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January 4, 2010

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

Dear Ms Walli:

Re: Wellington North Power Inc. response to VECC Letter of Comment
2010 IRM3 Distribution Rate Application
Board File Number EB-2009-0253

Wellington North Power Inc. (the applicant) would like to respond to the letter dated December 3, 2009 from the Vulnerable Energy Consumer Coalition (VECC) regarding the applicant's IRM3 2010 Electricity Distribution Rate submission.

In the letter VECC commented, they had reviewed the Application and "its comments are limited to Wellington North's implementation of the Board's EB-2007-0693 Decision regarding cost allocation and the appropriate revenue to cost ratios. In its Application (page 13) Wellington North proposes to increase the revenue to cost ratios for both the Residential and the GS<50 classes. VECC submits that these increases are inconsistent with the Board's EB-2007-0693 Decision (pages 29-30). In that Decision Wellington North was directed to increase the revenue to cost ratios for both the Street Lighting and Sentinel Lighting classes based on the fact that the current ratios for both classes were below the Board's established range. Wellington was also directed to apply the increased revenue to the other customer classes (implicitly those with ratios above 100%) as it wished."

"There was no direction provided in the Decision to alter the revenue to cost ratios for the Residential or GS<50 classes, both of which are within the Board's recommended range. Indeed, the Board explicitly rejected a proposal by Wellington North to increase the ratio for the Residential class. VECC requests that the Board direct Wellington North to maintain the revenue to cost ratios for the Residential and GS<50 classes at their current values (97.3% and 96.1% respectively) for purposes of setting 2010 rates."

Excerpts from the Ontario Energy Board Decision and Order – August 11, 2008.

The following table and excerpts written in italics is from the Ontario Energy Board Decision and Order in the Matter of Wellington North Power Inc. EB-2007-0693, for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2008.

The following table shows the revenue to cost ratios in Wellington North's Informational Filing Run 3 and in its application, in columns 1 and 2. The table also shows a set of ratios that Energy Probe says would be a more just and reasonable set of ratios.

Table from Wellington North Power's Decision and Order:

Wellington North
Revenue to Cost Ratios (%)

	Informational Filing Run 3 Col 1	Proposed Ratios Exh 8 / 1 / 2 Col 2	Energy Probe Proposed Ratios Interrogatory 39 Col 3	Target Range (Nov 28, 2007)
Customer Class				
Residential	96.5	97.3	96.5	85 – 115
GS < 50 kW	83.7	96.2	96.2	80 – 120
GS 50 - 999 kW	145.2	120.4	117.8	80 – 180
GS 1000 - 4999 kW	132.5	122.1	117.8	80 – 180
Street Lights	18.2	51.2	70.0	70 – 120
Sentinel Lights	32.4	49.7	70.0	70 – 120
Unmetered Scattered Load	107.7	97.8	100.0	80 - 120

Energy Probe's submission includes leaving the ratio for the Residential class at the current level shown in the Informational Filing. Wellington North submitted that its proposal is intended to phase in the move to a ratio of 100%, which is a principle of the Board's report on Cost Allocation.

SEC submitted that the ratio for the GS <50 kW class is within the Board's policy range in the Informational Filing, and that the proposal to increase the ratio should be rejected. SEC noted *that the impact on the distribution portion of the customer's bill is 92.4%, and 12.9% on the total bill, which is considerably higher than the impact on Residential bills.*

SEC submitted that the ratio for the GS 50 – 999 kW class should be moved to 100%, instead of 120% as proposed. VECC supported the idea that the ratio for this class and also the class of larger customers should be lower, but did not provide a ratio. Energy Probe supported a ratio lower than the one in the application but still above 100% for both of the larger General Service classes, as shown in the table above. Energy Probe suggested that increasing the ratio for Street lighting to the lower boundary of the Board's recommended range (70%) is reasonable because the owners of the streetlights are affiliates of the utility.

Energy Probe stated that the additional revenue could be deployed to decrease the ratios for General Service classes with ratios above 100%, and also to the benefit of the Residential class, as noted in column 3 of the table.

SEC submitted that the ratio for Street lighting should be set at 100%, and that the additional revenue should be used to decrease the proposed revenue from the GS 50- 999 kW class with the result being a ratio of 100% for that class instead of 120% as proposed by Wellington North.

Wellington North pointed out that its proposal to increase the Streetlight Light rates to yield a ratio of 51.2% has an impact of 75.8% on the total bill, and that increasing the ratio to 70% would imply an impact of 155.9%.

All parties were supportive of the proposal to increase the ratio for Sentinel Lights, and Energy Probe made the specific submission that the ratio should be set at 70%. Wellington North noted that its proposal to increase the rates to yield a ratio of 49.7% has an impact on the total bill of 177.2%, and that Energy Probe's recommendation would have an impact of 385.4%

Concerning the Unmetered Scattered Load class, Energy Probe did not support the proposal to move the ratio from above 100% to below 100%. VECC made the same observation, and said that the ratio should be left unchanged from the status quo.

Board Findings

This aspect of the application has understandably been heavily influenced by the Report of the Board on Application of Cost Allocation for Electricity Distributors issued on November 28, 2007 ("Board's report on cost allocation"). The Board has adopted a practice in virtually all of the rebasing applications for 2008 rates where utilities have been obliged to move revenue-to-cost ratios to points within the ranges depicted above, wherever practicable, and closer to the range in circumstances where achieving the range would result in what is considered to be an unreasonable rate impact.

An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so

reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges.

As is noted above, with the exception of the street lighting and sentinel lighting classes, all of the Applicant's proposed revenue to cost ratios fall within the range as provided in the Board's report on cost allocation. The Board will not approve any further movement within the ranges as requested by a number of the intervenors in this proceeding, and by the Applicant itself with respect to the Residential class.

The Board notes from the table that the only revenue to cost ratios that do not fall within the Board target range are those respecting Street lighting and Sentinel lights.

The Applicant proposes to increase the distribution rates for its Street Lighting customer, such that the total bill would increase by approximately 76%. This would have the effect of reducing the extent to which this class under contributes to the revenue requirement, from a current revenue to cost ratio of 18% to 51%. This change would still be below the Board target range of 70%.

The Board is concerned at the continuing under contribution of the Street lighting customer. The rates for 2008 shall be set so that these ratios move by 50% toward the bottom of the Board's target range. The Board accepts the Applicant's proposed ratio of 51% in 2008 and expects the Applicant to achieve the remaining adjustment in equal increments in the years 2009 and 2010. The same line of reasoning applies to the Sentinel lights customer class. The Board is concerned by the continuing under contribution of the Sentinel lights customer. The rates for 2008 shall be set so that these ratios move by 50% toward the bottom of the Board's target ranges. The Board expects the Applicant to achieve the remaining 50% move by equal increments in years 2009 and 2010.

The Board finds that the increased allocation to, and hence increased revenues deriving from the Street lighting and Sentinel lights rate classes, may be applied by Wellington North to the other rate classes as it wishes. The Draft Rate Order, however, must clearly show how this allocation was done.

In Wellington North Power Inc.'s 2008 Rate Rebasing Application EB-2007-0693, Decision and Order, (Page 27/28/29/30) the table showed the revenue to cost ratio in Wellington North Power's Informational Filing Run 3 and in its application, in columns 1 and 2. The chart also shows the ratios Energy Probe thought would be a more just and reasonable set of ratios.

The company maintains it followed the Board's direction from the Decision and Order of August 11, 2008 reallocating the revenue to cost ratio appropriately. Wellington North Power Inc. would like to point out, the Board's direction stated "The Board finds that the increased allocation to, and hence increased revenues deriving from the Street lighting and Sentinel lights rate classes, may be applied by Wellington North to the other rate classes as it wishes." Therefore, it is Wellington North Power's understanding that there was no direction from the Board's Decision for the distributor to allocate only to those class that were above the ratio of 100%, namely the General Service >50–999 kW class and the General Service >1000-4999 kW customer class. In its Draft Rate Order submission to the Board, Wellington North Power Inc. included the following tables showing the required revisions to the revenue to cost ratio as directed:

Wellington North Power Inc. Draft Rate Order Submission:

The table below outlines Wellington North's previously proposed Revenue to Cost Ratio's as presented in the company's 2008 rebasing rate application.

Revenue to Cost Ratio based on 2008 rebasing rate application

	Proportion of Revenue "Cost Allocation"	Proposed Proportion	Base Revenue Requirement	Proposed Rev/Cost Ratio
Residential	51.20%	49.80%	$1,041,699	**97.3**
GS <50 kW	17.66%	17.00%	$355,600	**96.2**
GS 50-999 kW	14.12%	17.00%	$355,600	**120.4**
GS 1000-4999 kW	10.49%	12.80%	$267,746	**122.1**
Street Lighting	5.56%	2.85%	$59,615	**51.2**
Sentinel Lighting	0.82%	0.41%	$8,576	**49.7**
Unmetered Scatered Load	0.14%	0.14%	$2,928	**97.8**
	100.00%	**100.00%**	**$2,091,766**	

In the table below, Wellington North reflects the changes in the revenue requirement and the revenue proportion to customer classes. The proportion of revenue for the Sentinel Lighting class was increased from .41% of total revenue to .42% in order to achieve revenue to cost ratio of 51.2% as directed by the Board. This reallocation reduced the proportion of revenue from 12.8% to 12.79% in the GS 1000-4999 kW class.

Revised Revenue to Cost Ratio

	Proportion of Revenue "Cost Allocation"	Previously Proposed Revenue Proportion	Revenue Proportion per Board's Decision	Base Revenue Requirement	Rev/Cost Ratio per Board's Decision
Residential	51.20%	49.80%	49.80%	$851,679	**97.3**
GS <50 kW	17.66%	17.00%	17.00%	$290,734	**96.2**
GS 50-999 kW	14.12%	17.00%	17.00%	$290,734	**120.4**
GS 1000-4999 kW	10.49%	12.80%	12.79%	$218,697	**122.0**
Street Lighting	5.56%	2.85%	2.85%	$48,741	**51.2**
Sentinel Lighting	0.82%	0.41%	0.42%	$7,220	**51.2**
Unmetered Scatered Load	0.14%	0.14%	0.14%	$2,394	**97.8**
	100.00%	**100.00%**	**100.00%**	**$1,710,199**	

The table below summarizes Wellington North's Revenue to Cost Ratios.

Customer Class	Informational Filing Run 3 Column 1	Proposed Ratios Exhibit 8.1.2 Column 2	**WNPI Revisions Per Board Decision August 11, 2008**	Target Range (Nov 28, 2007)
Residential	96.5	97.3	**97.3**	85 -115
General Service <50 kW	83.7	96.2	**96.2**	80 -120
General Service 50-999 kW	145.2	120.4	**120.4**	80 -180
General Service 1000-4999 kW	132.5	122.1	**122.0**	80 -180
Street Lighting	18.2	51.2	**51.2**	70 -120
Sentinel Lighting	32.4	49.7	**51.2**	70 -120
Unmetered Scattered Load	107.7	97.8	**97.8**	80 -120

In the Board's Final Rate Order for Wellington North Power Inc. (Page 3):

Cost Allocation

VECC suggested that the Board's Decision and Order did not approve further movements in the revenue to cost ratios, yet Wellington North Power made changes to the ratios for the residential classes. SEC used the same logic in its submission, however SEC focused its concern on the revenue to cost ratio for the General Service Less Than 50 kW class.

The Board's view is that the revenue to cost ratios filed by Wellington North in its Draft Rate Order are in accordance with the Board's Decision and Order and need not be changed.

Wellington North Power feels the company has followed the Board's direction regarding revenue to cost ratio allocation as directed in the Decision and Order of August 11, 2008. The company feels it is mitigating the impact of all the customer classes, while moving them closer to 100% of their true cost, as laid out in the Report of the Board on *Application of Cost*

Allocation for Electricity Distributors issued on November 28, 2007. To that end Wellington North Power has proposed in its 2010 IRM 3 Rate Adjustment Filing, moving the Street Lights and Sentinel Lights customer classes to the 70% as directed by the Board. In doing so Wellington North Power Inc. is requesting to move all customer classes closer to the true cost in an attempt to reduce future rate shock.

The table below reflects Wellington North Power's proposed 2010 Revenue to Cost Ratios:

Historic, Current and Proposed Revenue to Cost Ratios –from C1.1 of the IRM3 Supplemental Model

Rate Class	Group	Pre -Rebased Year 2007	Rebased Year 2008	Transition Year 2 2009	Transition Year 3 2010
Residential	Change	96.93%	97.30%	97.30%	98.25%
General Service Less Than 50 kW	Change	83.18%	96.10%	96.10%	98.05%
General Service 50 to 999 kW	Change	147.22%	116.70%	114.80%	108.85%
General Service 1,000 to 4,999 kW	Change	126.91%	119.40%	117.20%	110.00%
Unmetered Scattered Load	Change	107.70%	97.80%	97.80%	99.00%
Sentinel Lighting	Change	32.23%	51.20%	60.60%	70.00%
Street Lighting	Change	19.06%	51.20%	60.60%	70.00%

It is Wellington North Power Inc.'s, understanding that LDCs in the province are expected to move customer classes, in order for them to pay 100% of their true costs and to keep in mind the customer bill impacts. In order to facilitate this Wellington North Power Inc. is requesting to phasing in all classes closer to the true cost for service.

Yours truly,

Judith Rosebrugh

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