

### *Discussion and Submission*

Wellington is aware that the Board is proposing to deal with RSVA and RCVA balances through a separate process from the Cost of Service applications, however Wellington has argued that it is in the best interest of its customers to dispose of the Retail Transmission Accounts, and account 1586 in particular, due to a significant credit balance. Board staff submits that this request is consistent with similar requests granted in prior years. Board staff submits that the Board should consider allowing Wellington's request to clear these accounts. Staff has further comments on other accounts which may be considered for disposition.

## Accounts not requested for disposition by Wellington

### *Background*

A list of all deferral and variance accounts is reproduced from the continuity schedule filed by Wellington.[16] There are a number of accounts which staff submits the Board may wish to consider for disposition (Table 7) and a number of accounts which staff submits should not be considered for disposition (Table 8).

**Table 7 – Deferral and Variance Accounts**
**To be considered for disposition**

| Account Number | Account Description | Balance |
|---|---|---|
| | | |
| 1508 | Other Regulatory Assets – Sub-Account – OEB Cost Assessments | $17,552 |
| 1508 | Other Regulatory Assets – Sub-Account – Pension Contributions | $72,997 |
| 1518 | Retail Cost Variance Account – Retail | $58,239 |
| 1548 | Retail Cost Variance Account – STR | $1,552 |
| 1550 | Low Voltage Variance Account | $(106,720) |
| 1580 | RSVA – Wholesale Market Service Charge | $(309,874) |
| 1582 | RSVA – One-time Wholesale Market Service | $21,142 |

[16] See Schedule #2, Responses to Board staff supplemental interrogatories.

| | | |
|---|---|---|
| 1584 | RSVA – Retail Transmission Network Charge | $14,278 |
| 1586 | RSVA – Retail Transmission Connection Charge | $(733,449) |
| 1588 | RSVA – Power (including Global Adjustment) | $(149,905) |
| | | |
| | Subtotal | $(1,114,188) |

**Table 8 – Deferral and Variance Accounts**
**Not to be considered for disposition**

| Account Number | Account Description | Balance |
|---|---|---|
| | | |
| 1555 | Smart Meter Capital and Recovery Offset | $(61,838) |
| 1556 | Smart Meter Operation, Maintenance, and Administration | $26,890 |
| 1562 | Deferred Payments in Lieu of Taxes ("PILs") | $52,629 |
| 1563 | Deferred PILs Contra Account | $(52,629) |
| 1565 | CDM Expenditures and Recoveries | $118,994 |
| 1566 | CDM Contra Account | $(118,994) |
| 1590 | Recovery of Regulatory Asset Balances | $62,396 |
| | Subtotal | $27,448 |
| | | |
| | Grand Total | $(1,086,740) |

***Discussion and Submission***

**To be considered for disposition (Table 7)**

Staff notes that the credit balance submitted for these accounts (RSVA, RCVA, low voltage, and certain non-RSVA variance accounts) is approximately 41% of the proposed revenue requirement for 2009.[17] Staff submits that the Board may wish to consider disposing of these balances at this time rather than waiting for the separate initiative that the Board will undertake for the review of the commodity account 1588 (RSVA-Power) and other related RSVA and RCVA accounts. The rules or guidelines with respect to that process are not yet known. Although it has been the Board's practice not to dispose of RSVA and RCVA accounts until such time as the initiative noted above is established, the Board may wish to consider

[17] Centre Wellington originally requested to dispose only accounts 1508, 1550, 1584, and 1586, and over a period of three years. Given a similar three year recovery, the resulting amount as a portion of revenue requirement becomes 15% of revenue requirement per annum.

disposition at this time as it has done in previous applications where certain LDCs were carrying large balances.[18]

These accounts, which include the accounts already requested for disposition by Wellington, total a credit balance of $1,114,188.
Staff submits that Wellington should submit an updated table of proposed rate riders reflecting the accounts included in Table 7 to be considered for disposition. [19]

**Not to be considered for disposition (Table 8)**

These accounts, which may be reviewed by separate independent Board processes, have a total debit balance of $27,448. Board staff submits that these accounts should not be disposed of in this proceeding.

**Specific Adjustments to Account 1508 – Other Regulatory Assets**

***Background***

In response to Board Staff supplemental interrogatories number 2 and number 3, Wellington made adjustments to account 1508, Other Regulatory Assets, sub account OMERS and sub account OEB Cost Assessment, which Wellington had omitted from its original application. The adjustments were reflected in the continuity schedule in the column, “Adjustments during 2005 – other” and “Adjustments during 2006 – other”. The net effect of the two adjustments on the debit balance for 2009 in non-RSVA accounts is an increase of $22,028.

***Discussion and Submission***

In respect of Wellington’s adjustments to account 1508 as a result of OMERS and OEB Cost Assessment amounts, staff submits that these adjustments related to balances subsequent to the balances approved in 2006 EDR, and the adjustments should not be considered out-of-period. Staff submits that the dollar amounts involved are small and agrees with this balance. Wellington did not file an updated table of proposed rate riders when it updated balances in account 1508 requested

[18] Decision for Hydro 2000 – EB-2007-0704, page 10
[19] Similar to the table provided in the August 15, 2008 filing at Exhibit 5/Tab 1/Schedule 4.

for disposition.[20] Staff submits that Wellington should submit an updated table of proposed rate riders reflecting the changes.

- All of which is respectfully Submitted -

[20] A table of proposed rate riders, similar to that outlined at response to Board Staff Interrogatory No. 10, which reconciles the December 15, 2008 continuity schedule would be beneficial. The original table is found at Exhibit 5, Tab 1, Schedule 4, Table 3, “Proposed Rate Riders.”