



WELLAND HYDRO-ELECTRIC SYSTEM CORP.

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Delivered by Courier and E-file

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Welland Hydro-Electric System Corp.
2009 Distribution Rates Application
Board File No. EB-2008-0247

In accordance with Procedural Order No.3, please find enclosed paper copies (2) and one electronic copy of responses to Submissions filed by Ontario Energy Board technical staff, the School Energy Coalition, the Energy Probe Research Foundation, and the Vulnerable Energy Consumers Coalition.

Electronic copies of each response and the requested additional schedules has been filed using the OEB's E-filing services.

Yours very truly,

Wayne Armstrong
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WELLAND HYDRO-ELECTRIC SYSTEM CORP.

REPLY SUBMISSION

2009 ELECTRICITY DISTRIBUTION

RATE APPLICATION

EB-2008-0247

1 **Introduction**

2 Welland Hydro-Electric System Corp. ("Welland Hydro") filed its 2009 rebasing application (the
3 "Original Application") on August 15, 2008. As a result of the loss of two large use customers
4 and other significant changes since the Original Application was filed, Welland Hydro submitted
5 revisions (the "Revised Application") to the Ontario Energy Board ("the Board") on January 20,
6 2009. On February 3, 2009 Welland Hydro filed ("Revised Exhibits") as a result of proposed
7 changes in the Revised Application. In addition to the above filings Welland Hydro has
8 submitted the following documents relating to both the Original and Revised Applications:

- 9 1) November 3, 2008 – Supplemental Retail Transmission Rates
10 2) December 11, 2008 – Responses to Interrogatories (Procedural Order #1)
11 3) December 18, 2008 – Supplemental Rural or Remote Electricity Rate Protection Rates
12 4) February 13, 2009 – Responses to Supplemental Interrogatories (Procedural Order #2)

13 As a result of Procedural Order #3 Welland Hydro is now in receipt of final submissions of
14 Board Staff, the Energy Probe Research Foundation ("Energy Probe"), the School Energy
15 Coalition ("SEC"), and the Vulnerable Energy Consumers Coalition ("VECC").

16 This document represents Welland Hydro's reply submission as per Procedural Order #3.
17 Included are responses to the final submissions of Board Staff and Intervenor and any other
18 information which Welland Hydro deems relevant to assist the Board in its decision on this Rate
19 Rebasing Application (EB-2008-0247).

20 **1) Revenue Requirement**

21 The Revised Application requested a total revenue requirement of \$9,145,865¹ of which
22 \$8,577,474 is to be included in Distribution Rates with the balance of \$568,391 recovered
23 through Other Operating Revenue. Welland Hydro will provide an impact analysis for known
24 changes and changes proposed in this submission in the conclusion section of this report.

2) Rate Base

Welland Hydro can confirm to Board Staff that the Revised Application is based on approval of \$27,186,822² for the 2009 Rate Base. The rate base is comprised of \$21,124,074 in Net Book Value of Fixed Assets and \$6,343,168 of Working Capital Allowance. Welland Hydro will address each component of the Rate Base in the following sections:

A) Fixed Assets/Capital Expenditures

The Net Book Value of Fixed Assets of \$21,124,074 has been adjusted for the decrease of \$280,000 in planned Capital Expenditures and the resulting decrease in Accumulated Depreciation of \$4,677. Both adjustments were made as a result of Welland Hydro's response to Board Staff Interrogatory #3ii. Welland Hydro has reduced the forecast for the cost of upgrading Wholesale Meter Points at the Crowland TS by 50%. As a result, Welland Hydro can confirm to Board Staff that it is requesting \$2,278,000 in Capital Expenditures for the 2009 Test Year. Table 1 (provided by Board Staff) lists the percentage change of the capital expenditures from the 2007 actual to the 2009 Test Year.

Table 1

	<u>2007 Year Actual</u>	<u>2008 Bridge YR Forecast</u>	<u>2009 Test YR Forecast</u>
Capital Expenditures	\$2,293,035	\$2,223,970	\$2,278,000
% Change to Prior Year		-3.00%	2.40%

In their final submissions Board Staff, Energy Probe, and VECC submitted that Welland Hydro's revised Capital Expenditures of \$2,278,000 for the 2009 test year were reasonable. SEC provided no comments on the level of capital expenditures in their final submission.

¹ Exhibit A, Welland Hydro Revised Rate Application – January 20, 2009

² Exhibit F, Welland Hydro Revised Rate Application – January 20, 2009

B) Working Capital Allowance

The Working Capital Allowance is comprised of 15% of the total of forecasted 2009 Cost of Power and controllable OM & A Expenses. Welland Hydro acknowledges that it has not revised the amount of the Working Capital totaling \$6,343,168³ from the Original Application. Welland Hydro was waiting on the Cost of Power rate to be approved by the Board for 2009 rebasing rate applications as it had done previously in 2008 rebasing rate applications. Both Energy Probe and VECC have not objected to the 15% methodology used by Welland Hydro for the 2009 rate application but have requested the Board direct Welland Hydro to prepare a working cash (lead lag) study for its next rebasing application. Welland Hydro submits that these studies can be expensive and if required should be conducted in a generic sense across the province through a consultation process led by the Board. In its decision and order on Niagara-on-the-Lake EB-2008-0237 the Board commented that for a small working capital requirement, the cost of an individual study is likely to exceed any adjustment that might result.

i) Cost of Power

In their final submission Energy Probe submitted that the cost of power component of the working capital allowance should be updated to reflect the most recent cost of power forecast provided by the Board and updates for network and connections transmission services provided by Hydro One Networks. Welland Hydro agrees with Energy Probe but submits that the cost of power must also be updated for the reduced customer and load forecast⁴ in the Revised Application and updates for the Rural Rate Protection Plan rates submitted to the Board. Welland Hydro has already provided an update to the Cost of Power⁵ which reflects all of the above changes. The forecasted Cost of Power has been reduced to \$35,121,518 from the Original Application amount of \$37,173,850. Welland Hydro submits that only two additional

³ Tables 1 & 2 Exhibit 2 Tab 1 Schedule 1, Welland Hydro Original Application - August 15, 2008

⁴ Table 3 Exhibit 3 Tab 2 Schedule 2, Welland Hydro Revised Exhibits – February 3, 2009

⁵ Exhibit A, Welland Hydro Response to Energy Probe Supplementary Interrogatories – February 13, 2009

1 adjustments may be required. The first would be to reflect the actual cost of power rate set by
2 the Board for 2009 rate rebasing applications and the second would be to reflect any changes the
3 Board may make to the customer and load forecast submitted by Welland Hydro in the Revised
4 Application.

5 ii) Cost of Power Methodology

6 In their final submission Energy Probe submitted that the use of a single rate for Cost of Power
7 (estimated @ \$0.0593 per kWh) regardless of whether the customer is an RPP or non-RPP
8 customer is inappropriate. Energy Probe further submitted that an estimate of the kWh's
9 associated with Tier 1 and Tier 2 volumes for RPP consumers and the kWh's associated with
10 non-RPP consumers is required. Appropriate prices to these different sets of volumes would
11 then be applied to calculate the cost of power component of the working capital allowance. In
12 order to perform such an estimate, Welland Hydro would require the Board to set the three rates
13 to be used in the calculation of cost of power for the 2009 rate rebasing application. The rates
14 required are the Average Tier 1 RPP price, the Average Tier 2 RPP price, and the Average non-
15 RPP price. Assuming that these rates were available an estimate of the usage in each category
16 would be required including an adjustment for the fact that MUSH sector will no longer be
17 eligible for the RPP rates effective May, 2009.

18 Welland Hydro submits that the use of a single rate for Cost of Power is consistent with the
19 methodology approved by the Board for the 2008 rate rebasing applications. As a result,
20 Welland Hydro submits that no changes are required to the methodology used by Welland Hydro
21 in the calculation of forecasted Cost of Power used to determine the Working Capital Allowance.

22 iii) Change to Controllable Expenses

23 Both Board Staff and Energy Probe submitted that changes to controllable expenses since the
24 Original Application should be reflected in the calculation of the working capital allowance.
25 Welland Hydro agrees with both parties. As previously indicated, Welland Hydro has
26 acknowledged that no changes have been made to the Working Capital Allowance component of
27 the Rate Base since the original application. Welland Hydro has already proposed to reduce

1 controllable expenses by \$193,849⁶. The proposed reductions would reduce the amount related
2 to controllable expenses in the determination of working capital allowance from \$5,113,936 in
3 the Original Application to \$4,920,087. Welland Hydro submits that the only adjustment that
4 may be required is changes made by the Board to OM & A expenses in its decision on this
5 application.

6 **3) Operating Revenues**

7 Operating Revenues are comprised of Distribution Revenues and Other Operating Revenues and
8 Welland Hydro will address each component in the following sections:

9 **A) Distribution Revenue**

10 Distribution Revenues are based on a customer and load forecast at existing 2008 distribution
11 rates which were estimated at \$6,803,613 in the Revised Application. The revenue deficiency of
12 \$1,768,861 is then added to establish the 2009 Distribution Revenue of \$8,577,474 on which
13 rates will be determined by customer classification. In the final submissions by Energy Probe
14 and VECC there appears to be three issues which need to be addressed by Welland Hydro. They
15 include Forecast Methodology, the change to average usage versus normalized usage for the
16 Residential Class, and the loss of two large users.

17 **i) Forecast Methodology**

18 Energy Probe and VECC have described the forecast methodology used by Welland Hydro as
19 simplistic. In particular Welland Hydro only used one year (2004) of weather normalized values
20 and only applied it to the Residential Class in the Original Application. In the Revised
21 Application Welland Hydro has requested that even the Residential Class not be subject to values
22 computed by Hydro One in applying the weather normalizing methodology. Welland Hydro will
23 provide its reasoning behind this request in the section ii) below.

⁶ Exhibit B, Welland Hydro Revised Application – January 20, 2009

1 Throughout Exhibit 3 Tab 2 in the Original Application Welland Hydro identified that material
2 changes had taken place in the classification of GS<50, GS>50, and Large Use customers
3 effective May 1, 2007. Welland Hydro performed a significant amount of work to adjust the
4 usage in each class to provide a 2007 full year effect on each class as a result of the
5 reclassifications. As a result, Welland Hydro determined that in the absence of a sophisticated
6 forecasting model which could deal with such material changes that the number of customers and
7 load for customers in these three classes would remain at 2007 levels annualized for the changes
8 in customer classifications. In addition, Welland Hydro had the foresight to recognize that one
9 of the GS>50 customers was moving back to the large use classification on May 1, 2008 and
10 made the appropriate annualized adjustments for the 2008 and 2009 forecast customers and
11 volumes. Unfortunately this customer has had reduced volumes and will be reclassified from
12 Large Use to GS>50 effective May 1, 2009. This customer has gone from Large Use (2005) to
13 GS>50 (2006/7) to Large Use (2008) to GS>50 (2009). The future load of this customer is
14 highly unpredictable as it has moved operations to Mexico and is 90% reliant on General Motors
15 orders.

16 In response to Energy Probe Interrogatory #13 Welland Hydro provided a list of the number of
17 current customers by rate class effective September 30, 2008.⁷ The numbers proved that the
18 continued shift from GS>50 to GS<50 was continuing well into 2008 which had not been
19 provided for in the Original Application. During September, 2008 Welland Hydro was informed
20 that one large use customer was closing and a second large use customer (mentioned above)
21 would be reclassified to GS>50 for the 2009 Rate Year. As a result, Welland Hydro submitted
22 the Revised Application on January 20, 2009. The resulting changes (customer and load
23 volume) by rate class were presented in Exhibit C in the Revised Application⁸.

24 The Intervenors have accepted the revised customer numbers presented in Exhibit 3 Tab 2
25 Schedule 2 Table 3 in the Revised Exhibits filed February 3, 2009 with the exception of the
26 Large Use class which will be dealt with in section iii) below. The load forecast for the

⁷ Exhibit G, Welland Hydro Response to Interrogatories – December 11, 2008

⁸ Exhibit C, Welland Hydro Revised Application – January 20, 2009

1 Residential and Large Use customers presented in Table 3 will also be dealt with in sections ii)
2 and iii) below. Welland Hydro submits that the load forecast for all other customer classes
3 provided in Table 3 are the best possible forecast available and should be approved by the Board
4 for determining distribution rates.

5 ii) Residential Load Forecast

6 Despite some reservations, Welland Hydro used the Residential 2004 weather normalized usage
7 of 8,427 kWh per customer to forecast load for this class in the Original Application. In the
8 Revised Application Welland Hydro changed the load forecast to 8,383 kWh per customer which
9 represents the actual average usage from 2002 to 2007. Both Energy Probe and VECC have
10 objected to this change.

11 When preparing the Original Application Welland Hydro was aware that the 2004 weather
12 normalized usage of 8,427 kWh for the Residential Class had only been realized in one year over
13 the six year period from 2002 to 2007.⁹ Since Welland Hydro is a summer peaking utility, this
14 would seem to imply that all other summers in other years were cooler than normal. When filing
15 the Revised Application the 2008 Residential actual average usage of 8,093 kWh was available
16 for comparison to the 2004 weather normalized value of 8,427 kWh. At this point, Welland
17 Hydro concluded that the use of the Hydro One Weather Normalizing Methodology "as it applies
18 to Welland Hydro's customers and their load profiles" is not the correct model to be used for
19 forecasting usage for its Residential Customer Class.

20 Welland Hydro is not in a position at this time to analyze the significant drop in the 2008 average
21 usage for a residential customer. Welland Hydro believes some of the reduction is weather
22 related and the balance is in relation to energy conservation efforts of the Ontario Power
23 Authority ("OPA") and Welland Hydro's own conservation initiatives.

24 Welland Hydro believes that the change to the average usage of 8,383 kWh for the Residential
25 Class, although more simplistic is more realistic than the 8,427 kWh weather normalized
26 amount. In fact the actual average usage from 2002 to 2008 is now only 8,341 kWh with most of

⁹ Exhibit 3 Tab 2 Schedule 7 Page 1, Welland Hydro Original Application – August 15, 2008

1 the time frame from an era where energy conservation was not as prevalent as it is today.
2 Welland Hydro would further add that any forecasting model currently in use would have
3 difficulty dealing with the economic downturn which Ontario and the world is currently facing.

4 Welland Hydro submits that even the average forecast for the Residential class is too high but is
5 willing to except this forecast and is not requesting the Board for any further downward
6 adjustment. Welland Hydro agrees with the Board in its decision on Toronto Hydro that the
7 OPA, IESO, and all other parties need to understand differences in forecasting methodologies
8 with specific emphasis on the effect of CDM activities.

9 iii) Loss of Two Large Use Customers

10 In September, 2008 two of Welland Hydro's large use customers announced major changes in
11 their respective operations with one closing in 2009 (majority of its operations to wind down by
12 the end of April, 2009) and the other undergoing a significant down sizing by moving certain
13 operations to Mexico (already taken place). Welland Hydro has reflected the changes for these
14 two customers in the revised load forecast contained in the Revised Application and Revised
15 Exhibits.

16 During their final submissions both Energy Probe and VECC objected to the fact that Welland
17 Hydro had not included any forecasted load for the large use customer closing in 2009. Both
18 Energy Probe and VECC offered different methodologies for dealing with the forecasted revenue
19 from this customer. As a result Welland Hydro will deal with each one separately.

20 VECC has argued that any operation of the facility after May 1, 2009 is to the gain of Welland's
21 shareholders. In VECC's view it would be reasonable to recognize, in the 2009 forecast, a
22 nominal level of operation for this customer of perhaps 10% of historic consumption. Welland
23 Hydro completely rejects this proposal as having no merit. To include any amount of load for
24 this customer for the 2009 Rate Application Year (starts May 1, 2009) would mean the expected
25 revenue for this customer would not be collected for the full four years until the next rebasing.
26 Welland Hydro has already experienced revenue reductions as a result of the loss of a large use
27 customer during the 2007 Distribution Rate year. The 2006 EDR for Welland Hydro contained

1 three large users in the revenue forecast. On May 1, 2007 one of the three large users was
2 reclassified to the GS>50 class and remained that way until May 1, 2008 when it was reclassified
3 to the Large Use Class. During this time Welland Hydro experienced a significant reduction in
4 Distribution Revenues. To Welland Hydro's knowledge the loss of a large use customer does
5 not meet the Board's criteria for a Z Factor adjustment. This conclusion seems to be verified in
6 reading the transcripts of the Bluewater Power Distribution Corporation hearing on February 10,
7 2009. As a result, the only option available to a distributor to avoid the long term loss in revenue
8 from the loss of a large user would be to file a Cost of Service Rate Application. Welland Hydro
9 would encourage the Board to review the Z Factor criteria and include the loss of a material
10 customer as a possible Z Factor adjustment which is out of control of management.

11 Energy Probe has stated that a variance account is required to deal with this unique situation.
12 Energy Probe states that Welland Hydro has not included any Large Use revenue in its forecast
13 for either of the two large users. This is correct for the large user closing but is incorrect for the
14 large user changing classifications. The change date in the classification of the second large user
15 is not an estimate; it is a certainty to occur on May 1, 2009. As a result, Welland Hydro has
16 appropriately included the 2009 revised estimated load and corresponding distribution revenue
17 for this customer in the GS>50 classification. However, based on the first two months actual
18 load for this customer in 2009 it appears that even the revised estimate has been overstated.

19 As Welland Hydro has accounted for one of the two large use customers in the GS>50
20 classification, the only large use customer subject to the proposed variance account would be the
21 customer which has announced a complete closing. Energy Probe states "that in a unique
22 situation like this, ratepayers should be protected at the same level as is the utility". Energy
23 Probe goes on to state that "Welland is being held harmless from the loss in revenues". As for
24 "being held harmless from the loss in revenues" Welland Hydro can only state that it wishes this
25 was the case for the 2007 Distribution Rate Year when it suffered a significant loss in revenue
26 from the reclassification of a large use customer for a one year period. Welland Hydro does not
27 object to the statement that "ratepayers should be protected at the same level as is the utility" as
28 long as it goes for both over collection and under collection of revenues. As a result, Welland
29 Hydro proposes that the proposed variance account should be expanded to include four

customers and cover the complete four years of the rate rebasing application. The four customers would include the 2009 forecast Large Use customer (1), the Large Use customer closing (2), and the two (3 and 4) large volume users in the 2009 GS>50 classifications. Welland Hydro would compare revenues from these users in each year to amounts included in rates and remove any variance (both overages and shortfalls) to the deferred account. In this matter both the utility and the customer are protected at the same level. Further proof that a variance account may be necessary has been provided in Table 2 below. The table contains a comparison of 2009 Test Year versus 2009 Actual Year to Date (two months) for the three remaining customers.

Table 2

	<u>2009 Revised Application</u>	<u>2009 Actual Year to Date</u>	<u>% Change</u>
Large Use Customer #1	14,129 kW	13,145 kW	(7%)
GS>50 Customer #3	4,400 kW	3,249 kW	(26%)
GS>50 Customer #4	4,756 kW ¹⁰	3,886 kW	(18%)

All of the above customers have announced significant layoffs and extended periods of complete shutdown in early 2009. There is no evidence to suggest that any forecasted increases in loads are expected in the near or foreseeable future. Unfortunately, even the actual demand usage to date in 2009 does not reflect the uncertainty involved with these customers. These manufacturers have actually reduced operations from three shifts to one. In most cases demand does not follow suit as it is based on peak load.

Welland Hydro submits that should the Board adopt a variance account approach to the customer which is winding down the majority of its operations prior to the 2009 Rate Year it should be extended to include the other three customers whose long term load forecasts are at significant risk and include all four years relating to this application.

¹⁰ Exhibit F, Response to Energy Probe Interrogatories – December 11, 2008

B) Other Operating Revenues

Energy Probe has proposed reductions to Other Operating Revenues. They include Interest Income, Gain on Disposition of Utility and Other Property, Scrap Metal Sales, and Miscellaneous Non-Operating Revenue. Welland Hydro will respond to each item in the sections below. Energy Probe has based their analysis on responses given by Welland Hydro to Energy Probe Interrogatory #16 which asked for 2008 September Year to Date Other Operating Revenue by class.

i) Interest Income

Welland Hydro submits that Interest Income is comprised of amounts related to cash balances and Regulatory Assets. Energy Probe has accepted Welland Hydro's revised interest income related to Bank Account balances of \$87,995¹¹. This amount was based on an interest rate of 1.75% on cash deposits. The actual rate of Interest is currently below 1.75% but Welland Hydro is not requesting any further downward adjustment by the Board. Energy Probe submits that the interest income or interest expense (Welland Hydro -\$13,140) associated with deferral and variance accounts should not be included in the calculation of revenue offsets as interest income or cost is cleared to customers when the variances are cleared. They also state that if Welland includes this interest cost in 2009 they are effectively double counting the impact because they will recover these interest costs when the balances and interest on the variance accounts are cleared. Welland Hydro respectfully disagrees. First, when a distributor is in a liability position as is Welland Hydro, they pay out interest as opposed to collecting interest. Secondly, Welland Hydro submits that the Revenue Offset should reflect the interest income and interest expense associated with Regulatory Assets as movements in the Regulatory Asset accounts are reflected in the Cash Balances in the opposite direction. Should the Board exclude the interest expense on Regulatory Liabilities, Welland Hydro should be allowed to revise the cash balance on which interest income is calculated. Welland Hydro did not change the forecasted cash balance in the Revised Application. However, Welland Hydro did change the position on the Regulatory Asset Rate Rider from collecting \$138,976/year to reimbursing \$399,386/year. This would result in a

¹¹ Exhibit D, Welland Hydro Revised Application – January 20, 2009

reduction in cash balance of \$538,362 which at an interest rate of 1.75% would reduce interest income by \$9,421/year.

As a result, Welland Hydro submits that the Board should accept the forecasted Interest Income (including Regulatory Asset interest) of \$74,855 as presented in the Revised Application.

ii) Gain on Disposition of Utility and Other Property

Welland Hydro has not included any income for this class in either the Original Application or Revised Application¹². Energy Probe submits this is not reasonable and submits that \$11,000 should be included based on the average of 2006, 2007 and YTD September 2008. Welland Hydro believes a better method of forecasting income (or loss) on the sale of assets is to provide a breakdown of the income in the periods referenced by Energy Probe.

Table 3

	Actual 2006	Actual 2007	Ytd Sep 2008	Actual 2008	3 Year Average
Sale of Reel Dispenser-No Book Value	2,500	0	0	0	833
Sale of Transformer-No Value Book Value	7,500	0	0	0	2,500
Gain/(Loss) Sale of Scrap Transformers	991	-2,922	4,538	7,720	1,930
Sale of Trencher	0	5,200	0	0	1,733
Sale of Transformers -Replacement vs Book Value	0	0	15,402	15,402	0
Total Gain/(Loss)	10,991	2,278	19,940	23,122	6,996

The income in 2008 from the sale of transformers in inventory is strictly a one time event and should be excluded from the analysis. There was a long lead time on new transformers in 2007 and two Welland Hydro customers were unwilling to wait on delivery. Welland Hydro sold these customers transformers from stocks which were purchased before the prices soared in 2007. In order to be fair to other developers the transformers were sold at market price resulting

¹² Exhibit 3 Tab 3 Schedule 1 Table 8, Revised Exhibits – February 3, 2009

in a one time gain. Welland Hydro also notes that there were no other sales of miscellaneous assets in 2008 as was the case in 2006 and 2007. No further assets have been identified for sale.

As a result of this analysis, Welland Hydro agrees with Energy Probe that \$0 income may not be reasonable but the \$11,000 submitted by Energy Probe is too high. Welland Hydro submits that an appropriate amount is \$5,000.

iii) Scrap Metal Sales

Energy Probe has proposed an increase in the income from the sale of scrap metals from the \$12,000 submitted by Welland Hydro to \$22,000 based on 2006, 2007, and 2008 Year to Date September actual. Table 4 below provides a more detailed analysis of scrap sales and pricing.

Table 4

	Average Actual 2004/5	Actual 2006	Actual 2007	Actual 2008	Revised Rate Application 2009	Decrease Pricing
Scrap Metal Sales	\$4,864	\$20,669	\$27,919	\$16,556	\$12,000	
<u>Scrap Metal Pricing</u>		\$/lb	\$/lb	\$/lb	\$/lb	
<u>Hardware</u>						
Bolts		0.10	0.10	0.10	0.10	0%
Mis Hardware		0.10	0.10	0.10	0.08	-20%
<u>Scrap Wire</u>						
Aluminum		0.50	0.50	0.50	0.30	-40%
ACSR		0.45	0.45	0.45	0.30	-33%
Aluminum Wire Bare		1.00	1.00	1.00	0.80	-20%
Concentric Neutral Al/Cu		0.75	0.75	0.75	0.50	-33%
Insulated Wire		0.85	0.85	0.85	0.30	-65%
<u>Copper</u>						
Bare		3.25	3.25	3.25	1.75	-46%
Building Wire		1.65	1.65	1.65	0.70	-58%
Copper Clad Steel		0.25	0.25	0.25	0.30	20%
Concentric Neutral Cu/Cu		1.65	1.65	1.65	1.00	-39%
Insualted Wire		1.25	1.25	1.25	0.70	-44%
<u>Steel</u>						
Scrap Steel		0.10	0.10	0.10	0.10	0%
Steel Wires		0.05	0.05	0.05	0.05	0%
Meters		0.25	0.25	0.25	0.15	-40%

Welland Hydro has previously stated that scrap sales in 2006 and 2007 were related to increased scrap pricing and the recovery of wiring from special capital programs such as the Townline Tunnel project. Scrap pricing during this period increased significantly. Despite the high scrap pricing (firm contracts) scrap sales decreased to \$16,556 in 2008. Welland Hydro was aware that scrap pricing was falling in 2008 and has provided actual 2009 scrap pricing in Table 4 above. The table shows a decrease in scrap pricing of approximately 40%. When applying this reduction to 2008 sales it would drop the actual recovery to below \$10,000.

As a result, Welland Hydro submits that the amount of Scrap Sales of \$12,000 included in Other Operating Revenues in the Revised Application should not be adjusted upward as proposed by Energy Probe.

iv) Miscellaneous Non-Operating Income

Energy Probe submits that this class of income should be revised from the \$7,020 filed by Welland Hydro to \$20,020 based on 2006, 2007, and 2008 Year to Date September results. Welland Hydro submits that a more detailed analysis of the income is required which is provided in Table 5 below.

Table 5

	Actual 2006	Actual 2007	Ytd Sep 2008	Actual 2008	Revised Rate Application 2009
Miscellaneous	3,674	2,904	3,501	4,919	3,020
Rental of Transformers	0	3,615	3,860	3,860	0
Final Bill Water Readings	0	4,600	3,654	5,370	4,000
Sale of Ennerconnect Partnership	0	0	5,541	5,541	0
Total Gain/(Loss)	3,674	11,119	16,556	19,690	7,020

The Rental of Transformer income is again related to the long lead times on new transformers during this period. Welland Hydro provided rental transformers to developers unable to delay construction schedules. The transformers on which rental income was realized in 2007 and 2008 have both been removed and replaced with new transformers.

The income related to final water meter readings for the City of Welland started in 2007 when the subcontractor for the city would no longer perform this service. As final meter readings are required for electricity at the same time in most cases, Welland Hydro agreed to perform the service and charge the city for any additional time required. As this income is beneficial in that it serves as a revenue offset, Welland Hydro included \$4,000 in the Revised Application.

The income from Welland Hydro's share of the sale in the Ennerconnect Partnership is a one time item and should have been included as a Gain on the Sale of an Investment. This partnership was formed by various distributors prior to deregulation. The investment was thought to have minimal value and was previously written off. The partnership has since been sold to a third party.

Welland Hydro submits that based on the above analysis the recommendation by Energy Probe to revise this income to \$20,020 is significantly too high. Welland Hydro submits that development will slow with the recession and transformer rental income may not be realized. As a result, Welland Hydro proposes to increase this income by only \$3,000 to \$10,020.

v) Summary

Welland Hydro has prepared a summary of income from the above analysis which is presented in Table 6 below. As can be seen in Table 6 Welland has proposed an overall increase in Other Operating Revenue of \$8,000.

Table 6

	<u>As Filed</u>	<u>Energy Probe</u>	<u>Welland Hydro</u>
Interest Income	\$74,885	\$87,995	\$74,855
Gain on Disposition Assets	\$0	\$11,000	\$5,000
Scrap Metal Pricing	\$12,000	\$22,000	\$12,000
Misc Non-Operating	\$7,020	\$20,020	\$10,020

4) Operating Costs

A) OM & A Costs

In the Revised Application Welland Hydro submitted total OM&A costs of \$4,920,087 which was \$193,849 lower than the amount included in the Original Application. The reductions were made in response to the loss of the two large use accounts and the associated lost revenues. This reduction has been accepted by all parties in their final submissions as acting responsibly in seeking ways to minimize its OM&A costs in view of the decreases in revenue it is facing. However, Energy Probe has requested further significant reductions in the amount OM&A costs despite the fact that SEC acknowledges that Welland Hydro's OM&A cost per customer remains among the lowest in the province. Welland Hydro objects to any further reductions to OM&A costs with the exception of 2009 Rate Application Expenses which will be discussed later in this section.

Welland Hydro provided an analysis of OM&A costs in Exhibit 4 Tab 2 Schedule 3 and Page 1¹³ in the Revised Exhibits submitted February 3, 2009. In the analysis Welland Hydro adjusted 2006 expenses for the recovery of a previously written off bad debt to allow for a proper comparison to future years. Welland Hydro believes this is the correct starting point for the analysis of percentage increases for OM&A expenses. To provide a point of reference for further discussion Welland Hydro has provided a copy of the table submitted in the Revised Exhibits in Table 7 below:

Table 7

	2006 Board Approved	2006 Full Yr Actual	2007 Full Yr Actual	2008 Bridge Yr Forecast	2009 Test Yr Forecast	Increase From 2006 to 2009	
						\$	%
Actual OM & A Expenses	\$4,054,059	\$3,521,084	\$4,510,311	\$4,726,832	\$4,920,087		
Depreciation Adjustment	-220,964						
Bad Debt Adjustment		492,555					
Adjusted OM & A Expenses	\$3,833,095	\$4,013,639	\$4,510,311	\$4,726,832	\$4,920,087		
OM & A Wages & Benefits		\$2,366,991	\$2,783,103	\$3,035,991	\$3,183,558	\$816,567	34.5%
OM & A Expenses		1,646,648	1,727,208	1,690,841	1,736,529	89,881	5.5%
Adjusted OM & A Expenses		\$4,013,639	\$4,510,311	\$4,726,832	\$4,920,087	\$906,448	22.6%

Analysis of Increase in OM & A Wages & Benefits 2006 to 2009

New Positions - Wages & Benefits		
Regulatory Analyst	\$109,053	4.6%
Conservation & Demand Analyst	80,274	3.4%
GIS Analyst	74,534	3.1%
2 Lineman	153,352	6.5%
Total New Positions - Wages & Benefits	\$417,213	17.6%
Decrease in Amounts Charged 3rd Party	28,254	1.2%
Decrease in Amounts Charged Associates	3,727	0.2%
Decrease in Amounts Charged to Capital	23,667	1.0%
Adjustment Retiree Benefit Costs 2009	-43,000	-1.8%
Adjustment 2006 Pension Costs	55,539	2.3%
Total Increase Before Inflation	\$485,400	20.5%
Wages & Benefits Inflation	331,167	14.0%
Total Increase OM & A Wages & Benefits	\$816,567	34.5%

OM&A costs are forecast to increase \$906,448 or 22.6% from 2006 to 2009. This is broken down into \$816,567 related to wages and benefits (90% of total increase) and \$89,881 (10% of total increase) to other expenses. Given the fact that \$30,000 of the \$89,881 increase is related to 2009 Rate Application Expenses no further analysis is required for other expenses as this category has only increased by 5.5% over three years or 3.6% without the rate application expenses.

Approximately 46% of the total increase (51% of total wages) is related to the addition of new positions. A Regulatory Analyst, GIS Engineering position, and two new linepersons were added in 2007 and 2008. The Regulatory Analyst was added to ensure Welland Hydro's compliance with OEB regulations and to assist in the accounting department. The two new linepersons were added to ensure an adequate workforce is in place to maintain the distribution

¹³ Welland Hydro Revised Exhibits – February 3, 2009

1 system. There is a five year apprentice period to qualify a lineperson and this training must take
2 place before the distributor is facing retirement of current employees. The GIS Engineering
3 position was added to assist in the expansion of digitizing of the distribution system in
4 preparation for the Asset Management System Review scheduled to take place in 2009. This
5 position will be responsible to maintain the assets records and asset management system on an
6 ongoing basis and ensure Welland Hydro remains compliant with Regulation 22/04. The
7 Conservation & Demand Analyst is being added as a result of the continued increase in workload
8 related to energy conservation programs set out by the OPA and Welland Hydro's own energy
9 conservation initiatives. The Green Energy Act recently tabled by the Ontario Minister of
10 Energy seeks to expand the role of Distributors in energy conservation programs, green energy
11 generation, and Smart Grids. Welland Hydro expects that specific targets will be set for
12 distributors in relation to the Green Energy Act and additional manpower will be required to
13 ensure Welland Hydro exceeds those targets.

14 Approximately 8% of the total increase (8% of total wages) is related to other adjustments such
15 as reductions in the amounts being charged to capital programs and third party billings. Most of
16 the reduction in charges to capital programs is the result of no longer capitalizing internal
17 software costs which is in line with current Canadian GAAP. Welland Hydro submits that under
18 IFRS the amount of overheads charged to capital will only be further reduced once the new
19 reporting standards are adopted. As a result, the amounts proposed to be transferred from capital
20 to OM&A costs are reasonable. The balance of other adjustments is due to the fact that 2006
21 only contained eight months worth of pension expense. Welland Hydro was able to offset most
22 of this increase by including the most recent update of Retiree Benefit costs.

23 Approximately 36% of the total increase (41% of total wages) is related to wage and benefit
24 inflation. This corresponds to a 14% increase due to inflation over three years which is
25 approximately 4.7% per year. Welland Hydro provided a detailed analysis of wage & benefit
26 inflation in response to SEC Supplemental Interrogatory #1 which was filed February 13, 2009.
27 A copy of the summary is produced below in Table 8.

Table 8

Base Increase – 3 Yrs @ 3%	\$219,484
Stand By Pay	14,024
Wage Progression	17,640
Compensation Study	55,520
All other	<u>24,499</u>
Total Increase	\$331,167

The Stand By Pay was the addition of a second lineperson on call for both service and safety requirements. The wage progression represents the increases associated as the apprentice positions move towards the full pay rate each year. The compensation study (performed by a third party) represents costs to move Welland Hydro in line with other distributors in Ontario for key management positions. The Wage Progression and Compensation Study amounts represent the inflation amount of wages beyond 3%. All other represents mainly the use of summer students to replace customer service and accounting staff during peak summer vacation periods and could be considered additional labor.

Welland Hydro believes that it has provided sufficient analysis to justify the increase in OM&A costs from 2006 to 2009. Energy Probe has submitted that OM&A costs should be reduced by a further \$126,000. Energy Probe states that this can be realized by reducing wage increases in 2009 and eliminating the addition of the Conservation & Demand Analyst. The majority of the forecast wage increase in 2009 is related to unionized positions which has already been contractually agreed to at 3%. Welland Hydro submits that the Conservation & Demand Analyst will play a key role for each distributor under the increased focus on conservation included in the Green Energy Act.

Welland Hydro submits that despite the increases it continues to have one of the lowest OM&A costs per customer in the province. As a result of this fact and the above analysis Welland Hydro

1 submits that the amount of OM&A costs of \$4,920,087 is reasonable and should be accepted by
2 the Board without any further adjustments except for the 2009 Rate Application costs.

3 Welland Hydro can confirm for VECC that it has budgeted to charge \$53,035 in wages and
4 benefits to the OPA in 2009 for amounts related to the administration of Energy Conservation
5 programs. In 2007, this amount represents charges for other employees performing energy
6 conservation activities as there was no Conservation & Demand Analyst. The increased cost for
7 the 2009 Test Year is the total amount of \$80,274 budgeted for this position. Welland Hydro
8 was merely pointing out that energy conservation is already a full time position and the workload
9 is likely to increase significantly.

10 **B) 2009 Rate Application Costs**

11 Board Staff and the Intervenors have submitted that the 2009 Rate Application Expenses be
12 amortized over four years versus the three used by Welland Hydro in both the Original
13 Application and Revised Application. Welland Hydro agrees to use a four year period.

14 In the Revised Application Welland Hydro submitted \$90,000 (\$60,000 OEB &
15 Intervenor/\$30,000 Consulting & Legal) in expenses over three years at \$30,000 per year.
16 Energy Probe has submitted that the revised estimated costs of \$95,000 (\$45,000 OEB &
17 Intervenor/\$50,000 Consulting & Legal) be amortized over four years at \$23,750 per year.
18 Welland Hydro agrees with Energy Probe to reduce the amount for 2009 Rate Application
19 expenses by \$6,250 and to make the appropriate adjustments to all other calculations required.
20 However, Welland Hydro would point out that it has no control over the amount of \$45,000
21 related to OEB and Intervenor costs and will monitor amounts requested for recovery for this
22 rate application.

23 **C) Payment in Lieu of (PILS) of Taxes**

24 Welland Hydro understands the Board's Decision on other issues of Welland Hydro's rate
25 application will impact the calculation of PILs such as the rate of return on equity. In this
26 submission, Welland Hydro will not attempt to update the calculation of PILs but will seek to
27 address the issues raised by parties to assist the Board in its Decision on PILs. It is Welland

1 Hydro's objective to obtain direction from the Board that will allow the calculation of PILs in the
2 2009 draft Rate order to be as mechanistic as possible.

3 The OEB staff submission suggests Welland Hydro's method diverges from the Board's
4 established methodology. Welland Hydro would respectfully submit the "Top Down" approach
5 used by Welland Hydro is consistent with the Board's long standing methodology termed the
6 "Regulatory Gross-up" method for the purposes of this discussion. The Top Down approach
7 assumes revenues and cost are known and that taxable income can be determined to calculate
8 income taxes in a manner similar to the process used to submit a tax return to the Ministry of
9 Finance. The "Regulatory Gross-up" assumes ROE is adjusted for items such as the difference
10 between depreciation and capital cost allowance. The tax rate is then applied to the adjusted ROE
11 and the result is grossed-up with the tax rate to determine PILs. When the tax rate is one number
12 the calculation is rather simplistic. However, the gross-up method becomes more difficult
13 assuming the effect of the small business income threshold and clawback which creates more
14 than one tax bracket or rate to be factored into the methodology. In any event, the purpose of the
15 grossed-up PILs is to determine the PILs that would be calculated when the total revenue
16 requirement is known. This means that the PILs calculated from a gross-up method must equal
17 PILs from a top down method once the PILs are known and included in the total revenue
18 requirement. To further explore this issue, the following provides a simplified example of
19 distributors for which the Return on Equity falls below (Welland Hydro) and above the level of
20 income where the small business deduction has been completely clawed back.

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Table 9

	Distributor #1 Welland Hydro 2009 Revised Rate Application		Distributor #2 Return on Equity Sufficient for Full Clawback SB	
	<u>Rate</u>	<u>\$</u>	<u>Rate</u>	<u>\$</u>
Regulatory Gross Up Method Bottom Up Approach				
Return on Equity		\$1,008,851		\$2,000,000
Adjustment for Reserves		<u>65,081</u>		<u>50,000</u>
Taxable Income Using Return on Equity Method		\$1,073,932		\$2,050,000
Income Tax Payable First 500,000 Income	24.50%	122,500	24.50%	122,500
Income 500,000 to 1,500,000	33.00%	189,398	33.00%	330,000
Clawback 500,000 to 1,500,000	4.25%	24,392	4.25%	42,500
Income Above 1,500,000	33.00%	<u>0</u>	33.00%	<u>181,500</u>
Total Tax Before Gross Up	31.31%	<u>\$336,290</u>	33.00%	<u>\$676,500</u>
Grossed Up PILS Welland Hydro 336,290/(1 - .3131) Distributor #2 675,500/(1 - .33)		\$489,576		\$1,009,701
Ontario Capital Tax-Not Grossed Up		<u>27,420</u>		<u>50,000</u>
Total Grossed Up PILS		<u><u>\$516,996</u></u>		<u><u>\$1,059,701</u></u>
Top Down Approach to Calculate PILS				
Utility Income Before Taxes		\$1,565,224		\$3,059,701
Less Ontario Capital Tax		-27,420		-50,000
Adjustment for Reserves		<u>65,081</u>		<u>50,000</u>
Taxable Income Minister of Finance		\$1,602,885		\$3,059,701
Income Tax Payable First 500,000 Income	24.50%	122,500	24.50%	122,500
Income 500,000 to 1,500,000	33.00%	330,000	33.00%	330,000
Clawback 500,000 to 1,500,000	4.25%	42,500	4.25%	42,500
Income Above 1,500,000	33.00%	<u>33,952</u>	33.00%	<u>514,701</u>
Total PILS Payable (Excluding OCT)		\$528,952		\$1,009,701
Ontario Capital Tax Payable		<u>27,420</u>		<u>50,000</u>
Total PILS Payable		<u><u>\$556,372</u></u>		<u><u>\$1,059,701</u></u>
Utility Income After Tax		\$1,008,852		\$2,000,000

2

As can be seen above the top down and bottom up approach for the Distributor with Return on Equity higher than \$1,500,000 (point of full clawback) produces the same Grossed Up PILS amount as the PILS payable. The same cannot be said for Welland Hydro if it were forced to use the bottom up approach. The difference is the result of grossing up PILS at a tax rate of 31.31% when actual PILS paid above \$1,073,932 is at the higher tax rate of 33% plus the balance of the clawback required to be paid of \$18,108. This can be proven as shown in Table 10 below.

Table 10

Regulatory Gross Up Method-PILS Before Gross Up	\$336,290
(Includes \$24,392 of Clawback on Income to \$1,073,932)	
Additional Clawback Required	<u>18,108</u>
(Clawback on Income above \$1,073,932 = \$42,500-\$24,392)	
Total PILS Before Gross Up	\$354,398
PILS Grossed Up for 33% (not the 31.31% for \$1,073,932)	\$528,952
Ontario Capital Tax (not grossed up)	<u>27,420</u>
Total Grossed Up PILS	<u>\$556,372</u>
Total PILS Top Down Approach (see Table 9 above)	<u>\$556,372</u>

Welland Hydro submits that the Board should not impose a PILS methodology which does not treat all distributors the same and puts smaller distributors at a disadvantage. Welland Hydro believes that the difference between the two methods of \$39,376 is significant and requests that the Board approve total PILS of \$556,372 (subject to the changes proposed in this submission). Welland Hydro was unable to confirm the estimated PILS submitted by Board Staff in their final submission of \$544,386 (\$516,966 + \$27,420) but it appears they have included Ontario Capital Tax twice.

1 VECC states that the Board approved methodology should be used absent of a compelling and
2 tested rationale for diverging from the Board approved methodology. VECC also submits that
3 no rationale has been provided by Welland Hydro for diverging from the Board approved
4 methodology. Welland Hydro submits that the method that produces the correct amount of PILS
5 is the method that should be used. The shareholder should expect to receive an after tax Rate of
6 Return on Equity at the rate approved by the Board. This would not be the case for Welland
7 Hydro's shareholder should it be required to use the current gross-up methodology. Welland
8 Hydro therefore submits that the Board should approve the methodology used in the 2009
9 Revised Application submitted by Welland Hydro which has been proven to produce an after tax
10 rate of return at the Board approved rate.

11 Welland Hydro agrees with Board Staff and Intervenors that the tax rates to be used for 2009
12 should reflect the most up to date tax rates for both the Federal and Provincial requirements and
13 request the Board to approve the rates for use in 2009 Rate Applications. In response to Board
14 Staff Supplemental Interrogatory #12 Welland Hydro provided an updated CCA schedule¹⁴ for
15 2009 to reflect the proposed Federal changes for computer hardware and system software
16 purchased between January 27, 2009 and February 2011. The schedule has also been revised to
17 reflect the reduction in CCA from the reduced capital expenditures of \$280,000 in 2009. Energy
18 Probe has asked that Welland Hydro be directed to include a deduction for Apprenticeship Tax
19 Credit. As this credit is available for three years of which two years (2007 and 2008) have
20 already passed, Welland Hydro submits that only the average deduction for the next four years
21 should be used.

22 Welland Hydro agrees that any changes made by the Board in its decision on this rate application
23 should be used to calculate the final PILS to be included in rates.

24 **D) Depreciation & Amortization**

25 It appears all parties have agreed to the amortization amount of \$1,717,160 submitted by
26 Welland Hydro in Exhibit A of the Revised Application. If the Board makes any further changes

¹⁴ Exhibit C- Welland Hydro Responses to Board Staff Supplemental Interrogatories – February 13, 2009

1 to the capital expenditure forecast for 2009, Welland Hydro will make the necessary adjustments
2 to this amount.

3 **5) Deferral and Variance Accounts**

4 In the Original Application Welland Hydro requested disposition of specific Non RSVA/RCVA
5 deferral accounts and the associated interest to May 1, 2009 totaling \$416,929¹⁵ over a three year
6 period. Welland Hydro changed this position in the Revised Application to include the
7 disposition of both RSVA/RCVA and Non RSVA/RCVA accounts and the associated interest to
8 May 1, 2009. This would allow Welland Hydro to refund \$721,566¹⁶ in variance accounts to its
9 customers over a two year period. The total amount due to the change in requests of \$1,138,495
10 would help offset increases in Distribution Rates, Smart Meter Funding Adder, Retail
11 Transmission Rates, and the Rural Rate Protection Plan.

12 With the exception of a few specifics to be dealt with later in this section, all parties have agreed
13 to the change requested by Welland Hydro. Welland Hydro agrees with Board Staff that the
14 Board should consider disposing of these balances at this time rather than waiting for the
15 separate initiative that the Board has currently undertaken. Board Staff goes on to note that the
16 credit balances in the variance accounts for disposition represent approximately 8% of the
17 proposed revenue requirement for 2009. Board Staff also noted the Board has previously
18 approved such requests in applications where LDCs were carrying large balances such as Hydro
19 2000 EB-2007-0704.

20 The balance of this section addresses the specific items noted in the final submissions of Board
21 Staff and the Intervenors.

22 **A) Accounts and Balances for Disposition**

23 In their final submission Board Staff produced Table 5 to summarize the Variance Account
24 Numbers and Balances requested for disposition in Welland Hydro's Revised Application.

¹⁵ Exhibit 5 Tab 1 Schedule 2 Table 2, Welland Hydro Original Application – August 15, 2008

¹⁶ Exhibit N, Welland Hydro Revised Application – January 20, 2009

1 Welland Hydro has not requested for disposition of accounts 1562 and 1590 and Board Staff is in
2 agreement. Board Staff also noted that balances in accounts 1574 Deferred Rate Impact and
3 1588 RSVA Power reflected forecasted principal transactions beyond December 31, 2007 which
4 is discussed in detail below.

5 i) Account 1574 Non RSVA Deferred Rate Impact

6 As a general principle in the electricity sector, unaudited principal balances are not approved for
7 disposition. The balance in account 1574 of \$124,132 is a pre-authorized balance arising from
8 the Board's EB-2000-0663 Decision and Order. The actual amount of the variance could not be
9 calculated until after the 2007 audited financial statements were finalized. However, Welland
10 Hydro has produced evidence that the amount in the variance account has since been audited by
11 an independent third party. Board Staff agrees with this balance and goes on to state that the
12 Board should consider allowing Welland's request to clear this account. In their final
13 submissions, no intervenor has objected to clearing this account. As a result, Welland Hydro
14 submits that the Board should approve the balance in this account for disposition in the 2009
15 Regulatory Rate Rider.

16 ii) Account 1588 – RSVA Power (excluding Global Adjustment)

17 Board Staff noted that Welland Hydro forecasted an adjustment in 2008 of \$80,005 plus interest
18 to be included in the amount for disposition. Welland Hydro submitted that this was the amount
19 owed to the IESO when the final 1598 reconciliation was performed. Form 1598 is provided to
20 the IESO on a monthly basis to account for price differences between the actual average cost of
21 power billed to the distributor and the estimated RPP amounts charged to customers. The actual
22 RPP amounts charged to customers are not known until meter readings are available to cover the
23 period in question. When Welland Hydro performed this reconciliation later in 2008 the
24 amounts included in the variance account as at December 31, 2007 included \$80,005 owed to the
25 IESO. This amount was paid back to the IESO in 2008. However, Welland Hydro does
26 acknowledge that the December 31, 2007 balance in the 1588 variance account is also subject to
27 other estimates such as Unbilled Revenue and Load Transfers. As a result, Welland Hydro
28 agrees with Board Staff to remove the adjustments of \$80,005 plus interest which were made to

1 the December 31, 2007 balances in this account. Welland Hydro also notes that no objections
2 were made in the final submissions to the exclusion of Global Adjustment amounts.

3 iii) Interest Rates

4 In the Original and Revised Applications Welland Hydro used an estimated interest rate to
5 calculate interest on variance accounts to May 1, 2009. In their final submission Energy Probe
6 has requested that Welland Hydro use the actual Board approved variance account interest rates
7 for 2008 and the first quarter of 2009. Welland Hydro agrees to the interest rate proposal by
8 Energy Probe.

9 iv) Revised Continuity Schedule/Rate Rider Schedule

10 Board Staff has stated that a revised continuity schedule excluding the forecasted principal
11 balances (and associated interest) in account 1588, and a revised rate rider schedule (reconciled
12 to the continuity schedule) would be helpful if provided by Welland. Welland Hydro agrees with
13 Board Staff and has submitted the revised Excel files with its final submission. These files
14 reflect the removal of the 1588 forecasted principal adjustment (plus interest) and the use of
15 actual 2008 (3.98% full year average) and 2009 (2.45% 1st Quarter actual) interest rates for
16 variance accounts. As a result, Welland Hydro is now requesting approval to dispose of
17 \$798,772 in variances over two years as shown in Exhibit A attached. The remaining item for
18 discussion is the volumes on which the rate riders will be determined. As pointed out by Board
19 Staff past practice for the allocation of rate riders has been to use historical data (2007) to ensure
20 that the customer classes that contributed to the variance receive the appropriate corresponding
21 charge or credit. Energy Probe supplementary interrogatory #42(d) requested Welland Hydro to
22 recalculate allocators using 2009 forecasted volumes as a result of losing two large users. Board
23 Staff notes that inequities in the assignment of rate riders would occur using either 2007
24 historical values or 2009 forecasted values. Board Staff went on to conclude that based on
25 Welland Hydro's circumstances rate riders should be allocated on the basis of 2009 forecasted
26 volumes and invited parties to comment.

1 Energy Probe agreed that inequities would be present using either the 2007 or 2009 allocators.
2 This would specifically apply to the Large Use Class. Energy Probe stated that in Exhibit N of
3 the Revised Application the Large Use class would receive \$184,985 of the total variance
4 amount using 2007 data. Energy Probe went on to state that this amount would change to
5 \$124,144 using 2009 data as shown in Exhibit K provided in the response to Energy Probe
6 Supplemental Interrogatories. Energy Probe noted that this has an impact of more than \$60,000
7 on one customer. However, Welland Hydro would suggest that the impact on the remaining
8 Large Use customer is not as high as it appears. The 2007 data had the demand of two large
9 customers (plus four months of a third large user) and the 2009 data had only the forecasted
10 demand for one large user. As the credit per kW for the Large Use class did not vary
11 (\$.3605/kW using 2007 volumes and \$.3609/kW using 2009 volumes) significantly, the last
12 remaining Large Use customer would receive the same amount under either alternative. The
13 problem with using the 2007 data is that \$60,000 of the \$184,985 allocated to the Large Use
14 class would remain undistributed after two years. Using the 2009 allocators distributes this
15 \$60,000 to the other classes upfront and should provide the best method to ensure the balance in
16 the variance accounts are closer to zero at the end of two years.

17 As a result, Welland Hydro agrees with Board Staff to use 2009 forecast data to determine rate
18 riders by class in this unique situation. Welland Hydro has provided revised rate riders per class
19 in Exhibit B attached as requested by Board Staff. These riders reflect the revised amount of
20 \$798,772 to be disposed of based on 2009 forecast volumes which can be found in Exhibit A
21 attached. Residential and General Service classes have seen increases in both the dollar amount
22 to be disposed and the corresponding increase in the rate rider.

23 **6) Cost of Capital and Rate of Return**

24 **A) Capital Structure**

25 Welland Hydro is requesting the Board approve a capital structure of 56.7% debt (4% short
26 term/52.7% long term) and 43.3% equity. Board Staff notes that Welland's proposal is
27 consistent with the Board Report requiring all licensed Ontario electricity distributors to move
28 toward a 60% debt and 40% equity ratio.

1 **B) Rates of Return**

2 **i) Short Term Debt**

3 In the Original and Revised Applications Welland Hydro proposed a 4.47% return on short term
4 debt in accordance with the letter from the Board of March 7, 2008 regarding cost of capital
5 updates for the 2008 cost of service applications. Welland Hydro has acknowledged that this
6 rate was subject to change and will adopt the 1.33% rate for use in the 2009 cost of service
7 applications.

8 **ii) Long Term Debt**

9 In the Original and Revised Applications Welland Hydro proposed a 6.25% return on long term
10 debt which is the rate currently paid on an existing long-term loan (Promissory Note) of \$13.5
11 million to the City of Welland (shareholder). In response to Board Staff Supplemental
12 Interrogatory #2 filed on February 13, 2009 Welland Hydro confirmed that it is seeking to
13 recover through rates the Board determined deemed long-term debt rate for 2009 rate
14 applications. This was an acknowledgement by Welland Hydro that as a result reviewing
15 various decisions and orders from the 2008 cost of service applications, that it would be subject
16 to the Board approved rates for long term debt. Examples of the decisions reviewed by Welland
17 Hydro include Oshawa EB-2007-0710, Guelph EB-2007-0742, Horizon Utilities EB-2007-
18 0697, and Erie Thames EB-2007-0928. These decisions were released after Welland Hydro had
19 prepared and submitted the Original Application in August 2008. All of the above decisions
20 refer to section 2.2.1 of the Board Report that states, in part:

21 For all variable-rate debt and for all affiliate debt that is callable on
22 demand the Board will use the current deemed long-term debt rate.
23 When setting distribution rates at rebasing these debt rates will be
24 adjusted regardless of whether the applicant makes a request for the
25 change.

26 In all of the above decisions the Board ruled that notwithstanding the fixed rate of the debt
27 instrument, based on the guidelines affiliated and callable debt should be at the deemed debt rate.

1 In the Guelph Decision EB-2007-0742 the Board ruled that debt with no specified maturity date
2 is a demand note and that even an 18-month notice required for repayment does not make it a
3 long-term debt instrument. The notice required by the City of Welland for the current long term
4 debt with Welland Hydro is one year. The decision on Horizon Utilities EB-2007-0697 states
5 that it is best to follow guidelines even though a rate may be above the market rate that was
6 available to the Applicant at the time the Note was entered into. The Board concluded in Erie
7 Thames EB-2007-0928 that Section 2.2.1 of the Board Report is designed to ensure that interest
8 cost for variable rate debt is deemed at a rate that is reasonable, and not subject to strategic
9 adjustments according to the circumstances of the parties, especially where the interest rate
10 applied is high. The reasonable rate referred to above is the deemed rate as set by the Board
11 prior to each year of cost of service applications. This seems to be the case in the settlement of
12 Bluewater Power Distribution Corp.'s 2009 rate application EB-2008-0221 where the negotiated
13 rate of return on the long term debt was 7.62% which is the rate set by the Board for use in 2009
14 cost of service applications.

15 In their final submission Board Staff has submitted that since the long term note with the City of
16 Welland has been reviewed and approved in a prior proceeding that the note is now in the form
17 of embedded debt and Welland Hydro should be allowed to recover the actual cost of debt of
18 6.25% in 2009 rates. This would seem to contradict decisions from the 2008 cost of service
19 applications. The Intervenor's have all submitted that the long term debt rate be set at 6.25%.
20 They appear to imply that Welland Hydro changed its decision on the long term debt rate as a
21 result of the increase in the deemed rate set by the Board on February 24, 2009. Welland Hydro
22 submits that it acknowledged that the deemed rate for long term debt would apply to its 2009 rate
23 application on February 13, 2009 (Response to Board Staff Supplemental Interrogatory #2) when
24 the deemed long term rate it was facing was not yet known. In fact, the deemed rate known at
25 that time was the rate of 6.1% (below 6.25%) set for 2008 cost of service applications and could
26 have been set even lower. Much has been made about the long term debt rates Welland Hydro
27 referenced in the notes to the 2007 audited financial statements. As Welland Hydro has
28 previously pointed out these were provided solely in relation to Financial Instrument Disclosures
29 required under current Canadian GAAP to provide a basis on the market value of the long term
30 note with the City of Welland.

1 Energy Probe further noted that Welland Hydro could replace its affiliate debt with a loan from
2 Infrastructure Ontario and provided interest rates for 5 year and 25 year term loans. The decision
3 to retire the existing long term debt is not the decision of Welland Hydro but that of the note
4 holder. Welland Hydro notes that even if the note were to be replaced, Infrastructure Ontario
5 loans are for new capital spending only and cannot be used to replace existing debt. In addition,
6 the rates referred to by Energy Probe are not similar to the existing long term debt in that they
7 require principal repayments. A long term debt without principal repayments will include a
8 premium to the interest rate.

9 Welland Hydro therefore submits that the Board should approve a deemed rate of return of
10 7.62% on long term debt as set out for use in 2009 cost of service applications.

11 iii) Return on Equity

12 In the Original and Revised Applications Welland Hydro proposed a 8.57% return on short term
13 debt in accordance with the letter from the Board of March 7, 2008 regarding cost of capital
14 updates for the 2008 cost of service applications. Welland Hydro has acknowledged that this
15 rate was subject to change and will adopt the 8.01% rate for use in the 2009 cost of service
16 applications.

17 7) Calculation of Revenue Deficiency

18 Welland Hydro submits that it will make all the necessary adjustments required for the
19 calculation of revenue deficiency as a result of decision and orders made by the Board in this rate
20 application.

21 8) Cost Allocation

22 A) Adjustments to Original Cost Allocation Filing

23 Welland Hydro filed a cost allocation model on February 27, 2007 with cost data that reflects its
24 2006 OEB approved distribution rates. In the Original Application Welland Hydro revised the
25 filed cost allocation model to reflect the additional PILS recovery approved by the OEB in its
26 decision and order for EB-2007-0663. In the Revised Application Welland Hydro made a

further adjustment to reflect the loss of two large users. VECC is the only party that has objected to the methodology used by Welland in making these adjustments. Each adjustment will be dealt with separately below.

i) Adjustment for Additional PILS EB-2007-0663

In the Original Application Welland Hydro allocated the additional PILS to the various customer classes based on revenues. In response to VECC Interrogatory #4b) Welland Hydro provided the result for a Cost Allocation run that allocates the additional PILS expense consistent with the Board's cost allocation methodology. The differences in the methodologies were summarized in Exhibit C provided by Welland Hydro in its responses to VECC Interrogatories filed December 11, 2008 which is shown below in Table 11.

Table 11

<u>Customer Classification</u>	<u>Original Filing</u>	<u>Revised PILS Revenue Method</u>	<u>Revised PILS Cost Method</u>
Residential	128.92%	127.24%	129.62%
GS < 50 kW	74.39%	75.20%	74.79%
GS 50 to 4999 kW	64.21%	65.22%	63.73%
Large Use	100.73%	100.69%	98.23%
Street Light	11.91%	12.17%	11.57%
Sentinel Light	18.27%	18.71%	17.84%
Unmetered Scattered	115.66%	114.89%	117.44%

VECC submits that the Cost method is a more appropriate starting point. Welland Hydro disagrees. Welland Hydro points out the using the Cost method allocates more additional PILS costs to certain customer classes than was added to additional revenue for the same customer class. Welland Hydro submits that this is not realistic. Welland Hydro believes that any adjustment made to the original cost allocation filing should keep the Revenue to Cost Ratios as

close as possible to the percentages in the original filing. Welland Hydro believes that allocating the additional PILS the same as the additional revenue is the best method.

ii) Loss of Two Large Use Customers

The loss of two of three large users (Revised Application) presented a problem with the use of the revised 2007 Cost Allocation presented in the Original Application. The last remaining large use customer should not be expected to absorb the total cost allocated to this class for three customers. As a result, Welland Hydro revised the revenues to reflect the loss of the two large use accounts and prorated the lost revenues to the other customer classes. The costs for the large use class were then adjusted to the same Revenue to Cost ratio for this classification in the original filing. The reduction in cost for the large use classification was then prorated to the other classes. The results were presented by Welland Hydro in Exhibit G in the Revised Application and are summarized in Table 12 below.

Table 12

<u>Customer Classification</u>	<u>Original Filing</u>	<u>Revised PILS Revenue Method</u>	<u>Adjusted Loss of Large Users</u>
Residential	128.92%	127.24%	127.28%
GS < 50 kW	74.39%	75.20%	75.23%
GS 50 to 4999 kW	64.21%	65.22%	65.24%
Large Use	100.73%	100.69%	100.73%
Street Light	11.91%	12.17%	12.17%
Sentinel Light	18.27%	18.71%	18.71%
Unmetered Scattered	115.66%	114.89%	114.93%

As can be seen from the above table the method used by Welland Hydro preserves the Revenue to Cost Ratios by class to the Revised PILS Method submitted in the Original Application. VECC has submitted that the lost revenue should be reassigned to all customer classes including

the Large Use Class. Welland Hydro submits that one customer does not make a class. However, if Welland Hydro were to apply lost revenue to the last remaining large user the adjustment required would not be material.

In their final submission VECC has objected to the approach submitted by Welland Hydro as to simplistic and also inappropriate. VECC has proposed using Revenue to Cost ratios contained in Exhibit B provided by Welland Hydro in response to VECC Supplemental Interrogatory #22 which VECC states "has properly removed the costs and the revenue associated with the transformer allowance.". The Revenue to Cost ratios proposed by VECC are compared to the ratios proposed by Welland Hydro (Revised Application) in Table 13 below.

Table 13

<u>Customer Classification</u>	<u>Welland Hydro Revised Application</u>	<u>Proposed By VECC</u>
Residential	127.28%	135.42%
GS < 50 kW	75.23%	77.81%
GS 50 to 4999 kW	65.24%	57.17%
Large Use	100.73%	71.62%
Street Light	12.17%	12.16%
Sentinel Light	18.71%	18.73%
Unmetered Scattered	114.93%	120.79%

The above table shows that the proposed ratios by VECC differ significantly from the Cost Allocation Informational Filing. The difference is due mainly to the fact that VECC disagrees with the method of handling transformer allowances in the Cost Allocation Informational Filings across all LDCs. Welland Hydro submits it is more appropriate at this time for LDCs to apply a consistent methodology until an alternative has been developed, tested, and approved by the Board. Board Staff and SEC did not make any submission with regards to the Welland Hydro's

1 handling of transformer allowance or adjustments it has made for additional PILS and the loss of
2 the large use customers. Energy Probe accepted the reallocation for PILS and loss of large users
3 as proposed by Welland Hydro in the absence of a new cost allocation study.

4 Welland Hydro submits that in all the adjustments it has made to the Cost Allocation
5 Informational Filing it has preserved the revenue to cost ratios as close as possible to the original
6 filing. Welland Hydro concludes that this is the best approach in the absence of a completely
7 revised Cost Allocation study to reflect the revised customer and load profiles. As a result,
8 Welland Hydro requests that the Board approve the methodology Welland Hydro has used to
9 determine the appropriate starting point for calculating adjustments relating to Cost Allocation in
10 setting the 2009 Distribution Rates by class.

11 **B) 2009 Proposed Revenue to Cost Ratio**

12 **i) Board Staff Comments**

13 In their final submission Board Staff produced Table 4 which compares Welland Hydro's
14 proposed Revenue to Cost Ratios by customer class from the Original and Revised Applications
15 to the revised Cost Allocation Informational filing ratios and ranges from the Report of the
16 Board, Application of Cost Allocation for Electricity Distributors. Board Staff notes that the
17 proposed ratios are within the Board's range for all classes except Street Lighting, Sentinel
18 Lighting, and Residential, and that the changes proposed are in-line with the Board's policy,
19 insofar as they move the ratios closer to unity in all instances except the Large Use class.
20 Welland Hydro believes it would be beneficial to address the Large Use class at this time as
21 Energy Probe and VECC have objected to the proposed movement.

22 Welland Hydro has stated that the reduction in the Revenue to Cost ratio to 95.56% for the
23 Large Use class was required to offset the fact that no adjustment was made to the transformer
24 allowance of \$.60/kW. However, in response to Board Staff Supplemental Interrogatory #7
25 Welland Hydro proposed an alternative method which would keep the Revenue to Cost ratio for
26 the Large Use Class at the same level of 100.73% submitted in the original cost allocation filing.
27 This was accomplished by increasing the transformer allowance to \$.70/kW which is in line with

the Line Transformation Unit Cost of \$.6862/kW in the original cost allocation filing. This method was approved by the Board in its decision on Horizon Utilities EB-2007-0697. Backup to this proposal is provided in Exhibits E to L in the Responses to Board Staff Supplemental Interrogatories. In particular, Exhibit J provides revised Revenue to Cost Ratios by class for 2009. They are summarized in Table 14 below.

Table 14

<u>Customer Classification</u>	<u>Exhibit K Welland Hydro Revised Application</u>	<u>Exhibit J Welland Hydro Revised Trans Allow</u>
Residential	115.61%	115.03%
GS < 50 kW	84.70%	84.26%
GS 50 to 4999 kW	84.54%	85.63%
Large Use	95.56%	100.73%
Street Light	40.35%	40.14%
Sentinel Light	52.97%	52.69%
Unmetered Scattered	100.16%	101.44%

Welland Hydro requests that the Board approve the above methodology as it eliminates the requirement to adjust the Large Use Revenue to Cost Ratio. As can be seen in Exhibit L in the Response to Board Staff Supplemental Interrogatories, the monthly bill to the customer in the Large Use class is the same under either alternative. This method is also more equitable to customers in the GS>50 kW class as customer in this class who own their transformers are treated equally to customer in the Large Use Class.

1 ii) Energy Probe Comments

2 Energy Probe submits that in relation to Street Lighting the 2009 ratio should be set at 41.09% as
3 opposed to the 40.35% (revised to 40.14% above). Welland Hydro does not object to this
4 proposal.

5 In relation to Sentinel Lights Energy Probe objects to the target of 90% over two years set by
6 Welland Hydro and proposes a 70% target (bottom of approved range) over two years with 50%
7 of the difference allocated in 2009. This would produce Revenue to Cost ratios of 44.36% in
8 2009 and 70% in 2010. Welland Hydro feels that movement to 90% is justified but has not
9 provided any documentation to support the movement beyond the bottom of the target ranges
10 approved by the Board. As a result, Welland Hydro will look to the Board for guidance on this
11 issue.

12 Energy Probe has agreed with Welland Hydro that the General Service classes need to be
13 adjusted to near 85% to bring the Residential Class back within the upper range approved by the
14 Board.

15 Energy Probe submits that the movement for Unmetered Scattered load from 114.93% to
16 100.15% is not necessary as this class already is within the Board approved range. Welland
17 Hydro was simply moving this classification to unity and will look to the Board for guidance on
18 this issue.

19 Energy Probe was against the movement in the Large Use class which has been addressed in the
20 Board Staff Comments section above.

21 Energy Probe has accepted Welland Hydro's approach to use the Residential as the residual class
22 for 2009 in that it is the only class that has a ratio in excess of the maximum.

23 iii) SEC Comments

24 SEC submits that "the rate impacts on GS<50kW and GS>50kw are unreasonable and may be
25 counter-productive for the utility if it drives businesses that are already teetering on the edge out

1 of business". SEC has pointed out that Welland Hydro has increased both classes beyond the
2 minimum target range set out by the Board.

3 The General Service<50kW was increased from a 75% Revenue to Cost ratio to 85% in 2009.
4 The bill impacts were detailed on page two of Exhibit O in the Revised Application. The overall
5 bill impact is approximately 5% from 2008 but only a 1.5% increase over a two year period
6 comparing 2007 to 2009. Welland Hydro also points out that the estimated 2009 monthly bill for
7 one of its customers in this class is comparable to 2008 Board approved rates at three other local
8 LDCs as shown in Exhibit O referenced above.

9 Welland Hydro will look to the Board for guidance on adjusting the Revenue to Cost ratio for
10 this class as a form of rate mitigation. Any adjustments would result in the Residential class
11 being above the maximum target range set out by the Board.

12 The General Service>50kW was increased from 65% to 85% in 2009. Welland Hydro submits
13 that this class is the most problematic for rate setting given the large range in demand. Welland
14 Hydro is aware that the Board is currently looking at this as part of the Rate Design undertaking.
15 As can be seen on pages three to five in Exhibit O total bill impacts range 2% for customers at
16 the high end of the demand to 15% for customers at the low end of demand. Welland Hydro
17 submits that both percentage and total dollar increases must be taken into account within this
18 customer class and the Large Use class. The customer with the 15% increase is facing a \$190
19 monthly increase in its bill while the customer with the 2% increase is facing a \$3,100 increase
20 in its bill. As was the case with the General Service <50kW the rate increases over a two year
21 period (2007 to 2009) are significantly less than the one year impact. Welland Hydro submits
22 that the higher dollar increase is more likely to drive a customer out of business who is teetering
23 on the edge. Welland Hydro would agree with SEC that driving out any business is counter-
24 productive to the utility and the community it operates in. This is especially true of customers at
25 the high end of the GS>50kW class and the Large Use class that tend to create the most jobs.
26 Unfortunately, unlike the Residential and GS<50kW classes, using the demand as a basis for
27 transmission and volumetric distribution rates tends to result in charges for these costs that do
28 not reflect the reduced volumes these customers are facing as they typically only reduce the

1 number of shifts worked. However, Welland Hydro must point out that the estimated 2009 total
2 bills for customers at the low and high ends of this classification are in line with or below the
3 2008 Board approved rates at three other local LDCs as can be seen in Exhibit O. Comparison
4 to other LDCs will become more difficult to use as a result of the timing of rebasing rate
5 applications and cost allocation adjustments.

6 Welland Hydro believes there may be merit in limiting the increase in this classification to the
7 low end of the Revenue to Cost range set out by the Board of 80% for rate mitigation purposes.
8 However, any adjustment made will result in the Residential class being above the maximum
9 target range set out by the Board.

10 SEC did not provide any comments for other customer classifications.

11 iv) VECC Comments

12 Throughout their comments on the Proposed Revenue to Cost Ratios VECC continues to
13 emphasize that the starting points for ratios should be the response to VECC Supplemental
14 Interrogatory #22. As Welland Hydro has already rejected this argument, comments will be
15 limited to changes in revenue cost ratios proposed by VECC.

16 VECC submits that cost ratios for Street Lights and Sentinel Lights need to increase to the low
17 end of the revenue to cost range over a two year period which Welland Hydro has agreed to do.

18 VECC submits that the USL class does not need to be adjusted to unity as it is within the
19 approved ranges. Welland Hydro has already stated it will look to the Board for guidance in this
20 matter.

21 VECC submits that the revenue to cost ratios for GS<50kW and GS>50kW should be limited to
22 80% and further increases should only be the result of requiring additional movements to move
23 the Residential class within the targeted ranges. Welland Hydro has indicated that the move to
24 80% may be warranted for the GS>50kW and will look to the Board for guidance for both
25 customer classes.

1 VECC has objected to the reduction to 95.56% for the Large Use class. The proposal Welland
2 Hydro presented in Board Staff Comments section above addresses this issue by increasing the
3 transformer allowance to \$.70/kW as approved by the Board in other rate applications and
4 leaving the revenue to cost ratio slightly above 100%. VECC seems to want to relate the cost of
5 the credit for transformer allowance from cost allocation to the evaluation of bill impacts.
6 Welland Hydro disagrees. Surely the increase from \$.60/kW to \$.70/kw would impact the before
7 and after bill impact analysis. As can be seen in Exhibit L in the response to Board Staff
8 Supplemental Interrogatories the 2009 distribution portion of the Large Use customer is the same
9 under the 95.56% revenue to cost ratio method compared to the 100.73% ratio and an increase in
10 the transformer credit. As this class was at revenue to cost unity in the cost allocation
11 informational filing it should only expect to receive an increase similar to the overall increase in
12 distribution rates. Welland Hydro believes it has accomplished this in setting 2009 distribution
13 rates by class.

14 **C) 2010 Proposed Revenue to Cost Ratios**

15 In Exhibit J in the Response to Board Staff Supplemental Interrogatories, Welland Hydro
16 proposed two alternatives for the allocation of increases to Street Light and Sentinel Light
17 classes in 2010 (final year of a two year adjustment). The first was to apportion 100% to the
18 Residential Class. This would further reduce the revenue to cost ratios for this class from
19 115.03% to 111.61%. The second method was to bring the Large Use class down to the same
20 85% Revenue to Cost ratios for General Service Customers with the balance to the Residential
21 Class producing a ratio of 112.61%. Welland Hydro acknowledges that this may have to be
22 adjusted if the Board makes changes to its 2009 proposed Revenue to Cost ratios. Although no
23 evidence has been provided Welland Hydro still believes that as the Cost Allocation evolves and
24 more emphasis is placed on analyzing costs which can be directly allocated to a customer class,
25 the Large User classification will show increased Revenue to Cost Ratios which will require
26 decreases in future distribution rates. Welland Hydro believes that the dollar impact must be
27 taken into account in any analysis. Welland Hydro proposed a \$3,200/month (\$38,400 annual)
28 increase in the distribution portion of the last remaining Large Use customer in 2009 which is
29 significant. Welland Hydro was able to offset most of the increase (for two years only) by

1 recommending to the Board that all of the regulatory variances be refunded to customers over a
2 two year period. The second alternative in 2010 addresses the significant dollar increase to this
3 customer by reducing the revenue to cost ratio while at the same time offering a reduction to the
4 Residential Class and bringing it well within the ratio ranges approved by the Board.

5 Welland Hydro recognizes that a decision to reduce any class currently at unity would be
6 difficult for the Board to make but agrees with SEC that "driving any customer teetering on the
7 edge out of business would be counter-productive to both the utility and community."
8 Unfortunately this is a problem that a significant portion of manufactures are facing which will
9 in turn impact distributors and their customers. Welland Hydro would look to the Board for
10 guidance in allocating increases to the Street Light and Sentinel Light classifications in 2010.

11 **9) Rate Design**

12 **A) Line Losses**

13 Both Board Staff and Intervenors have agreed to the distribution loss factor of 4.85% proposed
14 by Welland Hydro for 2009 which is a significant reduction to the current rate. Board Staff
15 submits that Welland Hydro has applied the approve supply facility loss factor of 1.0045 to
16 distribution loss factors for a total loss factor of 1.0532. This rate is similar with other non-
17 embedded utilities of similar size and profile.

18 **B) RTR and RRPP Rates**

19 Welland Hydro has submitted for approval revised RTR and RRPP rates as directed by the
20 Board. Board Staff have concluded that rates developed by Welland Hydro are designed to
21 collect the associated revenues appropriately. As a result, Welland Hydro requests the Board
22 approve the revised rates as submitted by Welland Hydro.

23 **C Split – Fixed & Variable Charges**

24 SEC submits that it believes the distribution monthly service charge (fixed charge) for the
25 GS>50kW class is too high and should be set at \$117.32/month versus the \$327.61/month
26 proposed by Welland Hydro. SEC claims that Welland Hydro is proposing that the 2009 fixed

1 charges for Residential, GS<50, and GS>50 classes remain fixed at the 2008 level which is not
2 correct (perhaps this is SEC's recommendation). Welland Hydro has always maintained that it
3 will keep the current ratio of fixed and variable rates at the current levels with the exception of
4 the GS>50kW where an adjustment was made to lower the fixed costs to help users at the low
5 end of a very large demand range customer classification.

6 VECC submits that Welland's current Residential monthly fixed charge is more than 30% above
7 the range established by the OEB and as a result there should be no increase in the monthly
8 service charge.

9 Welland Hydro comments will refer back to its response to Board Staff Interrogatory #9.
10 Welland Hydro referred to the Board decision on Norfolk Power 2008 Rate Application EB-
11 2007-0753. In its decision the Board stated:

12 The Board has convened a consultation with the industry and
13 stakeholders respecting many aspects of rate design, including the
14 fixed/variable split. The relationship between fixed and variable portions
15 of the customer bill has important implications for ratemaking, and the
16 magnitude of the fixed charges has benefits and drawback for various
17 stakeholders.

18 In light of the consultation initiated by the Board on these subjects it
19 would be inappropriate to attempt to predict its outcome and to impose a
20 new structure on the Applicant. Accordingly the Board accepts the
21 Applicant's proposal.

22 As a result, Welland Hydro is requesting the Board approve the fixed and variable splits as
23 submitted.

24

25

26

D) Smart Meters

In the revised application Welland Hydro requested an increase in the Smart Meter funding adder from the current \$.27/mth to \$1.00/mth. This request was made as the schedule to install smart meters at Welland Hydro was moved up to start in April, 2009.

No party has objected to the increase to \$1.00/mth but Board Staff have requested that Welland Hydro provide the estimated average cost and the functionality of the smart meters.

i) Average Cost per meter

In response to Board Staff Supplemental Interrogatory #4 Welland Hydro filed copies of purchase orders with vendors relating to the Smart Meter program. The purchase orders totaled approximately \$2.7 million dollars Canadian. The costs are summarized in Table 15 below.

Table 15

	<u>Number of Meters</u>	<u>Total Costs</u>	<u>Average Cost/Meter</u>
KTI - PO#14245 Cost of Meters	21,930	\$1,861,225	\$84.87
Jesstec Industires - PO#14237 Misc Hardware		<u>\$129,840</u>	<u>\$5.92</u>
Total Average Cost Per Meter & Hardware		\$1,991,065	\$90.79

The above average cost does not include installation, AMI systems costs, and internal software revisions which are still being evaluated.

ii) Meter & AMI Functionality

Welland Hydro can confirm to the Board that smart meters and advanced metering infrastructure which it is purchasing has been vetted by the Fairness Commissioner as per Exhibit D attached.

Welland Hydro can confirm to the Board that it does not expect to incur costs associated with functions for which the smart metering entity has the exclusive authority to carry out pursuant to Ontario Reg. 393/07.

iii) Clearing of Variance Accounts

At this time, it is Welland Hydro's intention to clear amounts in the Smart Meter accounts as part of the 2010 IRM rate setting process.

Conclusion

Welland Hydro submitted a Revised Application on January 20, 2009 to reflect the most up to date customer count and profile as a result of the loss of two Large Use customers. Interest Income was also adjusted to reflect current market rates which have decreased significantly. In the Revised Application Welland Hydro proposed to reduce 2009 OM&A expenses by \$193,849 to help offset the forecasted reduced revenues. In addition, Welland Hydro proposed to include certain RSVA Variance Accounts for disposition which would result in a refund of \$399,386/yr for two years versus a \$139,967/yr charge for three years. Welland Hydro would submit that this has provided significant rate mitigation for the first two years covered by the rate application.

During this final submission Welland Hydro has proposed additional changes which can be summarized as follows:

i) Rate Base Related

Reduce the Cost of Power from \$37,173,850 to \$35,121,518 (no additional changes required as the cost of power rate used by Welland Hydro is below the October 2008 forecast cost of power rate of \$.0603/kwH).

Reduce the OM&A portion by \$193,849 (Revised Application) and \$6,250 (Cost of Application).

Results in a revised rate base of \$26,848,957.

1 Results in an Ontario Capital Tax expense of \$26,660.

2 ii) Other Revenue

3 Increase Other Operating Revenue by \$8,000.

4 iii) OM&A Costs

5 Reduce Administrative Costs by \$6,250 related to cost of rate application.

6 iv) Tax Related

7 Increase CCA deduction by \$9,462.

8 Add Apprenticeship tax credit \$10,000 (2008 estimate by Deloitte).

9 v) Cost of Capital

10 Revise Short Term Debt to 1.33%

11 Revise Long Term Debt to 7.62%

12 Revise Return on Equity to 8.01%

13 Results in Deemed Interest of \$1,092,468.

14 Results in Deemed Return on Equity of \$931,210

15 The results of the above changes do not produce significant changes in Revenue Deficiency,
16 Total Revenue Requirements, and Total Revenues for Distribution Rates as compared to the
17 Revised Application which can be seen in Exhibit C attached and summarized in Table 16
18 below.

19

20

Table 16

	<u>Revised Rate Application</u>	<u>Final Submission</u>
Revenue Deficiency	\$1,768,861	\$1,767,457
Distribution Revenue @ current rates	<u>6,808,613</u>	<u>6,808,613</u>
Distribution Revenue for Rates	\$8,577,474	\$8,576,070
Other Operating Revenues	<u>568,391</u>	<u>576,391</u>
Total Revenue Requirement	<u><u>\$9,145,865</u></u>	<u><u>\$9,152,461</u></u>

Intervenor Costs

Welland Hydro notes that Energy Probe, VECC, and SEC have requested awards of costs in the amount of 100% of their reasonable incurred costs. Welland Hydro respectfully assumes that the Board's decisions on these requests will depend on a review of the actual cost claims by the Board later in this rate process and that Welland Hydro will have the opportunity to file objections to the claims at that time, if warranted.

Welland Hydro-Electric System Corp.

**Regulatory Asset Accounts with Revised Actual Interest Rates/2009 Volumes
Final Submission-Exhibit A**

Account Description	Account Number	Principal Amounts as of Dec-31 2007	Interest to Dec31-07	Interest Jan-1 to Dec31-08	Interest Jan-1 to Apr30-09	Total Claim
RSVA - Wholesale Market Service Charge	1580	\$ (868,191)	\$ (16,333)	\$ (34,554)	\$ (7,090)	\$ (926,168)
RSVA - One-time Wholesale Market Service	1582	\$ 37,163	\$ 3,735	\$ 1,479	\$ 303	\$ 42,681
RSVA - Retail Transmission Network Charge	1584	\$ 392,602	\$ 31,599	\$ 15,626	\$ 3,206	\$ 443,033
RSVA - Retail Transmission Connection Charge	1586	\$ 174,980	\$ 10,549	\$ 6,964	\$ 1,429	\$ 193,922
RSVA - Power(excluding Global Adjustment)	1588-0	\$ (903,150)	\$ (19,272)	\$ (35,945)	\$ (7,376)	\$ (965,743)
RSVA/RCVA Sub-Totals		\$ (1,166,596)	\$ 10,278	\$ (46,431)	\$ (9,527)	\$ (1,212,276)
Other Regulatory Assets - OEB Assessments	1508	\$ 27,095	\$ 6,943	\$ 1,078	\$ 221	\$ 35,338
Other Regulatory Assets - Pension	1508	\$ 206,737	\$ 18,279	\$ 8,228	\$ 1,688	\$ 234,933
Deferred Regulatory	1525	\$ 11,871	\$ 707	\$ 472	\$ 97	\$ 13,147
Retail Cost Variance Account - STR	1548	\$ -	\$ -	\$ -	\$ -	\$ -
Smart Meters Revenue and Capital	1555	\$ -	\$ -	\$ -	\$ -	\$ -
Smart Meter Expenses	1556	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Revenue	1574	\$ 124,132	\$ -	\$ 4,940	\$ 1,014	\$ 130,086
Other Deferred Credits	2425	\$ -	\$ -	\$ -	\$ -	\$ -
NON RSVA/RCVA Sub-Totals		\$ 369,834	\$ 25,930	\$ 14,719	\$ 3,020	\$ 413,504
Totals per column		\$ (796,762)	\$ 36,208	\$ (31,711)	\$ (6,507)	\$ (798,772)

Annual interest rate: Jan 1 08 - Dec 08 3.98% Jan 1 09 - Apr 09 2.45%

2009 Data By Class	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS		166,128,692	19,818	19,818	\$ 5,222,744
GENERAL SERVICE <50 KW CLASS		55,348,528	1,717	1,717	\$ 764,990
GENERAL SERVICE >50 KW NON TIME OF USE					
GENERAL SERVICE >50 KW TIME OF USE	440,796	160,782,066	171	171	\$ 611,776
STANDBY					
LARGE USER CLASS	169,553	49,804,199	1	1	\$ 147,813
UNMETERED & SCATTERED LOADS		1,072,774	208	0	\$ 31,424
SENTINEL LIGHTS	2,592	1,098,311	721	0	\$ 5,248
STREET LIGHTING	13,262	4,722,781	6,677	0	\$ 24,618
Totals	626,203	438,957,351	29,313	21,707	\$ 6,808,613

Allocators	kW	kWhs	Cust. Num.'s	Number of Metered Customers	Dx Revenue
RESIDENTIAL CLASS	0.0%	37.8%	67.6%	91.3%	76.7%
GENERAL SERVICE <50 KW CLASS	0.0%	12.6%	5.9%	7.9%	11.2%
GENERAL SERVICE >50 KW NON TIME OF USE	0.0%	0.0%	0.0%	0.0%	0.0%
GENERAL SERVICE >50 KW TIME OF USE	70.4%	36.6%	0.6%	0.8%	9.0%
STANDBY	0.0%	0.0%	0.0%	0.0%	0.0%
LARGE USER CLASS	27.1%	11.3%	0.0%	0.0%	2.2%
UNMETERED & SCATTERED LOADS	0.0%	0.2%	0.7%	0.0%	0.5%
SENTINEL LIGHTS	0.4%	0.3%	2.5%	0.0%	0.1%
STREET LIGHTING	2.1%	1.1%	22.8%	0.0%	0.4%
Totals	100%	100%	100%	100%	100%

Welland Hydro-Electric System Corp.
Revised-Rate Riders Calculation for Revised Interest Rates/2009 Volumes
Final Submission-Exhibit B

Deferral and Variance Accounts:

	Amount	ALLOCATOR	Residential	GS < 50 KW	GS 50-4999	Large Use	USL	Sentinel Lighting	Street Lighting	Total
Other Regulatory Assets OEB Assessment- Account 1508	\$ 35,338	Dx Revenue	\$ 27,107	\$ 3,970	\$ 3,175	\$ 767	\$ 163	\$ 27	\$ 128	\$ 35,338
Other Regulatory Assets Pension- Account 1508	\$ 234,933	Dx Revenue	\$ 180,212	\$ 26,396	\$ 21,109	\$ 5,100	\$ 1,084	\$ 181	\$ 849	\$ 234,933
Deferred Regulatory Assets - Account 1525	\$ 13,147	Dx Revenue	\$ 10,085	\$ 1,477	\$ 1,181	\$ 285	\$ 61	\$ 10	\$ 48	\$ 13,147
Deferred Revenue - Account - 1574	\$ 130,086	Dx Revenue	\$ 99,786	\$ 14,616	\$ 11,689	\$ 2,824	\$ 600	\$ 100	\$ 470	\$ 130,086
RSVA-Wholesale Market Service Charge-1580	\$ (926,168)	kwHs	\$ (350,520)	\$ (116,781)	\$ (339,239)	\$ (105,083)	\$ (2,263)	\$ (2,317)	\$ (9,965)	\$ (926,168)
RSVA-One-Time Wholesale Market Service-1582	\$ 42,681	Dx Revenue	\$ 32,739	\$ 4,795	\$ 3,835	\$ 927	\$ 197	\$ 33	\$ 154	\$ 42,681
RSVA-Retail Transmission Network Charge-1584	\$ 443,033	kwHs	\$ 167,671	\$ 55,862	\$ 162,275	\$ 50,267	\$ 1,083	\$ 1,109	\$ 4,767	\$ 443,033
RSVA-Retail Transmission Connection Charge-1586	\$ 193,922	kwHs	\$ 73,392	\$ 24,452	\$ 71,030	\$ 22,002	\$ 474	\$ 485	\$ 2,086	\$ 193,922
RSVA-Power Excluding Global Adj-1588-0	\$ (965,743)	kwHs	\$ (365,497)	\$ (121,771)	\$ (353,734)	\$ (109,573)	\$ (2,360)	\$ (2,416)	\$ (10,391)	\$ (965,743)
Subtotal - Non RSVA, Variable	\$ (798,772)		\$ (125,024)	\$ (106,983)	\$ (418,678)	\$ (132,484)	\$ (962)	\$ (2,788)	\$ (11,853)	\$ (798,772)
Total to be Recovered	\$ (798,772)		\$ (125,024)	\$ (106,983)	\$ (418,678)	\$ (132,484)	\$ (962)	\$ (2,788)	\$ (11,853)	\$ (798,772)

Balance to be collected or refunded, Variable	2	\$ (798,772)	\$ (125,024)	\$ (106,983)	\$ (418,678)	\$ (132,484)	\$ (962)	\$ (2,788)	\$ (11,853)	\$ (798,772)
Number of years for Variable	2									
Number of years for Fixed (Smart Meters)										
Balance to be collected or refunded per year, Variable		\$ (399,386)	\$ (62,512)	\$ (53,492)	\$ (209,339)	\$ (66,242)	\$ (481)	\$ (1,394)	\$ (5,926)	\$ (399,386)

Class	Residential	GS < 50 KW	GS 50-4999	Large Use	USL	Sentinel Lighting	Street Lighting
Deferral and Variance Account Rate Riders-Variable	\$ (0.0004)	\$ (0.0010)	\$ (0.4749)	\$ (0.3907)	\$ (0.0004)	\$ (0.5379)	\$ (0.4469)
Billing Determinants	kwH	kwH	kW	kW	kWh	kW	kW

Residential	GS < 50 KW	GS 50-4999	Large Use	USL	Sentinel Lighting	Street Lighting
\$ (0.0004)	\$ (0.0010)	\$ (0.4749)	\$ (0.3907)	\$ (0.0004)	\$ (0.5379)	\$ (0.4469)
kwH	kwH	kW	kW	kWh	kW	kW

Welland Hydro-Electric System Corp.
Exhibit C
Revised Revenue Deficiency Determination

Description	Based on Revised Application		Based on Final Submission	
	2009 Revised Existing Rates	2009 Rev Appl - Required Revenue	2009 Revised Existing Rates	2009 Submission - Required Revenue
Revenue		1,768,860.77		1,767,456.66
Revenue Deficiency				
Distribution Revenue	6,808,613.00	6,808,613.00	6,808,613.00	6,808,613.00
Other Operating Revenue (Net)	568,391.00	568,391.00	576,391.00	576,391.00
Smart Meter Deferral Account Adjustment				
Total Revenue	7,377,004.00	9,145,864.77	7,385,004.00	9,152,460.66
Costs and Expenses				
Administrative & General, Billing & Collecting	2,342,686.00	2,342,686.00	2,336,436.00	2,336,436.00
Operation & Maintenance	2,577,401.00	2,577,401.00	2,577,401.00	2,577,401.00
Depreciation & Amortization	1,717,160.37	1,717,160.37	1,717,160.37	1,717,160.37
Capital Taxes	27,420.35	27,420.35	26,660.15	26,660.15
Deemed Interest	943,393.60	943,393.60	1,092,468.00	1,092,468.00
Total Costs and Expenses	7,608,061.32	7,608,061.32	7,750,125.52	7,750,125.52
Less OCT Included Above	-27,420	-27,420	-26,660	-26,660
Total Costs and Expenses Net of OCT	7,580,640.97	7,580,640.97	7,723,465.37	7,723,465.37
Utility Income Before Income Taxes	-203,636.97	1,565,223.80	-338,461.37	1,428,995.29
Income Taxes:				
Corporate Income Taxes	0.00	528,952.14	0.00	481,125.14
Ontario Capital Taxes	27,420.35	27,420.35	26,660.15	26,660.15
Apprenticeship Tax Credit	0.00	0.00	-10,000.00	-10,000.00
Total Income Taxes	27,420.35	556,372.49	16,660.15	497,785.29
Utility Net Income	-231,057.32	1,008,851.31	-355,121.52	931,210.00
Capital Tax Expense Calculation:				
Total Rate Base	27,186,822.00	27,186,822.00	26,848,957.00	26,848,957.00
Exemption	15,000,000.00	15,000,000.00	15,000,000.00	15,000,000.00
Deemed Taxable Capital	12,186,822.00	12,186,822.00	11,848,957.00	11,848,957.00
Ontario Capital Tax	27,420.35	27,420.35	26,660.15	26,660.15
Income Tax Expense Calculation:				
Accounting Income	-203,636.97	1,565,223.80	-338,461.37	1,428,995.29
Ontario Capital Tax	-27,420.35	-27,420.35	-26,660.15	-26,660.15
Tax Adjustments to Accounting Income	65,081.83	65,081.83	55,619.83	55,619.83
Taxable Income	-165,975.49	1,602,885.28	-309,501.69	1,457,954.97
Income Tax Expense	0.00	528,952.14	0.00	481,125.14
	33.00%	33.00%	33.00%	33.00%
Actual Return on Rate Base:				
Rate Base	27,186,822.00	27,186,822.00	26,848,957.00	26,848,957.00
Interest Expense	943,393.60	943,393.60	1,092,468.00	1,092,468.00
Net Income	-231,057.32	1,008,851.31	-355,121.52	931,210.00
Total Actual Return on Rate Base	712,336.28	1,952,244.91	737,346.48	2,023,678.00
Actual Return on Rate Base	2.62%	7.18%	2.75%	7.54%
Required Return on Rate Base:				
Rate Base	27,186,822.00	27,186,822.00	26,848,957.00	26,848,957.00
Return Rates:				
Return on Debt (Weighted)	6.12%	6.12%	7.18%	7.18%
Return on Equity	8.57%	8.57%	8.01%	8.01%
Deemed Interest Expense	943,393.60	943,393.60	1,092,468.00	1,092,468.00
Return On Equity	1,008,851.31	1,008,851.31	931,210.00	931,210.00
Total Return	1,952,244.91	1,952,244.91	2,023,678.00	2,023,678.00
Expected Return on Rate Base	7.18%	7.18%	7.54%	7.54%
Revenue Deficiency After Tax	1,239,908.63		1,286,331.52	
Revenue Deficiency Before Tax	1,768,860.77		1,767,456.66	

Tax Exhibit

Deemed Utility Income
Tax Adjustments to Accounting Income
Taxable Income prior to adjusting revenue to PILs
Tax Rate
Total PILs before gross up
Grossed up PILs Net of Apprenticeship Tax Credit

2009
1,008,851
65,081.83
1,073,933
33.00%
354,398
528,952

2009
931,210
55,619.83
986,830
33.00%
316,654
471,125



PRP International, Inc.

Fairness Advisory Services

August 1, 2008

Mr. Ross Peever
President and CEO
Welland Hydro Electric System Corp,
950 East Main Street, Box 280
Welland, ON L3B 5P6

Dear Mr. Peever:

Subject: Attestation of the Fairness Commissioner
Advanced Metering Infrastructure RFP, August-July 2008
London Hydro, Consortium & Add-On LDCs Smartmetering Project

PRP International, Inc. is pleased to submit its letter report of the Fairness Commissioner for the noted Request for Proposal (RFP) evaluation and selection phase. This judgment is being provided for the information and use of each Add-On LDC Sponsor, in their consideration of the report from the Evaluation Phase, for this competitive transaction.

*"It is the judgment of PRP International, Inc., as the Fairness Commissioner, that the determinations of the two (2) highest ranked Proponents for the **NEPA Collective of LDCs (Brant County Power Inc., Brantford Power Inc., Canadian Niagara Power Inc. (Fortis), Grimsby Power Incorporated, Haldimand County Hydro Inc., Niagara-on-the-Lake Hydro Inc., Niagara Peninsula Energy Inc., Norfolk Power Distribution Inc., and Welland Hydro Electric System Corp.)** requirements are:*

- KTI/Sensus Limited, as the recommended Preferred Proponent, based on its highest ranking, and*
- Elster Metering being the second ranked Proponent.*

These determinations were made in a fair (objective and competent) manner and consistent with the evaluation and selection processes set out in the RFP, issued August 14, 2007."

A detailed report for your records will be submitted to you, by August 31, 2008. Should you have any questions or require clarification of any matter contained in this letter report, please contact the undersigned.

Yours truly,

Peter Sorensen
President

cc: Mr. Gary Rains, RFP Project Director

LDC Name: NEPA Collective

Results of Request for Proposal for Advanced Metering Infrastructure (AMI) for LDC Named Above

Proponent (Col 1)	Technical Score (with LDC-specific weightings applied) (Col 2)	Cost Score (based on LDC-specific meter population & other LDC assumptions) (Col 3)	Common "Other Factors" (Col 4)	Bidder's Overall Score (Col 5)
KTI / Sensus Metering	38.4	28.4	18	84.8
Elster Metering	33.5	30.0	19	82.5
Silver Spring Networks	36.5	25.5	15	77.0
	50 points	30 points	20 points	100 points
	+	+	=	

The designated Fairness Commissioner will be issuing a letter attesting that these RFP results are in accordance with the parameters and process established in the document entitled: *Request for Proposal for Advanced Metering Infrastructure (AMI) - Phase I Smartmeter Deployment*, and the document entitled: *Evaluation Plan of Bid Submissions for "Advanced Metering Infrastructure (AMI) - Phase I Smartmeter Deployment"*.

Exhibit D
Page 2