



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

Welland Hydro-Electric System Corp.

EB-2008-0247

March 6, 2009

INTRODUCTION

Welland Hydro-Electric System Corp. ("Welland") is a licensed electricity distributor serving approximately 21,389 residential and general service customers. Welland filed its 2009 rebasing application (the "Application") on August 15, 2008. Welland 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. Welland submitted revisions to its Application on January 20, 2009.

The Association of Major Power Consumers in Ontario ("AMPCO"), the School Energy Coalition ("SEC") and Energy Probe were granted intervenor status.

This submission reflects Board staff's review of the pre-filed evidence, and updates to the evidence, and interrogatory responses made by Welland, and is intended to assist the Board in evaluating Welland's application and in setting just and reasonable rates. In this submission staff have only addressed issues of concern and those staff believes require clarification.

THE APPLICATION

In the Application filed on August 15, 2008 Welland requested a revenue requirement of \$9,357,747 to be recovered in rates effective May 1, 2009. The revenue requirement was revised in Welland's January 20, 2009 supplemental filing to \$9,145,865.

Rate Base

According to the January 20, 2009 revised filing¹ Welland is requesting approval of \$27.2 million for the 2009 rate base. This amount is a 5.9% increase (\$1.5 million) from Welland's 2007 actuals and an 8.3% increase (\$2.1 million) from its 2006 actuals.

¹ Exhibit F, Welland 2009 Distribution Rates Application, Supplemental Filing January 20, 2009

Capital Expenditures

Background

Welland has proposed 2009 capital expenditures of approximately \$2.3 million. This reflects a reduction of \$280,000 as compared to the original filed amount of \$2.6 million. Welland's 2009 proposed expenditure represents an increase of approximately 2.4% compared to the 2008 projected level of approximately \$2.2 million and a reduction of approximately 1% over 2007 actual capital expenditures of approximately \$2.3 million.

Discussion and Submission

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

Table 1

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	\$2,293,025	\$2,223,970	\$2,278,000
% change as compared to the prior year		-3.0%	2.4%

Some of the significant 2009 projects include:

- Rebuild of MS#2 Substation (\$300,000)
- Miscellaneous Pole Replacement (\$200,000)
- Mill Street and Ontario Road Rebuild (\$250,000)
- Update/Replacement of specific distribution systems (\$550,000)
- Underground Rebuild (\$360,000)
- Crowland Transformer Station (TS) Meter Point Upgrade: Welland has one Wholesale Meter Point within the distribution system which is located at Crowland TS. The Wholesale Meter Point is used to determine the energy used on eight 27.6 kV Welland Hydro feeders. The upgrade project is based on requirements issued by the Independent Electricity System Operator (IESO). The upgrade cost is based on installing fully compliant metering in each of the eight feeders. In response to a Board staff interrogatory #3, Welland indicated that the total cost of the project may be reduced by

exploring less expensive alternatives. Accordingly, Welland proposed to reduce the total amount of this expenditure from \$560,000 to \$280,000 for the 2009 Test Year.

Board staff suggests Welland's revised capital expenditures for 2009 seem appropriate. Board staff suggests it would be helpful if Welland can confirm that it is seeking \$27,186,822 in rate base and a total of \$2,278,000 in capital expenditures for the 2009 Test Year.

Payment in Lieu (PILs) of Taxes

1. Income Tax

Discussion and Submission

Welland clarified in a response to Board staff supplemental interrogatory #3 that, based on its January 20, 2009 revised filing, it is seeking a PILs expense of \$556,372 (\$528,952 + \$27,420) for the 2009 Test Year.

Calculations by Board staff indicate a total PILs expense of \$544,386 (\$516,966 + \$27,420) as compared to the amount claimed by Welland of \$556,372. Board staff followed the established methodology and guidelines in use since 2001. The guidelines were reiterated in the Board's 2006 Electricity Distribution Rate Handbook, Chapter 7, and in the accompanying PILs model for the 2006 applications. Using the Board's methodology, the regulatory net income can be calculated using the following formula: Rate Base multiplied by Deemed Equity Percentage multiplied by Deemed Rate of Return on Equity (Rate Base X Equity% X ROE%). The resulting starting point is \$1,008,851 for the PILs calculation using the filed ROE of 8.57% and \$942,929 using the recently Board updated ROE of 8.01%.

The Ontario component of the blended income tax rate varies based on taxable income thresholds of \$500,000 to \$1,500,000. As taxable income increases towards \$1,500,000 the income tax rate increases from the minimum rate of 5.5% until the maximum rate of 14% is reached.

The difference in the two amounts (as calculated by Board staff and Welland) exists due to the fact that Welland's starting point to calculate PILs expense is utility income before taxes of \$1,565,224. This amount was derived from a revenue deficiency exhibit². When this deficiency was added to the 2009 test year revenue, it increased taxable income, and resulted in a higher income tax rate than the Board's guidelines would indicate.

In 2008 EDR, applicants were instructed by the Board to submit the draft rate order based on revenue requirement. Similar types of errors in deficiency calculations were present in the 2008 applications.

Board staff submit that Welland should calculate the PILs expense using the appropriate starting point, and gross-up methodology, as found in the Board's 2006 application model and Handbook when it prepares its 2009 draft Rate Order.

Cost of Capital

Background

Welland has provided its proposed Cost of Capital in Exhibit 6. Table 2 below summarizes its proposals in this area:

² Exhibit A, Revised Revenue Deficiency Determination, January 20, 2009, EB-2008-0247

Table 2

Cost of Capital Parameter	Applicant'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 <i>Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors</i> , 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 cost rate for 2009 of 6.25%
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

Welland 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 56.7% debt and 43.3% 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.

Board staff notes that Welland's proposal is consistent with the Board Report.

Short Term Debt

Welland 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.

The Board has recently updated its Cost of Capital Parameters in a letter dated February 24, 2009. The Short-Term Debt rate for use in the 2009 rate year cost of service applications is 1.33%. Board staff submit that Welland should use the revised rate in its cost of capital calculation.

Long Term Debt

Welland is requesting a return on Long-term Debt for the 2009 Test Year of 6.25% which is the rate being currently paid on an existing long-term loan (Promissory Note) of \$13.5 million to the City of Welland, its shareholder.

There is no term length associated with the Promissory Note but the City can demand payment twelve months after written notice has been provided. In addition, the terms of the Note permit the City to adjust the interest rate by providing the borrower with three months prior written notice of the revised interest rate.

In Note 17 to its financial statements of December 31, 2007 Welland indicates that to test the marketplace it obtained a quote on a ten year note with no principal repayment. Welland received a quote between 5.00% and 5.25% from a large Canadian financial institution. However, in response to Board staff interrogatory #41, Welland indicated that since it does not have the option to pay off the principal on the Note payable to the City, it has no plans to refinance.

The Promissory Note and its amended versions were reviewed by the Board in Welland's prior rate proceeding (EB-2005-0428) and, as noted in Exhibit J of Welland's Response to Interrogatories, Welland submitted that a debt rate of 6.25% should be used for the purposes of cost of capital. Accordingly, the City passed a resolution on November 1, 2005 to amend the Note and fix the rate at 6.25%. Welland has provided the Amended and Restated Promissory Note filed as Exhibit M (page 3) in Response to Interrogatories. The Note states:

FOR VALUE RECEIVED, the Borrower hereby promises to pay to or to the order of the City of Welland, the principal sum of Thirteen Million, Four Hundred and Ninety-nine Thousand, Nine Hundred and Fifty-three dollars (\$13,499,953), with interest thereon from May 1, 2006 at the rate of six and one-quarter (6.25%) percent per annum, on a date which is no later than twelve (12) months from the date of demand in writing by the City.

It is evident from this amended version that the City has fixed the rate at 6.25% and there is no indication that it is variable based on the Board's deemed long-term debt rate. However, in response to a Board staff supplemental interrogatory #2, Welland has confirmed that it is seeking to recover through rates the Board determined deemed long-term debt rate for 2009.

The Board Report on Cost of Capital states (pp.13):

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, in which case it will be treated as new debt.

Board staff submits that since this Note has been reviewed and approved in a prior proceeding and is now in the form of embedded debt, Welland should be allowed to recover the actual cost of debt of 6.25% in 2009 rates.

Common Equity

Welland is proposing a return on equity ("ROE") rate for the 2009 Test year of 8.57%, in accordance with the Cost of Capital Parameter Updates for 2008 cost of service applications issued by the Board on March 7, 2008.

The Board has recently updated its Cost of Capital Parameters in a letter dated February 24, 2009. The Return on Equity for use in the 2009 rate year cost of service applications is 8.01%. Accordingly, Board staff submits that Welland should use the revised ROE rate in its revenue requirements and PILs calculation.

Smart Meters

Welland requested a rate adder of \$0.27 per month per metered customer in the original application. In the supplemental filing filed on January 20, 2009, Welland increased the requested Smart Meter Funding adder to \$1.00 per month. Welland expects to begin installation of smart meters in March 2009 and complete installation of all 21,535 meters by the end of 2009. The total cost of the program is estimated to be \$3.5 million.

According to the Board's recently released, "Smart Meter Funding and Cost Recovery Guideline" (G-2008-0002), an application for the standard \$1.00 smart meter funding adder must include some specific information about a utility's smart meter program. Some of this information has been provided in response to Board

staff supplemental interrogatory #4 while certain information was not available to Welland. Board staff suggests it would be helpful if Welland provided the following missing information in order to complete the record:

- Actual or estimated cost per smart meter
- A statement as to whether the distributor has purchased or expects to purchase smart meters or advanced metering infrastructure (“AMI”) whose functionality exceeds the minimum functionality adopted in Ontario Reg. 425/06, and an estimate of those costs
- A statement as to whether the distributor has incurred, or expects to incur, costs associated with functions for which the smart metering entity (“SME”) has the exclusive authority to carry out pursuant to Ontario Reg. 393/07, and an estimate of those costs.

Operations Maintenance & Administration

Welland submitted a revised Operations Maintenance & Administration (“OM&A”) forecast to the Board on January 20, 2008, updated with schedules on February 3, 2009, in which it proposed reduced OM&A spending for 2009 relative to its originally filed application. The reduction proposed is \$193,849 and is due to deteriorating economic conditions, including the loss of two of its three large customers. The originally filed total OM&A amount was \$5.1 million.

Discussion and Submission

Board staff submits that any reductions in OM&A approved by the Board must be reflected in a new working capital allowance calculation provided with the Draft Rate Order. This may also include updated Cost of Power estimates.

Welland’s amortization period for the non-recurring regulatory expenses should be 4 years and not 3 years as the IRM period includes a base year (2009) plus 3 IRM adjustment years before the next planned re-basing (2010, 2011 and 2012). The net effect is to reduce Welland’s request of \$66,500 per year, as stated in its response to Board staff supplemental interrogatory #11, to \$59,000 as shown in table 3 below.

Line Losses

Background

Welland is directly connected to the Hydro One transmission system, and purchases power directly from the IESO. Welland has proposed to decrease its distribution loss factor ("DLF") to 4.85%. Welland based its proposal on a three-year average of loss factors from 2005-2007, and has provided DLF averages with its proposal.³

Welland has applied the approved supply facilities loss factor ("SFLF") of 1.0045 to DLF values to determine its proposed TLF of 1.0532,

Welland's DLF for the 3-yr period from 2005 to 2007, averages, and DLF proposed for 2009, are shown in table 3 below:

Table 3

	2005	2006	2007	DLF average for 2005-2007	2009 proposed
DLF	1.0523	1.0362	1.0565	1.0485	1.0485

Discussion and submission

Welland has used a three-year average in its determination of its DLF. The proposed loss factor is lower than the DLF of 1.0552 that is applied to Welland's current rates.

Staff submits that Welland's proposed loss factors for 2009 are lower than the currently approved DLF, and are consistent with other non-embedded utilities of similar size and profile.

Cost Allocation and Rate Design

³ Exhibit 4, Tab 2, Schedule 8

Retail Transmission Service Rates

Background

In its original application, Welland indicated it had not prepared updated retail transmission costs, and would await a Board order directing it to update these rates.⁴

On November 3, 2008, Welland filed supplemental evidence on retail transmission service ("RTS") rates, to take into account direction set out in the Board's guidelines on RTS rates, issued October 22, 2008. The November 3, 2008 evidence included a new calculation to more accurately reflect the costs of these services from Hydro One.

Welland's proposed RTS rates take into account changes to Hydro One's Uniform Transmission Rates (wholesale) that came into effect January 1, 2009. Welland provided a variance analysis indicating how the rates would mitigate growth in these balances. Welland indicated that due to timing differences in the changes to rates, it would experience unfavourable variances in both the Retail Transmission Network and Connection variance accounts⁵

Welland's proposed RTS rates match the change in the wholesale rates.

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."⁶

The balances in account 1584 and account 1586 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.

⁴ Exhibit 4, Tab 2, Schedule 12

⁵ Account 1584 - Retail Transmission Network Variance Account; Account 1586 – Retail Transmission Connection Variance Account.

⁶ Page 3, second paragraph

Staff submits that the supplemental evidence filed by Welland takes into account the update to Hydro One's Uniform Transmission Rates, and the trend analysis provided by Welland addresses the concern regarding the growing balances in account 1584 and account 1586. Staff submits that the RTS rates developed by Welland 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 5 below.⁷

Welland's original application involved 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 of Table 4.

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.⁸

Table 4 – Response to Board Staff Interrogatory #6

Customer Class	CA Report ⁹ Range	CA Info. Filing	2009 Rate Application, August 15, 2009	2009 Rate Application, January 20, 2009	2010 IRM	2011 IRM
Residential	85-115	127.24	114.46	115.61	112.90 ¹⁰	
GS < 50	80-120	75.20	86.00	85.00		
GS > 50 kW – regular	80-120	65.22	85.64	85.00		
Large Use	85-115	100.69	99.99	95.56		
Street Lighting	70-120	12.17	40.96	40.35	71.27	71.27
Sentinel	70-120	18.71	55.10	52.97	91.30	91.30

⁷ Table reproduced from Response to Board staff interrogatory number 6

⁸ *Application of Cost Allocation for Electricity Distributors*, EB-2007-0667

⁹ Report of the Board, *Application of Cost Allocation for Electricity Distributors*, November 28, 2007

¹⁰ Welland indicated based on this application, that the increases to street and sentinel lighting in 2010 would result in a revenue-to-cost ratio of 112.90 in 2010. Welland has not confirmed that it will request this ratio in 2010 IRM.

Lighting						
USL	80-120	114.89	100.58	100.58		

On January 20, 2009, Welland filed supplemental evidence on the loss of two of three large use customers, and the impact on its original application.

Welland noted that due to the lost revenues associated with the loss of two of its three large use customers that the remaining single large user customer should not be expected to absorb the total cost allocated to this class in the 2008 Cost Allocation filing.¹¹ Welland has proposed to adjust its cost allocation and has provided new ratios.¹²

Welland did not file an updated cost allocation study to support its proposed 2009 cost allocation. An updated study would reflect how absorption of the costs associated with the large use class will take place. Welland has indicated that preparing a revised cost allocation study is onerous and time-consuming, and has indicated that it believes it would be better to file this update to its cost allocation study when it files its next Cost-of-Service application.

Discussion and Submission

Board staff notes that the proposed ratios are within the Board's range for all classes except Street Lighting, Sentinel Lighting, and Residential, 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 except the Large Use class.

The proposed R/C ratio for Street Lighting is at the approximate midpoint between the Cost Allocation information filing 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.

¹¹ The two large customers lost were responsible for \$331,897 in revenues and were allocated costs totalling \$329,719. Welland is proposing to allocate the costs among various classes.

¹² Supplemental evidence filed January 20, 2009, pp.3-4.

In response to Board staff interrogatory # 6(b) Welland provided assurance that it will reach the lower boundary of the policy range by 2010 for Street and Sentinel Lighting. Staff submits that Welland's proposal for street and sentinel lighting is consistent with many recent decisions where LDCs have been required to meet the lower boundary of the target range in the year subsequent to the approved rate year.

Allocators for Disposition of Regulatory Asset Rate Riders

Background

Welland applied to dispose of regulatory asset rate riders on the basis of historical 2007 distribution revenues and kWh. Energy Probe supplementary interrogatory # 42(d) requested that Welland recalculate allocators for rate riders using forecast 2009 distribution revenues and kWh. Welland provided these update rate riders at Exhibit J and K to the responses to Energy Probe supplemental interrogatories, filed February 13, 2009. Welland agreed with Energy Probe that there may be some merit to using forecasted 2009 customers/volumes as a result of the significant change within the Large Use class.

Discussion and Submission

While Welland provided the analysis requested by Energy Probe, past practice for the allocation of rate riders has been to use historical data to ensure that the customer classes that contributed to the variance receive the appropriate corresponding charge or credit.

Welland filed supplemental evidence on January 20, 2009, to account for the loss of a Large Use customer, the second Large Use Customer was lost. Welland indicated that it would be unfair to burden the single remaining Large Use customer, and contemplated mitigation measures. Staff submits that inequities in the assignment of rate riders would occur using either 2007 historical values or 2009 forecasted values. However, staff submits that using 2009 forecasted values for assignment of rate riders would reduce the degree of mitigation effected on the Large Use class. Also, considering the significant loss of load within the Large Use class using 2009 forecast values appears to better reflect Welland's current circumstances. For these reasons staff submits that rate riders should be allocated on the basis of 2009 forecast volumes and kWh's. However, staff notes that this does not follow past practice and staff invites comments from interested parties..

Deferral and Variance Accounts

Accounts specifically requested for disposition by Welland

Background

Welland is requesting clearance of the accounts shown in the Table 6 below.¹³ These balances for disposition as of April 30, 2009 have since been updated as per the revised continuity schedule.¹⁴ Welland has requested the disposition of a number of Retail Settlement Variance Accounts ("RSVAs"). The balances provided in Table 6 below include December 31, 2007 balances with interest forecasted up to April 30, 2009.¹⁵

**Table 6 – Deferral and Variance Accounts
Requested for disposition by Welland**

Account Number	Account Description	Balance
1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	\$35,589
1508	Other Regulatory Assets – Sub-Account – Pension Contributions	\$236,847
1525	Miscellaneous Deferred Debits	\$13,257
1574	Deferred Rate Impact Amounts	\$131,236
1580	RSVA – Wholesale Market Service Charge	\$(934,208)
1582	RSVA – One-time Wholesale Market Service	\$43,025
1584	RSVA – Retail Transmission Network Charge	\$446,668
1586	RSVA – Retail Transmission Connection Charge	\$195,542
1588	RSVA – Power (excluding Global Adjustment) ¹⁶	\$(889,522)
	Total	\$(721,566)

¹³ Reproduced from Exhibit N, supplemental evidence, filed January 20, 2009.

¹⁴ Exhibit M, Supplemental evidence, filed January 20, 2009.

¹⁵ Except for accounts 1574 and 1588 which have forecasted principal transactions beyond December 31, 2007.

¹⁶ Exhibit M, Supplemental Evidence, Filed January 20, 2009. Account 1588, sub-account global adjustment at December 31, 2007 stated as \$(60,151).

Welland's proposal is to refund these amounts to rate payers over two years beginning May 1, 2009 via a variable rate rider.

Discussion and Submission

Staff notes that the credit balance submitted for these accounts (which include RSVA, RCVA and certain non-RSVA variance accounts) is approximately 8% 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 has undertaken 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 general practice not to dispose of RSVA and RCVA accounts until such time as they are cleared through the initiative as noted above, the Board may wish to consider disposition at this time as it has done in previous applications where LDCs were carrying large balances.¹⁸

Board staff submits that the Board should consider allowing Welland's request to clear these accounts, including account 1574 but with the exception of forecasted transactions in account 1588 beyond December 31, 2007. Accounts 1574 and 1588 are discussed below.

Account 1574 – Deferred Rate Impact Amounts

Discussion and Submission

Welland noted that account 1574 had a zero balance at December 31, 2007. Welland has forecasted principal transactions in account 1574 beyond December 31, 2007. The balance in account 1574 was a pre-authorized balance arising from the Board's EB-2007-0663 Decision and Order. This Decision and Order also allowed the utility to record the balance in account 1574 for future review and disposition. Board staff has confidence that an independent third party has audited

¹⁷ This ride would be equivalent to approximately 4% of revenue requirement per annum, based on the two year rate rider proposed by Welland.

¹⁸ Decision for Hydro 2000 – EB-2007-0704, page 10

this balance in account 1574.¹⁹ As a general principle in the electricity sector, unaudited principal balances are not approved for disposition. Board staff agrees with this balance, and submits that the Board should consider allowing Welland's request to clear this account.

Account 1588 – RSVA power (excluding Global Adjustment)

Discussion and Submission

It appears that the forecasted adjustment of \$80,005 plus interest in account 1588 occurred in 2008 and therefore should be reflected in the 2008 audited financial statements.²⁰ It is unclear why this adjustment was not incorporated into the 2007 audited financial statements if it related to the 2007 period.²¹ Given that the utility has done normal accounting procedures and has closed its books for 2007, this amount should not be considered to be part of the 2007 balance.

Board staff submits that usual Board practice in the electricity sector is to use audited numbers for the last fiscal year (2007) as the basis for balances for disposition, with interest forecasted up to the start of the new rate year. Board staff submits that account 1588 is a rolling balance account. The forecasted transaction that occurred in 2008 in account 1588 should be reflected in a balance submitted and reviewed for disposition in a future rate proceeding.

A revised continuity schedule excluding the forecasted principal balances (and associated interest) in account 1588, and a revised rate rider schedule (reconciled to the continuity schedule) would be helpful if provided by Welland.

Specific accounts not to be considered for disposition

Background

Table 7 below indicates accounts which Board staff does not recommend for disposition in this proceeding.

¹⁹ Exhibit A, Response to Board staff supplemental interrogatories. Filed February 13, 2009.

²⁰ Exhibit M, Supplemental Evidence, Filed January 20, 2009.

²¹ See response to Board staff supplemental interrogatory number 9. Filed February 13, 2009.

**Table 7 – Deferral and Variance Accounts
Not to be considered for disposition**

Account Number	Account Description	Balance
1562	Deferred Payments in Lieu of Taxes ("PILs")	\$2,208
1590	Recovery of Regulatory Asset Balances	\$13,834 ²²
	Total	\$16,042

Discussion and Submission

These accounts, which may be reviewed by separate independent Board processes, have a total debit balance of \$16,042. Board staff submits that these accounts should not be disposed of in this proceeding.

- All of which is respectfully Submitted –

²² Welland has Included a forecasted transaction beyond December 31, 2007 of \$(391,815).