



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2009 ELECTRICITY DISTRIBUTION RATES

West Coast Huron Energy Inc. (“West Coast Huron”)

EB-2008-0248

March 12, 2009

Introduction

West Coast Huron Energy Inc. (“West Coast Huron” or the “Applicant”) is owned by the Town of Goderich. West Coast Huron provides distribution services to approximately 3350 Residential customers, 522 smaller General Service customers, 55 larger General Service customers and one large user. West Coast Huron filed its 2009 rebasing Application on September 11, 2008. The Application is 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 (“AMPCO”) were granted intervention status in this proceeding.

On December 19, 2008, West Coast Huron filed with the Ontario Energy Board (the “Board”) its responses to the written interrogatories (“IRs”) from Board staff and other parties. On January 16, 2009, West Coast Huron filed an update to its Load Forecast. On February 2, 2009 West Coast Huron filed its responses to a supplementary round of written interrogatories. A conference call was held on February 20, 2009 between the Applicant, VECC and Board staff and on February 27, 2009 West Coast Huron filed an update to certain IR responses.

In Procedural Order No. 5, the Board determined that this application would proceed by way of a written hearing process, and sought submissions from Board staff and other parties to this proceeding.

The following issues are addressed in these submissions:

- Load Forecasting
- Rate Base and Capital Expenditures
- Cost of Capital and Capital Structure
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Cost Allocation
- Rate Design (Monthly Fixed Charges, Retail Transmission Service Rates)
- Loss Factors
- Deferral and Variance Accounts/Rate Riders

These submissions reflect observations and concerns on specific issues which arise from Board staff's review of the pre-filed evidence and interrogatory responses ("IRs") made by West Coast Huron, and are intended to assist the Board in evaluating West Coast Huron's application and in setting just and reasonable rates.

Load Forecast

West Coast Huron presented its load forecast in Exhibit 3 of its pre-filed evidence. The Applicant determined the 2008 Bridge Year and 2009 Test Year customer count. It also determined the kWh forecast – and the kW forecast for appropriate classes – by customer class and presented variance analyses in support of the forecasts.

The Applicant provided additional information in response to two rounds of Board staff and VECC forecasting interrogatories and one round of SEC forecasting interrogatories. On January 16, 2009, in response to the initial round of interrogatories, the Applicant filed a revised Exhibit 3 that provided a modified forecast and additional clarification.

Discussion and Submission

Two significant larger customer events, the Volvo plant closure and the Sifto Salt expansion, were taken into account in the development of the load forecast. For the Residential, GS<50kW and GS 50 to 499kW classes (i.e. the weather sensitive classes), the annual average growth in the number of customers during the 2002-2007 period was forecast to continue for 2008 and 2009. For the other classes, the 2007 actual customer count was maintained for 2008 and 2009.

The weather-normalized load forecast was developed using a variation of the established Normalized Average Consumption (NAC) approach. For each of the weather sensitive classes, in this application the Applicant weather-corrected each of the 2002 to 2007 kWh loads using the weather-normalization factors available from the IESO website. Specifically, for each customer class and for each year, the weather-corrected load was divided by the respective number of customers to determine an NAC (i.e. kWh per customer) value; the six NAC values for each class were then averaged over the 2002-2007 period. The forecast loads for 2008 and 2009 were determined by multiplying the average NAC value by the forecasted number of customers in that class. A somewhat similar but non-weather normalization approach was used for the other classes. The kW demand forecast was established in a similar manner.

Because the Applicant's methodology does not take into account future conditions and could be characterized as a "rear-view mirror" approach, Board staff has reservations about the methodology's ability to produce an accurate forecast.

Both the historical and forecasted customer counts increase on the order of 0.8% per year. The 2009 forecast customer count is 5,285. In reply to VECC IR #2, the Applicant showed that even in the low customer-growth environment, the November 2008 actual customer count was noticeably lower than the 2008 year-end forecast. The historical kWh growth was 2.0% per year; the forecast growth is 2.2% per year. The 2009 forecast load is 144.3 GWh.

While there were numerous interrogatories from Board staff and intervenors on this issue, the majority of these questions were aimed at correcting errors and clarifying ambiguities.

In reply to Board staff supplementary IR #3, the Applicant noted that the effect of a rounding "error" it had made was to increase the forecast number of customers by a small margin.

The Applicant stated in Exhibit 3/Tab2/Schedule1/p 2 and confirmed in VECC supplementary IR #4, that the *average* NAC over the 2002-2007 period was calculated for each of the three weather sensitive classes and this value was used to forecast the 2008 and 2009 kWh forecasts. Board staff plotted the annual NAC values and found a pronounced downward slope in each of the three NAC streams. Therefore, had the Applicant used the trend values rather than average values, this would have resulted in a lower kWh forecast, perhaps as much as 5% lower.

In response to Board staff supplementary IR #2, the Applicant acknowledged that it had not considered broader economic effects. In the same interrogatory and in response to the SEC IR #5, the Applicant acknowledged that it had not taken into account the impact of CDM. The inclusion of broader economic effects and/or CDM would produce a lower forecast.

Board staff has reservations about the limitations of the methodology employed for this load forecast, given the minimal growth experienced over the 2002-2007 period and the consistent over-estimation of customer count and loads.

Board staff invites parties to comment on the load forecast and particularly the results which appear to overestimate load growth for the test year.

Rate Base

Capital Expenditures

West Coast Huron proposed 2009 capital expenditures of \$755,000. This represents an increase of approximately 67% compared to the 2008 projected level of \$453,000 and an increase of approximately 260% over 2007 actual capital expenditures of \$209,808.

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	\$209,808	\$453,000	\$755,000
% change from prior year		116%	67%

In 2007 West Coast Huron conducted an engineering study to assess the distribution system constraints and operating abilities. The study revealed the requirements of a multi-year plan that would address system constraints. This has led to increased capital investment in 2008 and 2009.

Some of the significant 2009 projects include:

- Upgrade of Poles and Conductors on M3 6 spans from transformer station (\$80,000);
- Purchase of bucket truck (\$290,000);
- Cost of connecting new customers (\$60,000);
- Replacement of danger poles within the distribution system (\$50,000); and
- 27 kV conversion and feeder operating enhancements (\$175,000).

West Coast Huron emphasized in Board Staff IR #17 (g) that the Company's proposed capital expenditures for 2008 and 2009 are fairly consistent if the cost of the bucket truck in 2009 (\$290,000) is excluded. The Applicant indicated that the existing bucket truck is 18 years old and has exceeded its end of life expectation (Exhibit 2/Tab3/Sch3/p1).

West Coast Huron has two feeders, the M3 which peaks at 17 MW and the M4 which peaks at 9.5 MW. The load on the M3 is primarily Sifto Salt, a large commercial customer. Since the conductor exceeds its rating at peak, the utility has no operating flexibility or redundancy for the loss of critical feeder elements. Sifto has expansion plans and West Coast is concerned that a critical situation is going to get worse.

West Coast Huron hired an engineering firm to recommend alternatives to the utility. The engineering firm essentially recommended two major approaches. The first is to maximise the facility of the two existing feeders and the second (preferred) option is to add a third feeder. West Coast Huron has determined that it will add a third feeder consisting of a number of steps outlined in Exhibit 2, Tab 3, Schedule 3, page 2. This solution requires significant investment over the next five years. Once completed, West Coast Huron claims that the upgrade will relieve constraints, reduce system losses, and provide safe, reliable power for the customers served.

In response to Board staff IR #10, West Coast Huron estimated a project cost of \$315,000 related to 27 kV conversion and feeder operating enhancements including relieving constraints on South Loop, for the 2009 Test Year. However, in response to Board staff IR # 17, the Applicant has indicated an amount of \$175,000 for the 27 kV conversion and feeder operating enhancements. Board staff invites West Coast Huron to clarify the two responses.

Payment in Lieu (PILs) of Taxes

In response to Board staff supplemental IR#13, West Coast Huron stated that it will use 43.33% as the deemed equity component in its capital structure. The PILs tax allowance for inclusion in rates will change when West Coast Huron provides the updated PILs calculations using the revised equity amount and return on equity.

Tax legislation has changed for the 2007, 2008 and 2009 tax years. It appears that West Coast Huron is using tax information in its PILs calculations which is not current for the 2009 Test Year. West Coast has used a weighted average tax rate of 18.3%. This

includes a Federal Tax of 12.8%, Ontario tax of 14.0% and a provincial small business rate of 5.50%.

Board staff submit that West Coast Huron should use the 2009 applicable tax legislation¹ including the revised deemed equity component of 43.33% and the recently released Return on Equity rate of 8.01%² in determining its PILs tax allowance for inclusion in 2009 rates.

Cost of Capital

West Coast Huron has provided its proposed Cost of Capital in Exhibit 6. The following table summarizes the Applicant's proposals in this area:

Table 3 (from Exhibit 6)

Cost of Capital Parameter	Applicant Proposal
Capital Structure	Capital structure of 53.33% debt and 46.67% equity.
Short-Term Debt	Rate of 4.77% on short-term debt
Long-Term Debt	Long Term Cost of debt of 7.25%
Return on Equity	Return on equity rate of 8.68%

Discussion and Submission

Capital Structure

West Coast Huron has a deemed current capital structure of 50% debt and 50% equity. Responding to a Board supplemental IR #12, West Coast Huron changed its initial request of 53.33% debt and 46.67% equity to a capital structure of 56.67% debt and 43.33% equity.

¹ Recent tax information can be found at <http://www.taxtips.ca/smallbusiness/corporatetax.htm>

² As per Cost of Capital Parameter Updates for 2009 Cost of Service Applications released on February 24, 2009

Board staff notes that this change complies with the Board Report which requires all licensed Ontario electricity distributors to move toward a 60% debt and 40% equity ratio.

Short Term Debt

As per the response to Board supplemental IR# 12, West Coast Huron has included a 4% short-term debt component as part of its proposed capital structure and has proposed a short-term debt rate for the 2009 Test year of 4.77%. Board staff notes that the short term rate in accordance with the letter from the Board of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications is 4.47%. West Coast Huron has however indicated in response to Board staff IR #25(a) that the 4.77% rate is simply a placeholder and recognizes that the rate would be updated by the Board prior to approval of final 2009 rates.

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 submits that West Coast Huron should use the revised rate in its cost of capital calculation.

Long Term Debt

West Coast Huron's current long-term debt is by way of a Promissory Note payable to the Town of Goderich. The original Promissory Note signed in December 2000 was renegotiated in November 2002 and a balance of \$974,454 was fixed at a rate of 7.25% per annum under the original and current conditions.

The original conditions of the Note indicated a period of four years and a review of the Note at the end of this period. In response to Board staff supplemental IR#11, the Applicant indicated that the Note was not reviewed in 2004. According to West Coast Huron, both the shareholder and the Board were satisfied with the terms and interest rate of 7.25%. West Coast Huron also confirmed that no market quote was obtained in November of 2002.

West Coast Huron also indicated (Board staff supplemental IR#13) that the details of the Promissory Note were discussed by the shareholders and the utility in April 2006 but no changes were made. It is not certain what interest rate West Coast Huron would have received from the open market for a similar term loan in 2002 when the utility renegotiated the loan.

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

Common Equity

West Coast Huron is proposing a return on equity ("ROE") rate for the 2009 test year of 8.68%. Board staff notes that the rate used by West Coast Huron is not in accordance with the Board's letter of March 7, 2008 regarding cost of capital updates for 2008 cost of service applications.

In addition, 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 West Coast Huron should use the revised ROE rate in its revenue requirements and PILs calculation.

OM&A Costs

Costs and Peer Costs

West Coast Huron requested an increase for OM&A of approximately 26% from 2006 actual to 2009, or 29.4% from 2008 to 2009 as indicated in Table 3 in Board staff IR #4 (b). West Coast Huron historically has had higher than average industry, and higher than the average cohort, OM&A Expense per Customer. The total OM&A costs, found in both the January 16, 2009 update and the February 27, 2009 update are stated as \$1,806,250. As indicated below, there are inconsistencies in the specific areas of the evidence, and changes appear to have been made since, in addition to these updates.

Board staff submits that the applicant should examine its OM&A totals with regard to the specific cost areas noted below and in its reply argument confirm the total proposed/requested OM&A amount for the test year.

One Time Costs

Post Retirement Benefits

West Coast Huron, in response to Board staff IR #4, and Board staff supplemental IR #8 indicated that one time provisions for the liability of the post retirement non-pension benefits were made in 2007 and are forecast for 2009. Board staff IR#4 identified this amount as a one time cost of \$150,000 in the test year. In the response to Board staff supplemental IR #8 West Coast Huron stated that the \$150,000 provision was a management estimate. Board staff notes that West Coast Huron's auditors, Takalo &

Burt, stated in their Auditor's Report to the 2007 Financial Statements (Exhibit 1/Tab3/Sch1):

Management has recorded an accrual for employee future benefits of \$150,000. There has been no actuarial valuation made of this liability. Due to the complexity of this estimate and its sensitivity to assumptions used we were unable to obtain sufficient appropriate evidence to provide reasonable assurance that management's estimate of the employee future benefits liability is reasonable within the context of the financial statements as a whole.

Board staff invites comment from intervenors and the Applicant on the post retirement benefits estimate and submits that even if this amount was approved for 2009 OM&A, that it be amortized over 4 years, similar to the treatment of regulatory costs.

Regulatory Costs

Board staff IR #6 requested a schedule of regulatory costs from 2006 to 2009, and asked West Coast Huron to indicate whether the costs were one time or on-going. Included in the on-going costs for 2009 was an entry of \$105,000 titled "Rate Applications". This is up from \$3,633 in 2006. Board staff notes that there are also one time legal expenses budgeted in 2009 of \$60,000, for a total of \$165,000. The interrogatory response did not sufficiently clarify which of these costs were on-going.

On February 27, 2009, West Coast Huron filed an Interrogatory Evidence Clarification in which the one-time costs and on-going costs were clarified. The regulatory costs reported in this final set of costs totals \$178,000, up from the original \$165,000. The costs are shown in the table below:

	One-Time	On-Going	Total
Consulting Fees	\$ 90,500	\$ 15,000	\$ 105,500
Accounting Fees	\$ 11,500	\$ 13,000	\$ 24,500
Intervenor Costs	\$ 28,000		\$28,500
Legal Fees	\$ 10,000	\$ 10,000	\$ 20,000
Total	\$ 140,000	\$ 38,000	\$ 178,000

The table shows that there are some inconsistencies with other evidence in the Application. The \$28,000 intervenor cost amount was not mentioned until this update, and the consulting fee (Erie Thames Services) of \$90,500 is less than \$100,000 stated for rate rebasing services from Erie Thames Services in Exhibit 4/Tab 2/Schedule 6. Board staff submits that in its reply argument West Coast Huron should explain the

change from \$165,000 to \$178,000 for regulatory costs, and how this change is reflected in the total OM&A budget.

Charitable Expenses

In response to Board staff IR #7(c), West Coast Huron stated that \$11,900 was budgeted for charitable costs. In the response to Board staff IR # 7 (e), West Coast Huron stated that it does not partake in any Winter Warmth programs and that such services are provided through the County of Huron. Pursuant to the Board's 2006 EDR Handbook, charitable donations are not allowed in the revenue requirement, except for programs that provide assistance to customers to pay their bills. Board staff submits that these costs should be removed from West Coast Huron's cost of service.

Administration and Environmental Services

West Coast Huron purchases administration and environmental services from the Town of Goderich, its shareholder. These costs have increased from \$40,000 to \$110,000 (up \$70,000 or 175%) from 2006 to 2009, as seen in the table provided in response to Board staff IR #8(b).

With regard to administrative services, West Coast Huron appears to be fully staffed, with a President, a Treasurer and operating and bookkeeping staff. As shown in other interrogatory responses, (Board staff IR #8 and IR #6), other operations matters, such as IT or regulatory applications are accounted for through outside services. In addition, in Board staff supplemental IR #6 West Coast Huron states that the President and Treasurer were part-time employees until the end of 2007. In 2008, the costs previously recorded as wages are now paid as a Management Fee. However, the FTE count reported by West Coast Huron has not changed.

Board staff invites the Applicant to clarify the evidence filed in this area in the context of the total OM&A budget.

With regard to environmental services, West Coast Huron has an approved CDM Plan with a budgeted amount of \$33,000 through 2007 (2004-2007 Demand Management Plan). Board staff IR# 5 (a) requested additional information on the \$55,658 variance between 2007 and 2008 for Account 5630; Outside Services Employed. The explanation in the Application found at Exhibit 4/Tab2/Schedule, page 8 states; "Addition of cost of Environmental resources shared with the Town of Goderich. Increase in Audit and legal fees." In response to Board staff IR#5, West Coast Huron stated:

“The Environmental Services Technologist manages and operates the Demand Side Management Programs, assists customers with energy conservation and updates the hydro webpage. Below is the purpose of this position from the Town of Goderich job description for the Environmental Services Technologist:

‘To develop and manage a comprehensive program for improving the ecology of the Town of Goderich and area, and which specifically: addresses local, regional, national and international environmental issues as they relate to, or impact upon, local needs and priorities determined by Council; and provides scientific and technical advice and assistance to Council, the Environmental Committee and West Coast Energy Inc. (Goderich Hydro) concerning issues that relate to the environment.’”

Considering that West Coast Huron’s CDM plan expenditures were \$33,000, and only extended to 2007, Board staff questions the relevance of the environmental services costs being charged to the distribution utility for the test year.

Board staff submits that, in summary, transfer charges from the Town of Goderich have increased without a clear rationale and invites the Applicant to clarify this evidence in the context of the total OM&A budget for the 2009 test year.

Cost Allocation and Rate Design

Revenue to Cost Ratios

In the Application, West Coast Huron provided its Informational Filing (EB-2007-0001), which indicates the revenue to cost (“R/C”) ratios that result with the existing rate structure. This is shown in the first column in the table below. In response to VECC IR #7(b) and VECC supplementary IR #9, West Coast Huron provided an alternative run of the cost allocation model that reflects the removal of costs and revenues associated with \$124,726 of transformer ownership allowance. The resulting R/C ratios are found in the second column below.

West Coast Huron’s application includes 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 range of ratios for each class found in the Board’s policy document on this subject is found in the final column. (Ref: “Cost Allocation for Electricity Distributors” November 28, 2007)

Revenue to Cost Ratios
Percent

Customer Class	Informational Filing EB-2007-0001	Response to VECC IR Supplementary # 9 (updated)	Application: Response to SEC Supplementary #6	Board Policy Range
Residential	82.39	89.44	92.70	85 – 115
GS < 50 kW	81.66	88.20	92.33	80 – 120
GS 50 – 499 kW	169.08	175.11	136.76	80 – 180
GS 500 – 4999 kW	371.28	318.54	179.56	80 – 180
Large Use > 5 MW	108.03	63.35	105.73	85 – 115
Street Lights	27.82	31.94	72.10	70 – 120
Sentinel Lights	81.15	93.68	92.07	70 – 120
USL	63.57	64.67	83.14	80 – 120

Discussion and Submission

The proposed ratios are calculated using the conventional assumptions about the Transformer Ownership Allowance (“TOA”) as in the Informational Filing. Modifying the TOA assumptions of the model as requested by VECC, the ratios for the GS 500 – 4999 kW and Large Use classes and for all other classes are higher than those in the Informational Filing. Board staff submits that the modification requested by VECC does correct an inconsistency in the original version.

The new ratios based on West Coast Huron’s proposed rates are all within the ranges expressed in the Board’s policy. Classes that are already within the range move toward 100%. West Coast Huron’s intentions for the years beyond 2009 does not appear to have been articulated in the record. In its reply submission, West Coast Huron may wish to confirm that its intention is to maintain the same ratios.

If revenue were calculated using the proposed rates and costs and allocated using the VECC TOA variation of the model, the new ratios would also be lower for the two classes with the larger customers and higher for all other classes (relative to those in the third data column in the table). Board staff submits that the re-balancing of rates proposed by

West Coast Huron would likely move ratios into the Board's required range, and those within the range, toward 100%, if ratios were to be calculated from this alternative version of the model. The exception to that pattern might be the Large User class, which starts from within the range in the Informational Filing but starts from below the range in the VECC version.

Board staff submits that the new ratios are reasonably accurate as shown in the table, and that the proposed re-balancing of West Coast Huron's distribution rate revenues amongst its classes is also reasonable.

Monthly Fixed Charges

West Coast Huron proposes to maintain Monthly Service Charges at their current approved amounts, except for Streetlighting, the monthly fee for which is proposed to increase from \$0.71 to \$1.9458 per connection. Volumetric rates are proposed to increase by various percentages to yield the respective class revenue requirements, as explained in Exhibit 9/Tab1/Schedule 6/pp 3-6.

Discussion and Submission

Board staff notes that the fixed:variable split is decreased as a result of West Coast Huron's proposed rate design for all classes, except for the GS 500-4999 class. This class benefits from rate re-balancing more than any other class, to the point that its class revenue decreases and the proposed volumetric rate is lower than the existing approved rate.

Board staff notes that the current fixed rates are higher than the respective ceilings for all classes, except for Streetlighting. (Ref:Exhibit9/Tab1/Schedule1/p1) Board staff supports the proposal to leave the fixed rates at their current approved amounts because it avoids moving the rate further from the range that is calculated in West Coast Huron's cost allocation study.

Retail Transmission Service Rates

In the EB-2007-0892 Decision, the Board directed West Coast Huron to implement Retail Transmission Service Rates ("RTSR"), effective May 1, 2008, that were 18% lower (Network rates) and 5% lower (Connection rates) than the previous rates. These changes reflected the Uniform Transmission Rates ("UTRs") that came into effect in November 2007.

New Uniform Transmission Rates came into effect January 1, 2009, however, West Coast Huron did not propose to change its RTSRs (effective May 1, 2009) in this application.

In response to Board staff IR # 46, West Coast Huron provided data on monthly costs and revenues from January 2007 – November 2008. In response to Board staff supplementary IR #15(b), West Coast Huron confirmed that its actual revenue from its current Network RTSRs in the period June – November 2008 was \$294,911 and that its costs at 2009 UTRs would have been approximately \$320,000, a deficiency of 7.6%. Similarly, in response to Board staff supplementary IR #15(d), West Coast Huron confirmed that its actual revenue from its current Connection RTSRs in the period June – October 2008 was \$244,668 and that its costs at 2009 UTRs would have been approximately \$270,000, a deficiency of 11.1%.

In response to Board staff supplementary IR #15(e), West Coast Huron provided a set of RTSRs that are higher than the current approved rates by 7.6% (Network) and 11.1% (Connection).

Discussion and Submission

While Board staff recognizes that the base period used in the exercise described in the previous section is only part of one year, Board staff submits that the rates calculated by West Coast Huron in response to Board staff's supplementary IR #15(e) are reasonable and should be approved.

Loss Factors

West Coast Huron has proposed a decrease in its Total Loss Factor ("TLF") from the currently approved level of 1.0726, to 1.0467 for secondary metered customers < 5000 kW. For primary metered customers the total loss factor is proposed to decrease from 1.0619 to 1.0362. For customers larger than 5000 kW, the factors would remain unchanged at 1.0145 and 1.0045 for secondary- and primary-metered customers, respectively.

West Coast Huron provided a six-year history of its Distribution Loss Factor ("DLF"), which averages 1.0420. Its Supply Facilities Loss Factor is the default factor, and the requested TLFs are consistent with these two factors.

Discussion and Submission

West Coast Huron submitted in 2006 that its DLF was above 5%. The Board approved these loss factors which have been in effect since 2006. The Board also ordered West Coast Huron to submit a plan to decrease its losses, which it did on November 8, 2006. Based on the quantitative information provided with this application, which extends back to 2002, it now appears that West Coast Huron's DLF may not have been above 5% in the first place. Nonetheless, the six-year average DLF is lower than the average in the period prior to 2006.

Board staff submits that West Coast Huron's proposed DLF is reasonable, and that the proposed TLFs are supported by the evidence.

Deferral and Variance Accounts

West Coast Huron did not request disposition of any deferral or variance accounts.

At the request of Board staff, West Coast Huron filed information on its deferral and variance accounts in a continuity schedule (Ref: Updated response to Board staff supplemental IR #16). The table below shows the balances at year-end 2007, inclusive of projected interest up to April 30, 2009. West Coast Huron also provided its audited financial statement for 2007, which showed regulatory assets totalling \$(409,238). (Ref: Appendix F; p. 303 of 343 in the updated original application)

Account Number	Account Description	Total (\$)
1508	Other Regulatory Assets – Sub-Account – Pension Contributions	57,649
1525	Misc. Deferred Debits – incl Rebate Cheques	102
Sub-total		57,752
1555	Smart Meter Capital and Recovery Offset	(19,259)
1565	CDM Expenditures and Recoveries	(15,376)
1566	CDM Contra Account	15,376
1590	Recovery of Regulatory Asset Balances	174,811
Sub-total		155,552
1580	RSVA – Wholesale Market Service Charge	(166,352)
1584	RSVA – Retail Transmission Network Charge	(20,839)
1586	RSVA – Retail Transmission Connection Charge	(65,652)
1588	RSVA – Power	(369,577)
Sub-total		(622,420)
Total of accounts 1508, 1525, 1580, 1584, 1586, and 1588		(564,668)
Total of all accounts		(409,116)

West Coast Huron also provided a calculation of hypothetical regulatory asset rate riders for two scenarios:

- In Scenario One, the balance in accounts 1508 'Other Regulatory Assets' and 1525 'Miscellaneous Deferred Debits' would be disposed of, totalling \$57,751.61.
- In Scenario Two, in addition to these accounts, RSVA accounts 1580 'Wholesale Market Service Charge', 1584 'Retail Transmission Network Charge', 1586 'Retail Transmission Connection Charge', and 1588 'Power' are also disposed of, totalling \$(564,667.85). The regulatory asset (single year) rate riders corresponding to these two scenarios are provided at page 3 of the Interrogatory Evidence Clarification filed with the Board on February 27, 2009.

Discussion and Submission

Adjustments to Account 1508

Prior to interrogatories by Board staff, the amounts approved as part of 2006 EDR for disposition for account 1508 sub-account “other” was not posted to account 1590. This should have been posted subsequent to May 1, 2006. This sub-account’s associated recoveries collected in rates over the approved period (to April 30, 2008) were also not recorded in account 1590, but were recorded directly to account 1508 sub-account “other”. This was contrary to previous Board guidance in July 2007 Frequently Asked Questions (FAQ) #6.

Subsequent to Board staff interrogatories, the Applicant moved the amount approved in 2006 EDR, from account 1508 sub-account “other” to account 1590. The recoveries on this approved amount generated up to April 30, 2008 were also moved to account 1590. This was done to avoid a potential double-recovery of account 1508 sub-account “other” if the Board panel chose to dispose of account 1508 in its entirety in this proceeding, without the Applicant moving the approved 2006 EDR balance for account 1508 sub-account “other” and associated recoveries to account 1590.

Board staff agrees with the revised balance in account 1508 and submits that this account be disposed of. The adjustments should have occurred subsequent to May 1, 2006, as per Board guidance (July 2007 FAQ #6), and do not impact the balances approved in 2006 EDR.

Rate Riders

Board staff notes that the regulatory asset rate riders differ substantially between the two scenarios noted above. The rebate corresponding to the second scenario would decrease the effective volumetric rates by a substantial proportion of approximately 25 – 40%, if disposed of over a single year as in West Coast Huron’s calculation.

The rate rider corresponding to the first scenario would have a lesser impact, increasing the effective volumetric rates by approximately 4%.

The balance in the second scenario is approximately equal to the amount of Regulatory Assets in the 2007 Financial Statements, net of the accounts in the shaded portion of the table above, which are accounts that are disposed of in separate procedures. The hypothetical rate riders provided by West Coast Huron are shown in the following table,

along with the volumetric rate (first data column) and staff's calculation of a two-year version of the rate riders.

Board staff notes that the credit balance of \$(564,668) would be slightly higher if the balance reported on the regulatory asset continuity schedule (as per Board staff supplementary IR #16) for account 1588 of (\$390,462) was included for disposition. Board staff is uncertain whether account 1588 sub-account Global Adjustment was included in the (\$390,462) balance. It would be helpful if West Coast Huron could clarify the balance that should be disposed of in account 1588 (including the Global Adjustment sub-account), (\$390,462) or (\$369,577).

Volumetric Rates and Illustrative Rate Rebates

Class	Volumetric Rate (Exhibit 9/Tab1/Sch6) \$/unit	Rate Rider		
		1 year per Evidence Clarification	2 years previous column/2	units
Residential	0.0233	(0.0099)	(0.0050)	kWh
GS < 50 kW	0.0148	(0.0063)	(0.0032)	kWh
GS 50 – 499 kW	1.3698	(0.9226)	(0.0462)	kW
GS 500 – 4999 kW	1.3867	(1.3131)	(0.6565)	kW
Large Use > 5 MW	1.6219	(0.3846)	(0.1723)	kW
Street Lights	14.7460	(6.3479)	(3.1740)	kW
Sentinel Lights	14.1964	(5.7976)	(2.8988)	kW
USL	0.0328	(0.0124)	(0.0062)	kWh

Board staff submits that, despite the fact that West Coast Huron has not requested disposition, the deferral and variance account balances should be disposed of through a rate rider over two years.

- All of which is respectfully submitted -