ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Westario Power Inc.

EB-2008-0250

February 27, 2009

INTRODUCTION

Westario Power Inc. ("Westario" or the "Applicant") is a licensed electricity distributor serving approximately 21,300 customers in eight municipalities encompassing fifteen communities. Westario filed its 2009 rebasing application (the "Application") on August 20, 2008. Westario requested approval of its proposed distribution rates and other charges effective May 1, 2009. If a final rate order is not issued in time for a May 1, 2009 effective date, Westario requested that its current rates be declared interim 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 observations and concerns which arise from Board staff's review of the pre-filed evidence and interrogatory responses made by Westario, and are intended to assist the Board in evaluating Westario's application and in setting just and reasonable rates. Staff has determined that comments on the issues of Cost of Capital, Working Capital Allowance, Depreciation Expense and Smart Meters are not necessary.

THE APPLICATION

In its original application, Westario requested a revenue requirement of $10,326,383 (including revenue from the proposed smart meter adder) to be recovered in rates effective May 1, 2009[1]. The following is a breakdown of Westario's revenue requirement from its original application:

[1] E9/T1/S2 – Determination of Service Revenue Requirement plus smart meter revenue derived from E1/T1/S8/p1 – List of Specific Approvals Requested and E3/T2/S4 – Customer Count Forecast Table

Revenue Requirement	2009 Test
OM&A	$4,868,425
Amortization	1,829,713
Return	2,339,543
Low Voltage	733,477
PILs	897,156
Transformer Allowance	69,720
Smart Meters	257,904
Service Revenue Requirement	$10,995,938
Revenue Offsets	-669,555
Base Revenue Requirement	$10,326,383

It should be noted that Westario has subsequently proposed a change to its Low Voltage forecast for 2009 that would reduce the revenue requirement to $10,194,767.

In its reply submission, the Applicant is requested to provide a breakdown of its revenue requirement confirming any changes that it has proposed between the time it filed the original application and the closing of the evidentiary stage of this hearing. Westario should confirm the updated total revenue requirement requested for 2009, and provide updated bill impacts.

LOAD FORECAST

Exhibit 3 of the Application discusses how the customer count and load forecast are developed. The kWh forecast and the kW forecast for appropriate classes is presented by customer class. Variance analyses are presented in support of the forecasts.

Customer Forecast

Background

Westario is seeking Board approval for a test year customer forecast of 27,644 customers. The test year forecast is approximately 3% higher (or 788 customers) than the 2006 Actuals. The forecast is derived by applying the class specific average annual growth rate from 2004 to 2007 as the growth rate for the bridge and test years. In response to Board staff IR #29, Westario confirmed that the test year forecast is based entirely on historical growth and that it did not rely on additional external sources when developing the forecast. In the absence of such supporting evidence, Board staff analysed observed trends and historical customer levels to test the reasonableness of the proposed forecast.

Customer Count Forecast

2009 Test Year Customer Count Forecast (Ex 3/T2/S4/P1)		
Rate Classes	No. of Customers	Proportion of Total
Residential	18,875	68.3%
GS<50 kW	2,365	8.6%
GS 50 to 4999 kW	252	0.9%
USL	69	0.2%
Sentinel	6	0.02%
Street Light	6,077	22.0%
TOTAL	**27,644**	**100%**

Discussion and Submission

The residential, GS<50 kW and GS 50 to 4999 kW rate classes make up 78% of the total customer count. Since 2004 these three classes have experienced an average annual increase of approximately 241 customers per year. This increase in customer count represents an average annual growth rate of +1.2%. Consistent with this level of year-over-year increases, Westario is forecasting an annual increase of 250 customers, in each of 2008 and 2009. In addition, the test year forecast is based on growth rates that were derived using the full extent of the best available customer data. In Board staff's view, while the proposed methodology is simple the forecast is in line with observed historical trends.

Load Forecast

Background

Westario is seeking Board approval for a test year KWh forecast of 453,203,301. This represents a 1.1% increase from 2006 Actual[2]. The residential, GS<50 kW and GS 50 to 4999 kW rate classes account for over 99% of the total load and are the focus of this submission. The load for these three classes is projected to increase by approximately 1.6% compared to 2006 Actual.

Westario's load forecast is based on a multi-factor regression analysis of monthly wholesale purchases for the distribution system from 2003 to 2007. These volumes represent the bulk electricity system deliveries to the distribution utility. The class specific forecasts were derived by allocating each rate class' share in wholesale kWh, exclusive of distribution losses. While the statistical results of the regression equation

[2] Ratemaker Model/Tab C1 (February 10 version)

are reasonable, Board staff is concerned with the appropriateness of the methodology and variables used in the regression equation. The class specific forecasts are:

Load Forecast[3]

Rate Class	(kWh)
Residential	197,649,413
GS<50 kW	70,476,543
GS 50 to 4999 kW	161,192,485
Street Light	4,144,560
Sentinel Lights	16,635
USL	501,647

Discussion and Submission

Westario's load forecast is based on a linear relationship between total actual wholesale volumes, heating degree days ("HDD") and cooling degree days ("CDD"), peak days and regional employment. Class specific forecasts are derived based on each class' share in 2007 exclusive of distribution losses. In Board staff's view, this method of forecasting total wholesale purchases based on a single regression equation does not take into account the effect of class specific drivers of demand that could impact the class specific forecasts. For example, the proposed method implicitly assumes that regional employment is a driver for all rate classes. The method also assumes that weather has an identical impact across all rate classes. Board staff submits that while these assumptions may be the result of practical considerations given the poor quality of the consumption data, both these assumptions are simplistic[4] and do not take into account the effect of class specific drivers. Therefore, the Board may wish to consider if Westario should be required to develop class specific econometric load forecasts for its next cost of service rate filing at which time additional years of consumption data will be available.

Board staff also notes that the proposed regression equation does not include number of customers as an explanatory variable. One of the reasons attributed for this exclusion is the lack of availability of monthly class specific customer data prior to 2004. In Board staff's view customer additions can be a significant driver of demand. This fact is illustrated in the scenario presented in response to Board staff IR #34, where Westario indicated that when number of customers was included as a variable in the

[3] E3/T2/S1/Attachment, Table 11 – Medium Term Weather Normalized Distribution System Load Forecast 2008 to 2009

[4] Response to VECC IR # 9 d)

regression equation, the proposed forecast increased by 4.9% (or 22,065,232 kWh). Board staff acknowledges that while this estimate is based on limited data, it does illustrate the impact of including number of customers as a variable in the regression equation. Board staff submits that Westario should further explore the possibility of including a customer growth variable in its regression equation at its next cost of service rate filing at which time additional years of consumption data will be available.

Weather Normalization

Background

Westario's load forecast is based on normal weather. The weather normal forecast is based on 10-years of average HDD and CDD as reported at Wiarton airport in Bruce County. In Westario's view, the 10-year normal "is a reasonable compromise that likely reflects the average weather experienced in recent years". To test the appropriateness of the 10-year average weather normal method, Board staff tested the accuracy of forecasts based on the proposed method in previous years (2006, 2007 and 2008)[5]. Board staff also compared the accuracy of forecasts based on the proposed method with those based on the 20-year trend method[6], which is the current Board approved method for determining the weather normal forecast for the large natural gas utilities.

Discussion and Submission

Board staff notes that with the exception of the 2006 year when the variance between actual HDD and forecast HDD was high (approximately 12%), the proposed methodology performs well in 2007 and 2008 with a variance of only 2%. When comparing the accuracy of forecasts based on the proposed method with those derived using the 20-year trend method over the same three year period the magnitudes of the errors are also similar. The 10-year average method exhibits a similar level of accuracy as does the 20-year trend method. Board staff notes that a load forecast developed using the 20-year trend weather normalization method will reduce the proposed forecast by -0.8%[7].

[5] Response to Board staff IR # 30
[6] Response to Board staff IR # 31
[7] Response to Board staff IR # 34

OPERATIONS, MAINTENANCE AND ADMINISTRATION

Background

As will be discussed later in this submission under “Rate Base”, Board staff experienced difficulties in assessing Westario’s financial situation and the reasonableness of its operating and capital expenses in the bridge and test years. The amalgamation of Westario Powering Holdings Inc. (the “holding company”) and Westario Power Services Inc. (the “service company”) with the Applicant on January 1, 2008 and the addition of the Walkerton operations centre created inconsistencies with historical numbers. Staff will address the general impacts of the amalgamation on both OM&A and rate base in the section under “Rate Base” later in this submission. In this section, despite the difficulty in assessing the 2008 bridge and 2009 test years, staff discusses selected OM&A items which staff has identified as requiring consideration by the Board.

For the 2009 Test year, Westario is requesting approval of $4,811,825 in OM&A expenses excluding taxes, amortization expenses and Low Voltage costs (see table below). This represents a 6.1% increase over Westario’s 2007 actuals and a 13.8% increase from its 2006 actuals. Westario’s 2009 Test Year OM&A represents a 1.0% decrease from 2008 Bridge year. All of the increase between the 2007 actual numbers and the 2009 forecast takes place in the 2008 bridge year.

Board staff notes that the 2007 actuals contain two significant non-recurring items. These are $467K in CDM 3rd tranche spending and a Meter Exit fee (credit) from Hydro One. Year-over-year changes, using an adjusted 2007 actual, are presented in rows 12-14 in the table below. On an adjusted basis the increase from 2007 actual to the 2009 Test year is 11.3%.

	Summary of OM&A	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
1	Operation	$97,077	$406,210	$319,525	$332,475	$480,400
2	Maintenance	$945,725	$1,184,709	$535,748	$1,505,770	$1,164,675
3	Billing and Collection	$1,207,662	$1,139,082	$1,286,330	$1,146,035	$1,242,900
4	Community Relations	$6,300	$18,791	$485,353	$23,470	$35,500
5	Administrative and General Expenses	$2,549,321	$1,478,869	$1,907,783	$1,850,765	$1,888,350
6	**Total**	**$ 4,806,085**	**$ 4,227,661**	**$ 4,534,739**	**$ 4,858,515**	**$ 4,811,825**
7	**year on year increase**			$ 307,078	$ 323,776	-$ 46,690
8	**year on year % increase**			7.3%	7.1%	-1.0%
9	**% increase 2006 to 2009**					13.8%
10	**% increase 2007 to 2009**					6.1%
11						
12	2007 normalized Actual *			**$ 4,321,739**		
13	**year on year increase (2007 adjusted)**			$ 94,078	$ 536,776	
	year on year % increase (2007 adjusted)			2.2%	12.4%	
14	**% increase 2007 (adjusted) to 2009**					11.3%
15	* Note:2007 OM&A adjusted for CDM 3rd Tranche spending of $467,450 & Meter Exit fee credit of $263,400					

Over the 2003 to 2007 period Westario’s OM&A actual expenses, as confirmed in the response to Board staff IR #3 , increased by approximately 0.3% annually. Over the 2007 to 2009 period the average annual increase is 5.7%. This is significantly higher than the 1.1% average annual increase in the number of residential and general service customers over the same period.

Board staff prepared a summary, taken directly or derived from, pre-filed evidence and interrogatory responses highlighting the major changes/reasons between 2007 actual (adjusted), 2008 bridge year and the 2009 test year[8] .

[8] The summary has assumed that on average the inflationary impact on Westario has been 3% per annum. The major component amounts have been calculated on this basis.

Summary of major increases/(decreases) in OM&A

	Major components of Increase/ (decrease)	2008 vs 2007 $ 536,776	2009 vs 2008 $ (46,690)	account # if applicable
a	inflation @ 3%	$ 129,652	$ 145,755	
b	field asset program		$ 356,000	5040
c	increase in 2008 cable locating	$ 95,000		5040
d	cable locate outsourcing		$ (220,000)	5040
e	meter expense & maintenance	$ 261,000	$ (214,000)	5065 & 5175
f	overhead conductor,devices $ services maintenance	$ (86,000)	$ 132,000	5125 & 5130
g	maintenance of line transformers (PCB program)	$ 386,000	$ (358,000)	5160
h	tree trimming	$ 69,000	$ 34,000	5135
i	executive/mgt salaries in excess of inflation	$ 219,000	$ 37,000	5605 & 5610
j	regulatory expenses		$ 80,000	5655
k	office and facilties building rent	$ (221,000)		5670
l	savings due to amalgamation	$ (267,000)		
m	bad debt expense	$ (65,000)	$ 47,000	5335
p	Other	$ 16,124	$ (86,445)	
	Total	**$ 536,776**	**$ (46,690)**	

Evidentiary source

b	E10-T3-S28; E10-T2-S3 supplementary
c	E10-T2-S3 supplementary; E4-T2-S2 p.4
d	E10-T2-S1 & S3 supplementary
e	E4-T2-S2 p.5
f	E4-T2-S2 p.8
g	E4-T2-S2 p.3
h	E4-T2-S2 p.9
i	E10-T2-S12
j	E10-T2-S14, E10-T3-S11
k	E4-T2-S2 p.21
l	E10-T3-S11
m	E4-T2-S2 p.13

Discussion and Submission

Inflation

Westario indicated that its 2009 O&MA reflects a 3% inflation rate, amounting to $160K[9]. Westario noted that it was guided by the CPI for June and July 2008, being 2.8% and 3.6% respectively to establish its 3% inflation forecast for 2009. Westario also noted that it used a 3% inflation rate when the price changes were not otherwise obtained directly from the vendor or service provider. [10]

[9] Response to VECC IR #34

[10] Response to Board staff IR #4

While Board staff observes that more recent statistics indicate a lower rate of inflation in later 2008 which is expected to continue into 2009, Westario's assumption of a 3% inflation rate for its 2009 OM&A expenses, where detailed data was not available, is not unreasonable.

With respect to the other items in the list, Board staff makes submissions on the following.

Field Asset Program

Board staff requests that Westario, in its reply submission, confirm what it has spent or plans to spend (by four digit account) on the Field Asset Program in 2007, 2008 and 2009.

The Field Asset Program appears to comprise a significant portion of the OM&A increase since 2007; however, it is not clear from the evidence and interrogatory responses what exactly are the amounts in question. For example, in its pre-filed evidence Westario explained that $140K of the increase in account 5040 (Underground Distribution Lines and Feeders) from 2008 to 2009 is due to the ongoing Field Asset Program[11] while in the response to VECC (supplementary) IR #28 Westario stated that in 2009, Field Asset Program costs of $356K are allocated to account 5040 while in 2008 no costs were allocated in account 5040 for the Field Asset collection. The latter explanation leads one to believe that the increase from 2008 to 2009 is $356K. In the absence of a consistent expenditure explanation of the program there appears to be reason to question the validity of the Field Asset Program amount included in 2009 OM&A.

Board Staff notes that Westario indicated that it began a three-year program to collect data on all installed distribution system assets and that Westario plans to submit the resulting update to its asset management program in its next rates application[12]. Staff addresses Westario's asset management plan later in this submission.

Tree Trimming and Line Clearing Operations

Westario forecasts spending of $270K on Tree Trimming and Line Clearing Operations in 2009 while $230K is forecast in 2008 and $157K was spent in 2007. Westario indicated that these operations are managed on a three year cycle and that the program is subject to growing season and other variables. Board staff notes that after allowing

[11] E4/T2/S3/p.3-4 – Materiality on OM&A costs
[12] E1/T2/S1 p.14 – Westario Power Backgrounder

for 6% inflation and 10% for variables, the 2009 forecast is still about $85K over 2007. Board staff submits that the 2009 Tree Trimming and Line Clearing Operations budget should be no more than $200K which is approximately the average of 2007 and 2008 plus inflation.

2009 Regulatory Costs

Westario forecasted $140K in account 5655 for regulatory related expenses for its 2009 OM&A as compared to approximately $65K recorded in 2007 actual and $60K forecast for 2008. The increase between 2007 and 2009 appears to be attributed to costs related to the 2009 EDR proceeding. The total costs for the 2009 EDR were forecasted to total $240K and Westario proposed to amortize them over three years (i.e. $80K annually) commencing in 2009. The table below provides a break-out and projection total[13].

Costs	Costs to Date	Projected	Total
Legal	$9,700	$50,300	$60,000
Accounting	$1,150	$1,000	$2,150
Consulting	$59,300	$65,700	125,000
Intervenor/OEB Costs		$50,000	$50,000
Miscellaneous	$1,400	$1,450	$1,850
Total	**$71,550**	**$168,450**	**$240,000**

The Board may wish to amortize costs related to the 2009 EDR proceeding over 4 years since the next cost of service review would occur in 2013. Amortizing the projected total over 4 years would reduce 2009 OM&A by approximately $20K.

Amalgamation Savings & Building Rent

In response to VECC IR #11 Westario stated that amalgamation of the three prior affiliates resulted in savings of $267K in 2008 and of this amount $170K was reflected in account 5670 (Rent). However, account 5670 recorded $222K in 2007 and zero dollars are indicated for 2008 and 2009[14].

As will be discussed below under “Rate Base”, Westario built and took occupancy of a new operations centre in Walkerton in 2007. It is Board staff’s view that the decrease in rental costs is due to the fact that Westario constructed a new operations centre rather than from efficiencies arising from the amalgamation of the three prior affiliates. As such, Board staff submits that the “apparent” rental savings in 2008 should be disregarded when the Board considers the reasonableness of Westario’s requested OM&A. Board staff characterizes the rental savings as “apparent” since, at a revenue

[13] Response to VECC IR #11 f)

[14] E4/T2/S2/p.21- Variance Analysis on OM&A Costs

requirement level, they are offset by the additional depreciation and carrying costs associated with the new building.

Payments in Lieu of Taxes ("PILs")

Background

Westario's proposed PILs allowance for 2009 is $897,156, composed of $855,475 for combined Federal and Provincial Income Taxes and $45,681 in Capital Taxes[15].

Westario provided a summary of its actual and estimated PILs in response to Board staff IR #28. Board staff observes that the IR response refers to a 2009 PILs allowance of $614,849, a number which is significantly less than that contained in the pre-filed evidence.

Discussion and Submission

Board staff requests that Westario clarify which proposed 2009 PILs figure is correct. Overall, Westario's PILs is affected in the 2008 bridge and 2009 test years by recent changes in Westario's rate base and operations. The Walkerton operations centre and the re-amalgamation with the affiliates are the primary factors behind year-over-year differences.

Board staff notes that other changes to Westario's revenue requirement are likely, due to updating of the Cost of Capital parameters and the Board's decision on Westario's rate base, capital and operating expenditures, which will have a flow-through effect on the PILs allowance which should be recoverable in rates.

The recently-passed Federal Budget has provisions which impact on a corporation's tax liability for 2009. Specifically, the federal small business threshold increased to $500K from $400K effective from January 1, 2009. Staff notes that Westario's taxable income is $1.7 million[16].

In addition, capital expenditures for computer equipment, including related systems software, that have been recorded in Capital Cost Allowance ("CCA") Class 50 have been eligible for amortization at a 55% declining balance, after applying the half-year rule to the current year's expenditures. The Federal Budget provided that qualifying expenditures that meet the criteria for CCA Class 50 after January 27th 2009 but before

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[15] E4/T3/S1 – Tax Calculations Overview and associated attachments
[16] E4/T3/S1 – Tax Calculations Overview Attachment 6, page 4

February 2011 can be amortized at a rate of 100%, and there is no requirement to apply the half-year rule. Westario has shown in E4/T3/S1 – Tax Calculations Overview and associated attachments that $35,400 will be spent on qualifying capital expenditures for CCA Class 50.1 treatment in 2009. In its reply submission, Westario should confirm that the 2009 expenditures will qualify for Class 50.1 treatment allowing for 100% capital cost allowance in this year, while Class 50 UCC as of December 31, 2008 (an amount of $36,969) would continue to have the CCA rate of 55.0% applied. Board staff submits that Westario should reflect the current change in tax law in its PILs tax calculations when it files the draft rate order.

Board staff also submits that Westario should flow through applicable changes and update the PILs allowance to determine the revenue requirement and rates resulting from the Board's Decision.

RATE BASE

Background

Westario is requesting approval of $33.6 million for its 2009 rate base. This amount is a 14% increase ($4.1 million) from Westario's 2007 actuals and a 24% increase ($6.6 million) from its 2006 actuals.

This is summarized in the following table[17].

	2006 EDR Board-approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Net Fixed Assets					
Opening Balance	$ 20,118,370	$ 21,121,135	$ 22,383,568	$ 25,725,285	$ 27,491,909
Closing Balance	$ 19,508,372	$ 22,383,568	$ 25,725,285	$ 27,491,909	$ 28,242,596
Average Balance	$ 19,813,371	$ 21,752,352	$ 24,054,427	$ 26,608,597	$ 27,867,253
Working Capital Allowance	$ 5,284,227	$ 5,308,729	$ 5,451,977	$ 5,689,824	$ 5,762,946
Total Rate Base	$ 25,097,598	$ 27,061,081	$ 29,506,404	$ 32,298,421	$ 33,630,199

Board staff observes that the major increases in assets occur in 2007 and 2008. In 2007 Westario opened its new operations centre in Walkerton, providing a centralized point from which it would manage distribution operations. The Gross Book Value of the land and buildings was $2.4 million upon completion in 2007. The Walkerton centre, owned by Westario, replaced facilities leased from the shareholding municipalities in the

[17] E1/T1/S1/p7 – Summary of Application

communities that Westario services, as documented in the response to Board staff supplemental IR #4.

On January 1, 2008, following Board approval of a MAAD application, Westario amalgamated with Westario Powering Holdings Inc. (“the holding company”) and Westario Power Services Inc. (“the service company”). As a result of this amalgamation, capital assets such as trucks, computers, office furniture and equipment previously owned by the service company, and used in providing services to Westario under a Master Services Agreement (“MSA”), were added to Westario’s fixed assets. The Gross Book Value of added assets was approximately $2 million, while the Net Book Value was $1 million.[18]

Discussion and Submission

<u>Reliability of Historical Data</u>

The addition of the Walkerton operations centre, closely followed by the amalgamation of Westario with the holding and service companies, has made analysis of Westario’s rate base and capital expenditures over recent years difficult. The Audited Financial Statements for 2006 and 2007 also reflect the pre-amalgamation structure.

An increase in Westario’s assets resulting from the new centre and the amalgamation is to be expected; however, staff does not understand why there appears to be no material and offsetting reductions in operating expenses, or other offsets. This was a focus of interrogatories from Board staff and intervenors.

As noted on the OM&A table shown earlier in this submission, there appears to be a 12.4% increase in OM&A from 2007 to 2008. This increase appears to be higher than one would expect considering that the costs charged under the former MSA were no longer applied effective January 1, 2008.

As noted earlier, there were difficulties in assessing Westario’s financial situation and the reasonableness of its operating and capital expenses in the bridge and test years. The amalgamation and the addition of the Walkerton operations centre created inconsistencies with historical numbers. As a result, the soundness of historical data, as a starting point for assessing the 2009 costs, is less than ideal. Board staff attempted to explore this in a number of interrogatories.

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[18] E1/T1/S3/ p. 8 – Summary of Application, E2/T2/S3/ p. 8 -9 – Materiality/Variance Analysis on Gross Assets, response to Board staff IR #19.

In particular, Board staff supplemental IR #5 explored the terms of the previous MSA and how certain capital-related costs of the service company were passed through to Westario for recovery from its customers. Westario's response was surprising. First, while provision for an inflation adjustment was built into the MSA, it was never invoked. There was thus no adjustment for inflation in the service company's prices from 2000 until the end of 2007. Westario also stated that only depreciation expense was recovered in service prices charged by the service company to Westario; for capital assets owned by the service company (including vehicles, rolling stock and equipment), there was no recovery of a return or of interest expense. This implies that the service company was under-recovering its costs, and Westario's ratepayers benefited, as stated by Westario in its response to this interrogatory. However, for the purposes of the current application for 2009 rates, Board staff submits that this means that historical costs serve as a less-than-ideal basis for assessing the forecasted costs and revenue requirement.

In its reply submission Westario should address whether or not the absence of a commensurate reduction in OM&A expenses following amalgamation is explained by the understating of the MSA service costs historically.

In light of the term of 3rd Generation IRM (rebasing plus three years of adjustments) Westario may consider filing for a cost of service application for 2013 distribution rates. Board staff submits that a rebasing application filed in mid-2012 would rely on four years of historical actuals (2008-2011) for Westario's integrated structure. This would provide an improved basis for setting and approving distribution rates for Westario and its ratepayers.

Capital Expenditures

Background

Westario is proposing 2009 capital expenditures of $2.6 million in 2009. This represents a 6% increase from 2008 and a 46% reduction from 2007 and 48% reduction as compared to 2006.

The reason for the large decreases from the pre-2008 period is the construction of the new operations centre in Walkerton in 2007 and the amalgamation of the holding and service companies with Westario on January 1, 2008.

Discussion and Submission

The Walkerton Operations Centre

This operations centre was a significant capital investment for Westario. The Walkerton office represents over 50% of Westario's capital expenditures in 2007. This is the first application where the Board and stakeholders have been made aware of, and have had the opportunity to review, this investment. Board staff points out that while the Board's mandate does not include micro-managing a distributor's operations and business decisions, the Board does have a legislated mandate to review such investments in determining and approving just and reasonable rates. The Board must ensure that such investments, whose costs are to be recovered in rates, are necessary and prudent.

Board staff submits that the record has not been clear on this matter. Westario's staff were previously housed in facilities leased from the shareholding municipalities. There were no net proceeds upon termination of the leases to relocate staff to the new Walkerton facility because, as noted by Westario, the former facilities were owned by the municipalities.[19]

However, it would seem intuitive that there should be some benefits realized from a single and centralized centre from which to manage operations, inventory and to dispatch staff. Such benefits would likely include the following:

- Improved intra-corporate communications;
- Potentially lower staffing levels, as the centralized staff could be more easily dispatched to different parts of the service area, as required; and
- Better inventory control, with a centralized warehousing.

In response to Board staff supplemental IR #6, Westario documented centralized inventory savings of about $37K over historical levels. In response to VECC IR #11 e), Westario identified $267K in savings that arose as a result of the amalgamation. However, these savings appear to be related to assets transferred from the service company to Westario, and now included in its rate base. The savings from amalgamation are separate from the construction of and occupation of the Walkerton centre, and Board staff has observed that these OM&A savings are offset by capital-related costs of the assets of the holding company and the service company added to rate base in 2008.

[19] Response to Board staff IR #17, VECC IR # 4 c) and Board staff supplemental IR #4.

Board staff submits that Westario should have better documented the cost justification and the benefits related to the $2.4 million investment in the Walkerton centre. This was the subject of Board staff supplemental IR #6, which noted that the capital-related costs for Walkerton would amount to approximately $270K, in contrast to previous lease arrangements of $221K. Westario refuted the value of the staff analysis and provided a Net Present Value ("NPV") analysis to demonstrate that the "buy versus lease" option demonstrates the benefit of the buy option. However, Westario noted that it did not undertake "a detailed measurement of the savings for all of the operational benefits [as t]his would have been very costly and time consuming …"[20]

Board staff acknowledges the simplicity of staff's scenario posed in the interrogatory, but notes that the purpose of the interrogatory was to better understand the analysis undertaken by Westario, and how the decision to build and operate from this centralized facility will benefit customers. Board staff submits that Westario's NPV analysis does not establish that such benefits result. In addition to capital-related costs, there are also ongoing operating costs (and these may be different for the buy or lease options), and there will also likely be sustaining capital expenditures under ownership that may otherwise be included in the lease. In short, Board staff submits that Westario should have been able to better support its significant capital expenditure in the Walkerton centre and to demonstrate the benefits of owning this centralized facility.

Other Capital Expenditures

After accounting for the operations centre, and assets transferred from the service company to Westario upon amalgamation, Westario's capital expenditures to support its distribution operations appear to be relatively stable. In 2008 and 2009, as a result of its amalgamation, Westario began reporting capital expenditures in asset categories that previously were under the service company.

The following table was prepared by Board staff, based on Westario's application, and specifically on the Gross Capital Assets continuity schedule in E2/T2/S2/Attachement 1.

[20] Response to Board staff supplemental IR #6

Capital Expenditures (less retirements)		2006 Actual	2007 Actual	2008 Bridge	2009 Test
1805	Land	$ 135,000	-$ 15,000	$ -	$ -
1808	Buildings and Fixtures	$ -	$ 2,443,787	$ -	$ 16,000
1820	Distribution Station Equipment - Normally Primary below 50 kV	$ -	$ 83,593	$ 430,785	$ 241,000
1830	Poles, Towers and Fixtures	$ 918,380	$ 194,258	$ 225,045	$ 618,500
1835	Overhead Conductors and Devices	$ 1,597,659	$ 622,265	$ 575,115	$ 843,200
1840	Underground Conduit	$ 778,609	$ 389,798	$ 325,065	$ -
1845	Underground Conductors and Devices	$ 2,118,616	$ 695,407	$ 375,075	$ 505,500
1850	Line Transformers	$ 2,072,475	$ 624,935	$ 200,040	$ 536,000
1855	Services	$ 657,854	$ 277,646	$ 225,045	$ 35,500
1860	Meters	$ 435,813	$ 136,217	$ 278,030	$ 30,000
1915	Office Equipment and Furniture	$ -	$ -	$ 245,418	$ 2,000
1920	Computer Equipment - Hardware	$ -	$ -	$ 396,174	$ 11,800
1925	Computer Software	$ 12,295	$ -	$ 447,371	$ 35,400
1930	Transportation Equipment	$ -	$ -	$ 1,634,555	$ 20,000
1935	Stores Equipment	$ -	$ -	$ 19,842	$ 72,500
1940	Tools, Shop and Garage Equipment	$ -	$ -	$ 229,420	$ 45,000
1945	Measurement and Testing Equipment	$ -	$ -	$ 51,482	$ -
1950	Power Operated Equipment	$ -	$ -	$ 30,011	$ 42,000
1955	Communication Equipment	$ -	$ -	$ 99,188	$ -
1960	Miscellaneous Equipment	$ -	$ -	$ 27,970	$ -
1975	Load Management Controls - Utility Premises	$ 1	$ -	$ -	$ -
1995	Contributions and Grants - Credit	-$ 2,662,982	-$ 677,549	-$ 496,000	-$ 484,000
Total		$ 6,063,720	$ 4,775,357	$ 5,319,631	$ 2,570,400
Annual Percentage increase			-21.25%	11.40%	-51.68%
Total Dx expenditures		$ 3,031,860	$ 2,331,570	$ 2,138,200	$ 2,325,700
Annual Percentage increase			**-23.10%**	**-8.29%**	**8.77%**

The shaded cells (Accounts 1820 to 1860 inclusive, and account 1925 in 2006) represent the distribution assets that Westario has placed in service or proposes to place in service in its core electricity distribution network. The entry in Account 1808 for 2007 represents the addition of the Walkerton operations centre. Staff understands that entries in accounts 1915 to 1960 inclusive in 2008 largely represent assets transferred from the service company to Westario upon amalgamation on January 1, 2008. The addition of the Walkerton operations centre, and the transfers upon amalgamation, have complicated analysis of the evidence as it relates to capital expenditures over time.

However, looking solely at capital expenditures in distribution network assets, provides a clearer picture. The line labelled "Total Dx expenditures" sums accounts 1820 to 1860 inclusive, and shows that 2008 bridge and 2009 test year forecasts are in line with

2007 actuals, and lower than 2006 actuals. Staff notes that the $250,000 of office, computer, transportation and equipment expenditures proposed for 2009 do not appear unreasonable and will be used, directly or indirectly, in supporting Westario's distribution services to its ratepayers.

Westario provided information on historical service quality and reliability performance[21]. The following is a summary of the key service reliability indices.

YEAR	SAIDI	SAIFI	CAIDI
2005	0.38	0.006	55.82
2006	0.87	0.52	1.67
2007	0.30	0.92	0.33

The information provided by Westario included brief descriptions of below standard events, generally related to extreme weather conditions, and of efforts undertaken by Westario to maintain performance. Board staff has no concerns with the evidence provided on service reliability and how it relates to Westario's proposed capital expenditures for 2009.

Asset Management

Westario has stated that most capital expenditures are due, in part, to rehabilitation of various parts of its network. Staff notes that relative to that of other distributors, Westario's asset management is more complicated, due to the legacy systems which sometimes have different engineering designs. Westario has provided information explaining its capital projects, including the reasons for and prioritization of each major expenditure over the last three years.

In terms of overall asset planning, Westario filed a copy of its Asset Management Plan, dated July 11, 2008[22]. In response to Board staff IR #20, Westario filed two associated documents which are referenced in the Asset Management Plan, and which, taken together with the latter, serve to guide Westario's management and staff in determining and prioritizing operational and capital projects with respect to providing high quality and reliable electricity distribution services.

[21] E1/T2/S9 – Service Quality Indicator
[22] E2/T3/S1 – Capital Plan by Project

Board staff understands that this is Westario's first formal Asset Management Plan. Board staff notes that Westario does not appear to have a significantly integrated or harmonized approach to managing the assets in its various communities. Board staff submits that it would be helpful to the Board if Westario undertook to provide an Asset Management Plan which reflects a more integrated approach to managing its assets at the time of its next cost of service rate application. Board staff submits that more disciplined efforts towards this objective would benefit Westario (in terms of better asset and financial management) and its ratepayers (in terms of improved network design and potentially cost savings through more efficient investments and operations and improved service and reliability).

COST ALLOCATION AND RATE DESIGN

Loss Factors

Background

Westario has proposed an increase to its total loss factor ("TLF") from the current approved 6.37% to 7.88% for secondary metered customers < 5000 kW, and a corresponding increase for primary metered customers from 5.30% to 6.80%. Westario does not seek continued approval of TLFs for customers larger than 5000 kW.

The increase in the TLF is driven by an increase to its Supply Facilities Loss Factor ("SFLF") from 0.45% to 2.4%, offset by a decrease in Westario's local losses (distribution loss factor or "DLF") from 5.89% to 5.35%.

Westario provided historical data for its DLF and SFLF from 2004 to 2007, and the proposed factors are equal to the respective averages during that period.

Discussion and Submission

Board staff submits that Westario's proposed DLF is reasonable. Westario has confirmed that it is fully embedded, supplied at a number of delivery points through Hydro One Low Voltage facilities. Staff notes that the TLFs approved for Hydro One at embedded delivery points are 1.034 (metering away from station) and 1.006 (metering at station)[23], and that these factors determine the SFLF for an embedded distributor. Assuming that some points of supply are metered with the higher factor and the rest at the lower factor, the detailed calculations provided in Westario's application at E4/T2/S9/Attachment 2 – Details of Total Losses, are consistent with these factors,.

[23] Hydro One's Rate Order p.559, EB-2007-0681

Low Voltage Costs

Background

In its original filing, Westario requested low voltage ("LV") costs of $733,477, a small decrease from the 2007 actual cost but a much larger increase than that approved in 2006 ($257,598).

Two adjustments were made during the hearing process. The first adjustment of $113,033 was to recover a lower cost due to lower LV rates to be charged by Hydro One. The second adjustment of $18,583 reflects a billing correction discovered by Hydro One, in which it had been billing for a Low Voltage Distribution Station on the wrong feeder from Palmerston TS[24]. The revised forecasted cost is $601,861.

Westario proposed to allocate the cost to its classes in proportion with revenue from Retail Transmission – Connection rates. It proposed rate adders on the volumetric charges of the respective classes[25].

Discussion and Submission

Even with the adjustments, the forecasted cost and the rate adders are much higher than those previously approved by the Board. However, staff submits that Westario has provided a satisfactory explanation for the large increase in LV costs compared to the previously approved amount, and that it is reasonable to expect that the rate adder for each class will increase in approximately the amounts applied**.**

Westario submitted voluminous information to support its forecast of LV cost. It provided detailed information on billing quantities at each delivery point in 2007, complete with the derivation of the original request based on the LV rates for Shared Lines and Low Voltage Distribution Stations that prevailed in 2007. Westario provided an updated cost forecast in summary form based on the LV rates that Hydro One had applied for[26]. Westario provided a description of the billing error that had been made, and has revised its cost forecast in summary form.

Staff notes that Hydro One's approved LV rates for embedded distributors such as Westario are approximately 4% lower than those used in Westario's revised

[24] Response to Board staff IR #37

[25] Response to Board staff supplemental IR #10 b)

[26] Response to Board staff IR #37and response to VECC (supplemental) IR #38

calculation[27]. The detailed cost estimate assumes that the Common Line rate will be $0.58 per kW whereas the approved rate effective May 1, 2008 is $0.54 per kW; Hydro One has applied for approval of $0.545 effective May 1, 2009 (EB-2008-0187). Similarly, Westario's estimate assumes $1.24 per kW for LVDS whereas the approved rate is $1.20 and Hydro One has applied for approval of $1.212.

The Board may wish to consider directing Westario to update its LV rates in its draft rate order based on the assumption that the Hydro One application will be approved for rates effective May 1, 2009.

Customer Classes

Background

Westario proposes to discontinue its time-of-use rate class (GS 50- 4999 kW – Time of Use). The class currently has one customer, which would now be included in the GS 50-4999 kW class. Westario proposes to continue with the existing customer classes.

Staff notes that the distribution rates applicable to the time-of-use class have been less than 20% of those paid by similar-sized customers in the GS 50-4999kW class. The one-year bill impact is calculated by Westario at nearly 15% of the total bill[28]. Staff calculates that approximately 11% of this impact is due to the re-classification, and the remainder is due to the proposed change in rates from 2008 to 2009 that affects the GS 50 – 4999 kW class as a whole.

Staff submits that the proposal to discontinue the time-of-use class is reasonable; however, the bill impact with no phase-in period is rather high. Staff notes that in a similar situation in 2008, the Board approved the phasing in of the harmonization of rate classes for Wellington North so that the impact was approximately half in the first year followed by the remaining impact in the second year[29].

[27] Hydro One's Rate Order (EB-2007-0681)
[28] E9/ T1/S7 – Proposed Rate Classes
[29] EB-2007-0693

Revenue to Cost Ratios

Background

Westario filed its Informational Filing (EB-2007-0003), which is an indication of the revenue to cost (“R/C”) ratios with the existing rate structure. The results are identified in the first column below. In response to VECC IR #21c), Westario provided an alternative run of the cost allocation model that reflects the removal of costs and revenues associated with $72,097 of transformer ownership allowance. The resulting R/C ratios are reproduced in the second column below.

Westario’s application involves a re-balancing of class revenues to better reflect the results of the cost allocation model. The proposed R/C ratios are shown in the third column. The cost allocation underlying these ratios is the same as the informational filing, not the version produced for the VECC interrogatory.

Revenue to Cost Ratio [%]

Customer Class	Informational Filing Run 2	Response to VECC IR 21c	Application: Exhibit 8 / Tab 1 / Schedule 2	Board Policy Range
Residential	94.75	95.48	94.93	85 – 115
GS < 50 kW	80.77	81.13	81.17	80 – 120
GS 50-4999 kW	168.03	163.46	166.28	80 – 180
USL	100.39	99.92	100.00	80 – 120
Street Lighting	50.04	51.03	75.05	70 – 120
Sentinel Lighting	99.35	101.06	100.00	70 – 120

Westario has found that both the Informational Filing and the revised run of the model failed to include revenue from Late Payment Charges in the Miscellaneous Revenue attributed to the classes. The revenue approved from this source was approximately $100K. As a result of this omission, the ratio of total revenue to total cost was less than 100%.

On reviewing its Informational Filing, Westario discovered a mistake had been made in its 2006 rate filing information which was based on an assumption that revenue would be gained from 16 Sentinel Lighting customers; the actual number of Sentinel Lighting customers was 6. Westario concluded that the approved revenue for the class should have been lower, by a factor of 6/16[30]. No new cost allocation study was filed using this revised information.

Discussion and Submission

Dealing first with the omission of Late Payment Charge revenue, staff submits that Miscellaneous Revenue is attributed to the classes on a pro rata basis, and the R/C ratio for each class would be affected equally by the omission. The proposed ratios in the third column of data would not be affected, assuming that the Late Payment Charge revenue applied for ($90K as per E3/T3/T1/Attachment 1 – Operating Revenue Summary) has been included in 2009 total revenue.

Dealing next with the effect of the mistaken number of Sentinel Lighting customers and associated revenue, Board staff submits that based on the customer numbers and loads provided by Westario in its response to Board staff supplementary IR #9, the number of customers and the load of the Sentinel Lighting class was in fact entered correctly in the Informational Filing and in the adjusted version filed in response to the VECC interrogatory. Westario's conclusion that increasing rates by a factor of close to 3 is necessary to attain an appropriate R/C ratio is not well-founded. Staff submits that rates should be proposed for Sentinel Lighting that would be increased in approximately the same proportion as Residential rates, because the existing ratios are similar. The very high bill impacts submitted by Westario for Sentinel Lighting[31] will be brought to a more reasonable level as a result.

Perhaps the most notable feature in the table above is that the proposed ratios are changed very little from the Informational Filing, with the exception of Street Lighting. Three of the classes (Residential, USL, Sentinel Lighting) would have ratios changed by less than 1%. This is the case whether the starting point is the original Informational Filing or the alternative adjusted for Transformer Ownership Allowance. This has an implication that is discussed under Rate Design below.

[30] Response to Board staff supplemental IR #9
[31] E9/T1/S9/p.40 – Rate Impacts

Monthly Fixed Charges

Background

Westario proposes to maintain its fixed/variable split for four classes. It proposes to increase the variable portion for the GS 50 – 4999 kW class, and to increase the fixed portion for Unmetered Scattered Load[32].

The Monthly Service Charge approved in 2006 for the GS 50 – 4999 kW class was considerably higher than the ceiling amount calculated in the Informational Filing[33]. The effect of lowering the Monthly Service Charge relative to the volumetric rate is that the bill impact on larger customers is higher than on smaller customers. However, the illustrative total bill impacts are in a narrow range between 4.4% and 4.8%[34]. As noted earlier, the impact on the former time-of-use customer is higher than this.

The Monthly Service Charge approved in 2006 for the USL class was considerably lower than the floor amount calculated in the Informational Filing. The charge proposed for 2009 is based on the floor calculated in the cost allocation study[35]. The effect of increasing the Monthly Service Charge relative to the volumetric charge is that the bill impact at smaller consumptions is higher. The illustrative total bill impact ranges from 7.0% for the larger load up to 19.2% for the smallest load[36].

Discussion and Submission

Staff notes that the proposed changes to the fixed/variable split are consistent with the results of Westario's cost allocation study. Staff submits that the bill impacts of the proposed change to the rate structure of the GS 50 – 4999 kW class are in an acceptable range.

Staff submits that the increase in the Monthly Service Charge for the USL class may entail some impacts that should be phased in, if there are any customers actually in the consumption range less than 1000 kWh per month, as the total bill impacts are more than 10%[37]. Westario should confirm if there are any customers in the USL class that may be affected by more than 10%.

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[32] E9/T1/S1/Table 3 – Rate Design Overview
[33] Response to Board staff IR #39 a) - worksheet O2
[34] E9/T1/S 9 /Attachment 1/p.17 – Rate Impacts
[35] Response to Board staff IR # 42a)
[36] E9/T1/S9/Attachment 1/p.25 – Rate Impacts
[37] E9/T1/S 9/Attachment 1/ p.25 – Rate Impacts

Staff also notes that the proposed tariff should specify whether the USL Monthly Service Charge is on a per-connection or per-customer basis.

Rate Design – Sentinel Lighting

Background

As noted above, Westario proposes to maintain the R/C ratio at a nearly constant amount for the Residential, USL and Sentinel Lighting classes. In the absence of any new cost information, this leads one to expect that each of these classes would experience a nearly identical increase or decrease in their distribution rates. In fact, the Residential class would experience an increase of about 23% in distribution rates. Based on the illustrative impact calculations, the USL increase is over a range on either side of this same impact. Sentinel Lighting, in contrast, would experience an impact higher than 100%[38].

Discussion and Submission

Staff submitted earlier that the revised R/C ratio for the Sentinel Lighting class is incorrect, and therefore the reason for increasing the rates to this extent is not valid. Staff submits that, as a matter of principle, the Sentinel Lighting rates should be increased by a percentage similar to the Residential class.

Retail Transmission Service Rates

Background

Westario received approval of Retail Transmission Service ("RTS") rates, effective May 1, 2008, that were lower by 18% and 5% than the previous rates[39]. This change reflected the change in Uniform Transmission Rates that had come into effect in November 2007.

In this application, Westario did not propose to change its RTS rates. Westario provided an estimate of its expenses, assuming that Hydro One would increase the applicable Network and Connection rates in proportion to approved changes in the Uniform Transmission Rates. In response to VECC supplemental IR #36, Westario clarified that different increases were assumed for Network and Connection, but the assumptions are nevertheless based on transmission rates. With no change in its own

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[38] E9/T1/S 9/Attachment 1 – Rate Impacts
[39] E1/T1/S11 – Board Findings and Directions from 2008 EDR

RTS rates, Westario projected that its revenue from Network rates would fall short of its costs by $344,291, and that its revenue from Connection rates would still exceed its costs by $95,842[40].

Discussion and Submission

Westario provided its monthly expenses for Network and Connection service for 2006 and 2007, but it did not include the billing demands or the Hydro One Retail Transmission Service Rates that were applicable to embedded distributors during those months. Staff submits that Westario would have the billing demands in its records. Even if not available, staff notes that the Hydro One rates were unchanged throughout most of that period and it would not be difficult to calculate the billing quantities from the financial records that have already been provided in response to Board staff IR #43 a).

Board staff notes that Hydro One received approval of RTS rates that would apply to Westario effective May 1, 2008, and has applied for new rates effective May 1, 2009. The pattern of change in Hydro One's rates is not dissimilar to the pattern assumed by Westario, so Westario's projections of its transmission-related expenses may be fairly accurate. Nevertheless, staff submits that Westario could produce a straightforward projection of its costs based on Hydro One's proposed Sub-Transmission Class Retail Transmission Service Rates (EB-2008-0187). Staff submits that the Board may wish to direct Westario to make this projection and file it with the Board, together with a new calculation of the RTS rates that it would charge to recover the respective costs of Network and Connection expense as part of Westario's draft rate order

Westario has noted that the disparity in projected cost and revenue in its application will be recorded in the variance accounts, and that those accounts might move toward a smaller balance as a result[41]. Staff submits that the proper way to proceed is to make the disparity in the test year as small as possible, and to clear the balance through the mechanism provided for disposing of variance account balances rather than attempting to over-correct individual accounts.

Other Distribution Revenue

Background

Revenue offsets decrease the need for revenue from distribution rates. Westario provided a breakdown of its revenue offsets in E3/T1/S1 – Operating Revenue

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[40] Response to Board staff IR #43
[41] Response to Board staff supplemental IR #11 a)

Summary table. Westario is forecasting $669,555 in revenue offsets for 2009. The 2009 forecast is down significantly from 2007, mostly due to Rent from Electric Property.

Westario proposed to continue with all of its currently approved Specific Service Charges.

Discussion and Submission

Overall, revenues related to account 4210 (Rent from Electric Property) and 4235 (Miscellaneous Service Revenues) make up approximately 69% of the total test year Other Revenue forecast. Staff notes the test year estimates related to account 4235 (Miscellaneous) appears reasonable, however, estimates related to account 4210 (Rent) are forecasted to decline from $482,151 in 2007 to $129,630 in 2008 and 2009.

Westario stated that the reason for this decline is due to the January 1, 2008 amalgamation. Following the restructuring, there were no longer revenues received from the rental of utility owned property such as the operational facility and the CIS system. The remaining amount for 2009 is for pole rentals only[42].

Staff notes that in response to VECC supplemental IR#24, Westario confirmed that its amount in account 4405 (Interest and Dividend Income) is $30,000. The amount for this account is noted as $225,324 in E3/T3/S1/Attachment 1 – Operations Revenue Summary. Staff notes that the difference is due to the removal of interest associated with the tracking of deferral and variance accounts[43]. Staff notes that interest associated with deferral and variance accounts should not be treated as a revenue offset as these amounts are recovered (or refunded) through a separate process. Staff notes that the number used by Westario for revenue offsets in determining its revenue requirement in its original proposal ($669,555) does in fact account for this difference and no further adjustment is required.

Overall, staff submits that Westario's forecast of revenue from sources other than distribution rates is reasonable.

Deferral and Variance Accounts

Background

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[42] E3/T3/S2/p.5 – Materiality Analysis on Other Distribution Revenue

[43] E3/T3/S2/p.8 – Materiality Analysis on Other Distribution Revenue

Westario provided the following balances representing principal transactions to December 31, 2007 and interest to April 30, 2009:

Account Number	Account Description	Total ($)
1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	50,826
1508	Other Regulatory Assets – Sub-Account – Pension Contributions	215,387
1518	Retail Cost Variance Account - Retail	(49,624)
1548	Retail Cost Variance Account - STR	86,157
1582	RSVA - One-time Wholesale Market Service	36,490
	Sub-Total	**$339,236**
1555	Smart Meter Capital and Recovery Offset	(134,277)
1556	Smart Meter OM&A	
1562	Deferred PILs	185,630
1563	Deferred PILs Contra Account	(129,820)
1565	CDM Expenditures and Recoveries	(52,580)
1566	CDM Contra Account	52,580
1590	Recovery of Regulatory Asset Balances	1,019,121
	Sub-Total	**$940,654**
1550	Low Voltage Variance Account	854,662
1580	RSVA – Wholesale Market Service Charge	(621,239)
1584	RSVA – Retail Transmission Network Charge	(387,244)
1586	RSVA – Retail Transmission Connection Charges	(1,983,291)
1588	RSVA – Power (including Global Adjustment)	2,985,135
	Sub-Total	**$848,023**

The total balance is $1,187,259 excluding the second group of accounts listed above. In its original application Westario applied to recover $1,134,993 by means of rate riders to be applied over two years. The sum is derived from two accounts. The larger is account 1550, which is the result of under-recovery of Low Voltage Costs in the rate adder approved previously. The other account is 1508, Other Regulatory Assets reflecting the recovery of OEB cost assessments and pension contributions. Westario is not seeking disposition of the remaining balances.

Westario allocated the balances to the rate classes in proportion to distribution revenue (Account 1508) and Retail Transmission – Connection revenues (Account 1550). The rate riders would apply to the volumetric billing components.

Westario revised its balances in response to interrogatories, which had a small effect on the rate riders for some classes and no effect on others due to rounding. The revised balances for accounts 1508 and 1550 are shown in the table above and the total requested for recovery is $1,120,875.

Discussion and Submission

Board Staff notes that the methodology proposed by Westario for the disposition of accounts 1508 and 1550 is consistent with the disposition of such costs in previous decisions.

Board staff also notes that the separate initiative that the Board will undertake for the review of the commodity account 1588 (RSVA-Power) and other related RSVAs has not yet been established. The rules or guidelines with respect to that process are not yet known. It has been the Board's practice not to dispose of RSVAs (with few exceptions) until such time as the initiative noted above is established. However, in order to allow the Board to evaluate the reasonableness of disposing certain of the remaining accounts, Board staff posed interrogatories in which Westario provided calculations for two scenarios.

First, a scenario that would dispose of the RSVAs in addition to those applied for (these are the third group of accounts in the table above), and second, a scenario that would dispose of the balances in all deferral and variance accounts except for the second group of accounts in the table above[44]. Board staff notes that the calculated rate riders are very similar in all scenarios. The reason appears to be that the deferral account variances are not large compared to the two accounts for which disposition was requested.

- All of which is respectfully submitted -

[44] Response to Board staff IR #44 b) and c)