

MANAGER'S SUMMARY

Revisions to West Coast Huron Energy Inc. 2006 Electricity Distribution Rate Application

RP-2005-0020 / EB-2005-0431

MAY 31, 2006

Pursuant to the Ontario Energy Board's (the "OEB's") Decision with Reasons in the matter between Sifto Canada Inc. and West Coast Huron Energy Inc. ("WCHE") – Board File No. EB-2004-0513 – the following changes have been made to WCHE's 2006 Rate Application.

Adjustments to the EDR Model.

Distribution Revenue Adjustment of \$142,476 found by the OEB (at p.13 of its Decision of April 20, 2006) to be necessary to correct, on a going forward basis, the historical overpayment by Sifto in the Large User class. The methodology for this adjustment arises out of discussions with OEB Staff on Monday May 1, 2006.

Table A - Distribution Revenue for Large User Class (Sifto) is reduced by \$142,476 and Distribution Revenues to all other customer classes is increased by the same amount and distributed proportionally using the average Distribution Revenues from the EDR Model, sheet 7-1 column AK.

Table A

Average Data by Class (From EDR Model 7-1)	kW	kWh	Number of Customers (Connections)	Distribution Revenues	Amount to be Allocated
Residential Class		27,302,454	3,214	\$ 683,400	\$ 68,519.82
General Service < 50 KW Class		15,808,273	496	\$ 250,721	\$ 25,138.07
General Service > 50 KW Non-Time of Use	79,207	22,642,985	43	\$ 261,989	\$ 26,267.83
General Service > 50 KW Time of Use	40,273	17,730,678	4	\$ 202,701	\$ 20,323.43
Intermediate Use	0	0	0	\$ -	
Large User Class	126,126	63,184,213	1	\$ 339,295	\$(142,476.00)
Small Scattered Loads		156,531	9	\$ 3,983	\$ 399.35
Sentinel Lights	66	20,456	13	\$ 1,036	\$ 103.87
Street Lighting	2,944	901,277	1,334	\$ 17,191	\$ 1,723.62
TOTALS				\$ 1,760,316	\$ (0.00)

Transformer Allowance				\$ (124,726)	
TOTALS	248,616	147,746,867	5,114	\$ 1,635,590	
From EDR Model Sheet 7-1	Row	M	S	H	AK

Table B - Using the Variable and Fixed Revenue splits (%) from the EDR Model, columns AF-AG, determine the amounts to be allocated to fixed and variable rates.

Using the average consumptions (Table A) from the EDR Model sheet 7-1 columns M and S determine changes to the variable rates, and using the number of customers (Table A) from EDR Model sheet 7-1 column H determine changes to the fixed rates.

Table B

	Variable Rate %	Fixed Rate %	Change in Variable Rate	Change In Fixed Rate	Amount to be Allocated
Residential Class	30.00	70.00	0.0008	\$ 1.24	\$ 68,519.82
General Service < 50 KW Class	29.34	70.66	0.0005	\$ 2.98	\$ 25,138.07
General Service > 50 KW Non-Time of Use	28.98	71.02	0.0961	\$ 36.15	\$ 26,267.83
General Service > 50 KW Time of Use	26.22	73.78	0.1323	\$ 312.39	\$ 20,323.43
Intermediate Use					
Large User Class	36.44	63.56	-0.4116	\$ (7,546.48)	\$(142,476.00)
Unmetered Scattered Loads	18.48	81.52	0.0005	\$ 3.01	\$ 399.35
Sentinel Lights	24.02	75.98	0.3780	\$ 0.51	\$ 103.87
Street Lighting	40.77	59.23	0.2387	\$ 0.06	\$ 1,723.62
TOTAL					\$ (0.00)
From EDR Model Sheet 7-1	Row	AF	AG		

The changes in the Variable and Fixed Rates, above, are added to the EDR Model sheet 8-5 rows R, S and T, as applicable, to override the calculated rates.

Issue. The new rates for the Large User class are \$10,424.51 per month and \$0.5687 per kW while the Transformer Allowance is \$0.60 per kW resulting in a negative annual Variable Distribution Revenue of \$3,947.74.

Pursuant to discussions with Board Staff on Tuesday May 2, 2006 the following adjustments were made.

Table C – An adjustment to increase the Variable Distribution Rate for the Large User by \$0.18 is made and, for Distribution Revenue

neutrality, the monthly Fixed Rate is reduced by \$1,891.89 (\$0.18 times 126,126 kW equals \$22,702.68 divide by 12 equals \$1,891.89 per month).

Table C

Mitigation for Transformer Allowance	Variable Rate	Fixed Rate	Distribution Revenue
Original Rates	\$ 0.9803	\$ 17,970.99	\$ 339,295.00
Large User Class Adjustment (Table B)	\$ (0.4116)	\$ (7,546.48)	\$ (142,476.00)
New Rates following adjustments	\$ 0.5687	\$ 10,424.51	\$ 196,819.00
Mitigation for Transformer Allowance	\$ 0.18	\$ (1,891.89)	\$ 0.00
New Large User Class Rates (Sifto)	\$ 0.7487	\$ 8,532.62	196,819.00

Pursuant to the Board's Decision with Reasons WCHE owes Sifto the total of \$978,690 plus GST and 5% interest totaling \$1,093,132.

Of this total the Power Factor Penalty amount of \$277,483 and the Diversity Credit amount of \$163,284 total \$440,767. Using the same GST and interest factors, as above, the total of \$492,308 is owed and payable to Sifto.

No adjustment has been made to the 2006 EDR model for changes in PILs as a result of the OEB ruling.

The OEB ruling indicates that the WCHE's distribution revenues were overstated by the amount of the power factor penalty double count and the diversity credit error. As a result, the corresponding PILs that the utility has paid have been overstated by a proportional amount.

The utility will make the adjustments as a result of the OEB ruling prospectively on the 2005 financial statements. The result will be a large net loss in the 2005 fiscal year and a corresponding loss for PILs purposes. The utility will then carryback the 2005 PILs loss to the previous periods resulting in a refund of PILs paid in prior years. Effectively, the loss will eliminate all of the PILs taxes paid prior to 2005.

The remaining \$600,824 (\$1,093,132 - \$492,308) is reduced by the GST amount of \$37,655 to \$563,169. Pursuant to discussions with OEB Staff on Monday May 1, 2006, the amount of \$563,169 is to be refunded to Sifto through the Regulatory Asset Model, account number 1508 (Other Regulatory Assets). This amount before interest and GST was determined to be \$125,979 (23.42%) attributable to Cost of Power and \$411,943 (76.58%) attributable to Distribution Revenue (from Sifto's calculation of claim). The amount of \$563,169 will be allocated on a prorated basis to all customer classes,

including the Large User class, by the kWh consumption (23.42% = \$131,894) and by the adjusted Distribution Revenues (76.58% = \$431,275) for each class.

Table D – The Distribution Revenue % split and the Cost of Power % split is applied to each of the amounts, \$431,275 and \$131,894, proportionately to determine the amounts allocated to each class, including Large User.

The appropriate amounts have been entered into the Regulatory Asset Model on sheet #2 in the appropriate class.

Table D

Regulatory Asset A/C # 1508	New Distribution Revenue	Distribution \$431,275 %	kWh Consumption	COP \$131,894 %	Total Allocation to Reg. Assets
Residential Class	\$ 751,920	42.72%	27,302,454	18.48%	\$ 208,592
General Service < 50 KW Class	\$ 275,859	15.67%	15,808,273	10.70%	\$ 81,697
General Service > 50 KW Non-TOU	\$ 288,257	16.38%	22,642,985	15.33%	\$ 90,836
General Service > 50 KW -TOU	\$ 223,024	12.67%	17,730,678	12.00%	\$ 70,469
Large User Class	\$ 196,819	11.18%	63,184,213	42.77%	\$ 104,625
Small Scattered Loads	\$ 4,382	0.25%	156,531	0.11%	\$ 1,213
Sentinel Lights	\$ 1,140	0.06%	20,456	0.01%	\$ 298
Street Lighting	\$ 18,915	1.07%	901,277	0.61%	\$ 5,439
TOTAL	\$1,760,316	100.00%	147,746,867	100%	\$ 563,169
Transformer Allowance	\$ (124,726)				
TOTAL	\$ 1,635,590				

Part of the Power Factor Penalty (double count) charged to Sifto was erroneously recorded from May 2002 through to December 2004 in the RSVA account 1584, Transmission Network Service Charge, \$47,310.03, as a credit, with interest of \$4,065.58 and account 1586, Transmission Connection Charge, \$42,689.77, as a credit, with interest of \$3,744.08.

These have been corrected and as required by the OEB, supplementary disclosures from WCHE's Auditor and its President are attached.

WCHE has incurred Legal and Other Costs to April 30, 2006 of \$225,791 plus the costs awarded to Sifto for the Motion that was the subject of the Decision of April 20, 2006. Those costs have not yet been determined by the OEB. Sifto has claimed the sum of \$116,815.71 for the motion commenced in late 2004, once Sifto received the Minister of Energy's authorization to bring the Motion. The Board of Directors and senior management of WCHE have carefully analyzed the submissions made by Sifto in respect of its entire claim for costs in this proceeding. Under separate cover from its counsel, WCHE has submitted that the Sifto cost award should be reduced to \$76,361.40, this

being the amount of Sifto's costs from the date of the Minister of Energy's authorization to bring the Motion in November 2004 through the final submissions, calculated in accordance with the OEB's tariffs as set out in its Practice Direction on Cost Awards. The relevance of the cost award to WCHE's 2006 distribution rate application is discussed below. If the amount awarded to Sifto in costs differs from \$76,361.40, WCHE will be requesting a further adjustment to its 2006 revenue requirement and rates, and submits that such an adjustment would be appropriate in the circumstances of this application.

The OEB determined (at p.13 of the April 20,2006 Decision on the Motion), that WCHE should reimburse Sifto for the sum of \$492,308.00 on account of Power Factor Penalty and Diversity Credit adjustments, and that no portion of this payment would be recoverable from rate payers. This amount includes GST and interest, and was based on Sifto's calculations. The OEB also determined (as discussed above) that the sum of \$600,824 was payable to Sifto, but was recoverable from all of WCHE's customers.

The Legal and Other Costs incurred by WCHE, including the Sifto costs, relate to both of these types of payments to Sifto – those which WCHE may not recover from its customers, and those which it may. WCHE acknowledges that it is appropriate for WCHE to absorb a reasonable portion of the Legal and Other Costs. It is not appropriate, however, for WCHE to absorb its Legal and Other costs associated with those payments that may be recovered from its customers, for the same reason that the OEB found that it would not be appropriate for WCHE to absorb the payments themselves. Specifically, at page 11 of the Decision, the OEB stated:

"Sifto has been specifically and quantifiably prejudiced by its rate treatment since the time of unbundling, and the Board must determine what steps ought to be taken to address this circumstance. There are really two options that present themselves. First, the Board could order that the utility re-imburse Sifto for the overpayment from its own resources, and without recourse to the other ratepayers. This approach would punish the Utility for its various errors in its 2001 rate unbundling application.

In the Board's view, this is not an appropriate response. While we have found that WCHE made errors in developing the unbundled rate, there is no evidence upon which the Board could make a finding that its process was intended to create an inaccurate and prejudicial rate. There was no specific guidance in either the RUD Model or the Handbook to assist WCHE.

This leads the Board to conclude that the reimbursement of the overpayment made by Sifto since unbundling should be redressed by the other rate classes, who benefited from the over-allocation of revenue requirement to the sole Large User in the franchise area, namely Sifto." (emphasis added)

The OEB's findings suggest that if WCHE should not be punished in these circumstances by having to bear the RUD Model - related adjustment of \$600,824, then it would be equally unfair to punish WCHE by forcing it to bear Sifto's legal and consulting costs relating to a disagreement on the RUD Model-related methodology in respect of which no specific guidance in either

the RUD Model or the Distribution Rate Handbook existed. This matter was only resolved through the hearing process. This in turn suggests that no costs should be payable by WCHE in respect of this portion of the proceeding – each party would bear its own costs. However, if the OEB remains of the view that Sifto's costs are to be paid in respect of both aspects of the Motion, then the Board of Directors and Management of WCHE submit that an appropriate portion of the Legal and Other Costs applicable to the Cost of Power and Distribution Revenue should be allocated to all customer classes as an "Other Regulatory Asset" (account 1508) in the same manner as the underlying sum of \$600,824.

It would not be practical, and it may not be possible, to determine exactly which of WCHE's Legal and Other Costs were attributable to the Power Factor Penalty/Diversity Credit issues on the one hand, and the RUD Model-related issues on the other. WCHE submits that the reasonable approach is to apportion the costs based on the relationship of the required reimbursement in each category to the total amount to be reimbursed to Sifto.

Using this methodology, the total amount for Legal and Other costs of \$302,152 will be proportionately allocated as follows:

Table E

	Amount	%
Power Factor Penalty and Diversity Credit	\$492,308	45.0
Cost of Power and Distribution Revenue	\$600,824	55.0
Total amount owed to Sifto	\$1,093,132	100

The amount of Legal and Other Costs, applicable to the Power Factor Penalty and Diversity Credit, of \$135,968 (45% of \$302,152) would be paid / absorbed by WCHE while the balance of \$166,184 (55% of \$302,152) would be applied to all classes proportionately on the basis of the New Distribution Revenues as shown in Table D.

As at December 31, 2004 the principal amount (Legal and Other Costs) in Extraordinary Event Losses, account 1572, showed a balance of \$81,459 with applicable interest of \$10,763. Management of WCHE feel that account 1508 "Other Regulatory Assets" is the more appropriate account to capture Legal and Other Costs and has made the appropriate adjustment. The principal amount has been adjusted to \$166,184, as calculated above for Legal and Other Costs to April 30, 2006.

Table F - The total amount \$176,947 (\$166,184 + \$10,763) has been applied to all classes proportionately on the basis of the New Distribution Revenues as shown in Table D.

Table F

Regulatory Asset A/C # 1508	New Distribution Revenue	Distribution \$431,275 %	Allocation to Reg. Asset a/c 1508
Residential Class	\$ 751,920	42.72%	\$75,583
General Service < 50 KW Class	\$ 275,859	15.67%	\$27,729
General Service > 50 KW Non-TOU	\$ 288,257	16.38%	\$28,976
General Service > 50 KW -TOU	\$ 223,024	12.67%	\$22,418
Large User Class	\$ 196,819	11.18%	\$19,784
Small Scattered Loads	\$ 4,382	0.25%	\$441
Sentinel Lights	\$ 1,140	0.06%	\$1,901
Street Lighting	\$ 18,915	1.07%	
TOTAL	\$1,760,316	100.00%	\$176,947
Transformer Allowance	\$ (124,726)		
TOTAL	\$ 1,635,590		

The EDR Model has been updated with the new Regulatory Rate Riders for recovery from all customer classes, including Large User, from May 1, 2006.

Customers with impacts over 10%:

There are 125 Residential customers consuming between 60 and 218kWh per month that will be affected by an increase exceeding 10.0% or between \$2.23 and \$3.07 per month. To mitigate the increase it is proposed that the 125 customers be placed in a "special temporary group" and apply a reduction in their monthly service charge of \$0.55 per month for a period of 6 months. This will reduce the increase to 10% or less (increase of \$1.68 for those consuming 60kWh).

The impact to WCHE will be a revenue reduction of \$413.00.

All 9 Unmetered Scattered Load customers will be affected by an increase exceeding 10.0%. To mitigate the increase it is proposed to apply a reduction in their monthly service charge of \$2.12 per month and a reduction in their volumetric charge of \$0.0022 per kWh for a period of 6 months. This will reduce the increase to 10% or less.

The impact to WCHE will be a revenue reduction of \$296.00

All 6 Sentinel Light customers will be affected by an increase exceeding 10.0%. To mitigate the increase it is proposed to apply a reduction in their monthly service charge of \$2.60 per month for a period of 6 months. This will reduce the increase to 10% or less.

The impact to WCHE will be a revenue reduction of \$94.00.

At the end of the 6 month mitigation period the new approved rates will apply.

The total impact to WCHE is a reduction of Distribution Revenue of \$803.00.

Modifications to the 2006 Rate Application

MODIFICATIONS TO THE REGULATORY ASSET MODEL				
SHEET	CELL	CHANGE TO	CELL	CHANGE TO
1	D 7	Revision # 2 – May 1, 2006		
	G 19	(\$191,050)	G 20	(\$137,538)
	H 19	(\$16,841)	H 20	(\$12,615)
	I 19	(\$13,851)	I 20	(\$9,971)
	J 19	(\$4,585)	J 20	(\$3,301)
	G 25	\$729,353	H 25	\$10,763
	G 30	\$0.00	H 30	\$0.00
2	E 18	\$284,184	F 18	\$109,425
	G 18	\$119,820	H 18	\$92,888
	J 18	\$124,408	K 18	\$1,655
	L 18	\$404	M 18	\$7,332

MODIFICATIONS TO THE 2006 EDR MODEL				
SHEET #	CELL	CHANGE TO	CELL	CHANGE TO
1-1	D 26	May 1, 2006 – Revision 2		
8-4	H 16	\$0.0072	H 54	\$0.0031
	H 94	\$0.0076	I 66	\$0.5414
	I 70	\$0.7926	I 90	\$0.3521
	I 99	\$7.9088	I 103	\$1.0345
8-5	R 16	\$0.0083	R 54	\$0.0052
	R 94	\$0.0052	S 66	\$1.0547
	S 70	\$1.4521	S 90	\$0.7487
	S 99	\$4.1621	S 103	\$2.6195
	T 16	\$13.64	T 54	\$32.74
	T 66	\$396.73	T 70	\$3,428.02
	T 90	\$8,532.62	T 94	\$33.08
	T 99	\$5.56	T 103	\$0.70