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February 10, 2010

BY RESS & COURIER

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

Re: EB Number: EB-2009-0267
Kitchener-Wilmot Hydro Inc. Reply Submission
2010 Electricity Distribution Rates, Licence No. ED-2002-0573

Dear Ms. Walli:

On December 10, 2009, the Ontario Energy Board (the Board) issued Procedural Order #3 in EB-2009-0267 requiring Kitchener-Wilmot Hydro Inc. (KWHI) to submit its Reply Submission Board and all registered Intervenor on or before February 8, 2010. On February 8, 2010, KWHI requested a two business day extension as it conducted a detailed final review of the document. KWHI received leave from the Board panel on the afternoon of February 8, 2010.

KW Hydro now respectfully submits its Reply Submission on the extension due date.

A copy of this letter has been electronically filed through the Board's RESS system. The original has been couriered to the Board's offices.

Should you require any further information or clarification of any of the above, kindly contact the writer.

Respectfully submitted,

Original Signed by

J. Van Ooteghem, P.Eng.

President & CEO

cc All Intervenor

EB-2009-0267

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Kitchener-Wilmot
Hydro Inc. to the Ontario Energy Board for an Order approving just
and reasonable rates and other charges, effective May 1, 2010.

**REPLY SUBMISSION
TO
FINAL ARGUMENTS
OF KITCHENER-WILMOT HYDRO INC.**

A. INTRODUCTION

1. Kitchener-Wilmot Hydro Inc. (“KW Hydro” or the “Applicant”) owns and operates the electricity distribution system located in the City of Kitchener and the Township of Wilmot.
2. On August 31, 2009, KW Hydro filed an application with the Ontario Energy Board (“the Board”) under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B), seeking approval for changes to the rates that KW Hydro charges for electricity distribution to be effective May 1, 2010. The Board has assigned the File Number EB-2009-0267 to this Application (the “Application”).
3. Further, on September 18, 2009, KW Hydro submitted its Asset Management Strategy as Appendix E to Exhibit 2.
4. The Board issued a Notice of Application and Hearing on September 14, 2009. The School Energy Coalition (“SEC”), Energy Probe Research Foundation (“Energy Probe”) and the Vulnerable Energy Consumers Coalition (“VECC”) applied for Intervenor status and cost eligibility. No objections were received and the Board allowed all Intervenors.
5. The Board issued Procedural Order No. 1 on October 15, 2009 declaring its intent to continue with the Application by way of a written hearing. Procedural Order No. 1 further allowed for a set of written interrogatories. In accordance with the Board’s Order, Board staff interrogatories were submitted to KW Hydro on October 23, 2009 and Intervenor interrogatories were submitted on October 26, 2009.

6. The Applicant filed its responses to those interrogatories on November 16, 2009.
7. Following its interrogatory responses submitted on November 16, 2009, KW Hydro submitted an Addendum to Exhibit 10 – LRAM and SSM due to changes required to its original Application stemming from the Board’s decision in EB-2009-0192 (Horizon).
8. On December 2, 2009, the Board issued Procedural Order No. 2 which outlined the following process to be followed for this Application:
 - a. A supplemental set of interrogatories to be delivered to the Applicant by Board staff and all Intervenor by December 11, 2009.
 - b. KW Hydro to file its response to those Interrogatories by December 22, 2009.
 - c. A formal Submission-in-Chief (“SIC”) to be submitted by the Applicant to the Board and all Intervenor by January 7, 2010.
 - d. Board staff Submission to the Board due January 18, 2010; Intervenor Submissions to the Board due January 22, 2010; and the Applicant’s Reply Submission due February 5, 2010.
9. KW Hydro filed a letter with the Board on December 8, 2009 asking for a six (6) calendar day extension for the deadline of its SIC (to January 13, 2010) due to scheduling conflicts and short-staffing in its Regulatory department.
10. Also, on December 8, 2009, Energy Probe responded to KW Hydro’s letter agreeing to the extension but submitted that all subsequent dates from Procedural Order No. 2 should also be extended.
11. On December 10, 2009, the Board issued Procedural Order No. 3, granting KW Hydro’s extension request and adjusted the deadline dates to be followed for this Application as follows:
 - a. The supplemental set of interrogatories delivery date remained unchanged (December 11, 2009).
 - b. KW Hydro’s interrogatory response deadline date was unchanged (December 22, 2009).

- c. KW Hydro's formal SIC to be submitted by the Applicant to the Board and all Intervenors by January 13, 2010.
 - d. Board staff Submission to the Board due January 21, 2010; Intervenor Submissions to the Board due January 28, 2010; and the Applicant's Reply Submission due February 8, 2010.
12. In accordance with the Board's Order, Board staff and all Intervenors submitted the supplemental set of written interrogatories to KW Hydro on December 11, 2009 and KW Hydro's response to the supplemental set of interrogatories was filed with the Board and all Intervenors on December 22, 2009 and its SIC was filed on January 13, 2010.
13. KW Hydro received the Board Staff Submission to the Board on January 22, 2010 (a one-day delay) and Intervenors filed their Submission to the Board on January 28, 2010.
14. The record in this proceeding, consisting of comprehensive pre-filed evidence, responses to interrogatories and the SIC, supports KW Hydro's Application. KW Hydro maintains its positions that the material filed to date represents the best information available at the time documents were created. The Application, with the specific adjustments set out in this submission, will provide the revenue requirement necessary to sustain its capital, operating and maintenance programs in a manner that continues to provide safe and reliable distribution of electricity in the City of Kitchener and the Township of Wilmot. It is not the Applicant's intent to repeat the significant amount of evidence that is already before the Board. This submission therefore summarizes the evidence and provides comments on items included in the submissions of Board staff and the Intervenors.
15. Throughout the Application process, KW Hydro has been conscious of and focused on minimizing impacts on its customers. KW Hydro's rates, as proposed in the Application as filed (including Addendum), would have resulted in the following total bill impacts:
- o Residential customers using 800 kWh per month would have a total bill increase of 4.27%.
 - o General Service < 50 kW customers using 2,000 kWh per month would have a total bill increase of 1.22%.

16. KW Hydro submits that its proposed revenue requirement has been determined appropriately; that its proposed capital and OM&A programs for the 2010 Test Year are reasonable and supported by the evidence in this proceeding; and that the resulting distribution rates are fair and reasonable. KW Hydro submits that, in approving this Application, the Board will have met its objective, set out in section 1 of the Ontario Energy Board Act, 1998, as amended, “to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service”.

B. THE APPLICATION

The relief sought by KW Hydro, subject to the specific adjustments agreed to through the interrogatory process, will result in just and reasonable rates.

17. KW Hydro filed its Application for just and reasonable rates and charges pursuant to Section 78 of the Ontario Energy Board Act, 1998 (the “OEB Act”) to be effective on May 1, 2010. The original application (at Exhibit 1 pages 61 ~ 62) requested the following relief:
 - Approval to charge rates effective May 1, 2010 to recover a revenue requirement of \$40,631,182 which included a revenue deficiency of \$6,157,264 as set out in Exhibit 1 (page 14) and Exhibit 6 (page 8). The schedule of proposed rates was set out in Exhibit 1 (pages 58 ~ 60) and Exhibit 8 (pages 23 ~25);
 - Approval of the Applicant’s proposed capital structure, with a deemed common equity component of 40.0% and a deemed debt component of 60.0%, as set out in Exhibit 5 (page 2), consistent with *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario’s Electricity Distributors* dated December 20, 2006. KW Hydro completed the transition from 42.5% equity and 57.5% debt through its 2009 rate application (EB-2008-0192);
 - Approval of the proposed loss factor to 3.20% as set out in Exhibit 8.
 - Approval to adjust the Applicant’s approved Retail Transmission Network and Transmission Connection rates due to the OEB’s decision on Hydro One Networks’ 2009 Uniform Transmission Rate Adjustment Application (OEB File EB-2008-072), subject to any modification as a result of the OEB’s decision in Hydro One Network’s 2010 Uniform Transmission Rate Adjustment Application resulting in adjustments effective January 1, 2010;

- Approval to continue to charge Wholesale Market and Rural Rate Protection Charges approved in the OEB Decision and Order in the matter of KW Hydro's 2009 Distribution Rates (EB-2008-0192);
- Approval to continue the Specific Service Charges that were not changed in its Application and approved in the OEB Decision and Order in the matter of KW Hydro's 2009 Distribution Rates (EB-2008-0192);
- Approval to implement three new Specific Service Charges for the following services:
 - Collection of Account Charge – No Disconnection
 - Meter Dispute Charge plus Measurement Canada Fees (if meter found correct)
 - Meter Removal without Authorization
- Approval to adjust its approved Transformer Ownership Allowance;
- Approval to continue the Smart Meter Funding Adder approved by the Board in KW Hydro's 2009 rate application (EB-2008-0192);
- Approval to implement rate riders for LRAM and SSM over a four year period using the method of recovery described in Exhibit 10;
- Approval to dispose of various Deferral and Variance Account Balances as at December 31, 2008 with projected interest to April 30, 2010 over a four-year period using the method of recovery described in Exhibit 9.
- Approval to use the Board Approved 1595 account – Disposition and Recovery of Regulatory Balances and sub-accounts to record the disposition and recoveries of Deferral and Variance account balances.

18. KW Hydro's Application was arranged as follows:

- Exhibit 1 Administration
- Exhibit 2 Rate Base
- Exhibit 3 Operating Revenues
- Exhibit 4 Operating Costs
- Exhibit 5 Cost of Capital and Rate of Return
- Exhibit 6 Calculation of Revenue Deficiency or Surplus
- Exhibit 7 Cost Allocation
- Exhibit 8 Rate Design
- Exhibit 9 Deferral and Variance Accounts
- Exhibit 10 LRAM and SSM

19. KW Hydro has arranged this Reply Submission in a similar manner.

C. ADJUSTMENTS TO RELIEF SOUGHT ARISING OUT OF THE INTERROGATORY PROCESS

Exhibit 2: Rate Base

20. In its' SIC, KW Hydro requested approval of \$163,088,842 for its 2010 rate base. This is an increase of \$8.6 million (or 5.6%) from 2008 actual and \$15.4 million (or 10.4%) from 2006 Board Approved (which was based on 2004 actuals).

Capital Expenditures ("CAPEX")

21. Board staff was generally satisfied that KW Hydro supported its CAPEX but expressed concern that the forecasted level of CAPEX for 2010 was a "high water mark". Board staff stated that there is an expectation that there should be some constancy in the level of CAPEX, particularly in a regime where there is a formulaic adjustment to rates through an IRM mechanism for a number of subsequent years and the level of CAPEX is not tested in rate-making.
22. Board staff however, submits that it is generally satisfied with the support provided for CAPEX expenditures; however, Board staff suggested that KW Hydro should compare the forecasts against actual and address year-over-year variances in capital planning in its next Cost of Service rate application.

23. The School Energy Coalition (“SEC”) submitted that it believes that KW Hydro should reduce its forecast CAPEX by \$367,431 to reflect the change in provincial sales taxes with the move to the harmonized sales tax on July 1, 2010. SEC calculated the amount by using the average PST paid by KW Hydro for the years 2006 ~ 2008 (\$816,515, as submitted in interrogatories), estimating a split between capital and OM&A of 90/10 respectively. The resulting amount of \$734,593 was then divided by two to reflect the fact that the impact will only apply for half of the year, arriving at the \$367,431 reduction.
24. The Vulnerable Energy Consumers Coalition (“VECC”) stated that it believed that KW Hydro’s approach to capital planning is appropriately documented and supported, but had three issues of concern with regard to CAPEX:
 - a. KW Hydro’s forecast CAPEX should be updated to reflect the revised forecasts for 2009 and 2010 capital spending and additions provided by KW Hydro during the interrogatory process.
 - b. KW Hydro’s forecast CAPEX should be reduced by \$340,000 to reflect the harmonization of retail sales tax with the federal good and services tax effective July 1, 2010 (HST). VECC calculated this amount by estimating \$680,000 would be paid by KW Hydro in provincial sales tax in the 2010 forecast CAPEX and then dividing by two in order to reflect the implementation date of July 1, 2010.
 - c. Further, VECC suggested that the Board might want to consider implementing a deferral account to track the savings arising from the move to the HST that would be trued up in a future rates case. VECC agreed with KW Hydro’s observation that this is a generic issue and noted KW Hydro’s cautions around the administrative efforts associated with such a deferral account. VECC submitted an alternative approach, such as that suggested by KW Hydro, should be considered by the Board.
25. Energy Probe Research Foundation (“Energy Probe”) had CAPEX issues similar to VECC as noted below:
 - a. In response to an interrogatory inquiry, KW Hydro submitted its revised internal CAPEX budgets for 2009. Energy Probe noted a reduction in the 2009 CAPEX of \$3.7 million from the original forecast due to the delay of the delivery of two large power transformers for KW Hydro’s #9 high tension transformer station being built in Wilmot Township. The overall effect is a reduction in the 2009 additions to rate base of more than \$800,000. Further, Energy Probe stated that the

overall reduction in net book value at the end of 2009 is \$1.1 million (by comparing Table 15 Exhibit 2 and Revised Table 15). At the time that it submitted its revised budget, KW Hydro cautioned that the revised budgets were internal and do not reflect adjustments that would be made through a rate rebasing process. Energy Probe questioned why the internally updated budgets should not be used and lack relevance. Energy Probe contends that the budgets are the most recent and should be used when the Board determines the final amount to be included in rate base.

- b. Further, Energy Probe, in agreement with VECC, stated that the rate base should be reduced by \$340,000 due to the harmonization of retail sales tax on July 1, 2010.

26. With regard to its CAPEX, KW Hydro makes the following submissions:

- a. KW Hydro will update its forecast CAPEX/rate base, if directed by the Board, to reflect the most recent 2009 and 2010 capital budget forecasts as presented to Energy Probe through its response to its interrogatory #38. KW Hydro does submit; however, that the data used to forecast CAPEX in its initial application represented the best information available at the time of rate submission.
- b. KW Hydro's caution regarding its updated budgets was directed specifically to OM&A expenditures and the single OEB account level. PILS were not calculated based on the OEB methodology nor were any allocations made between accounts. Therefore, the OM&A expense budgets, while overall were updated accurately, at the OEB account level provide only a rough proxy. KW Hydro's caution was to encourage analysis at a high level, rather than at the account level.
- c. KW Hydro acknowledges the "lumpy" nature of its capital expenditures from year to year and the high CAPEX for 2010. KW Hydro submits that this is the nature of expenditure programs for LDCs who construct, own and operate their own transformer stations as KW Hydro has for over 55 years.
- d. As per the evidence submitted, KW Hydro plans and constructs a transformer station over a four (4) year cycle to smooth the capital expenditures for such a major facility. The cost of a transformer station is typically equivalent to a full year's capital expenditures for KW Hydro.
- e. By design; however, major equipment which is of a high dollar value and can have lead time as long as two (2) years, is scheduled to be delivered in the final year of the project. This is a

- prudent cash flow measure to delay the expenditure as long as possible so that carrying charges are minimized before a station is placed into service. KW Hydro submits that this is the case with TS #9, which fully justifies the “high water mark” for CAPEX for 2010.
- f. KW Hydro further submits that CAPEX expenditures for internal labour hours for all other categories have remained relatively constant from year to year (if normalized for subdivision growth) when expenditures related to transformer stations are excluded.
- g. KW Hydro has recalculated its CAPEX for the years 2004 ~2012, net of CAPEX for transformer station construction (#8 TS in 2004 and #9 TS in 2007 ~ 2010) and, net of these costs, 2011 and 2012 (and not 2010) are shown to be the years of higher than normal CAPEX (see Table 1 below). The revised CAPEX (updated in Energy Probe interrogatory #38) showing the same period is presented in Table 2.

Table 1
REMOVAL OF TRANSFORMER STATION CONSTRUCTION
Revised 2004 - 2012 Capital Expenditures Summary

OEB	Description	2004	2005	2006	2007	2008	Revised 2009	Revised 2010	2011	2012
1805	Land	829,040	1,590	10,988	187,113	-	-	-	-	-
1806	Land Rights	-	-	3,750	-	-	-	-	-	-
1808	Buildings and Fixtures	7,207	321,129	163,753	54,898	24,614	16,420	-	-	-
1815	Transformer Station Equipment	1,802,124	1,322,864	483,853	1,017,972	1,233,670	2,428,733	1,751,900	2,800,000	1,700,000
1820	Distribution Station Equipment	-	-	-	94,049	-	-	-	-	-
1830	OH - Poles, Towers and Fixtures	1,258,004	1,434,052	1,390,966	2,178,610	1,834,566	1,568,000	1,886,700	2,859,200	3,289,200
1835	OH - Conductors and Devices	1,579,147	1,357,555	1,118,232	1,784,515	1,589,150	1,625,000	1,540,000	2,604,200	3,060,900
1840	UG - Conduit and Ductwork	1,012,674	1,673,095	1,293,290	1,010,458	1,822,499	1,168,000	1,380,000	2,061,100	2,178,500
1845	UG - Conductors and Cables	1,355,278	1,530,613	1,770,876	1,738,628	1,098,326	1,176,000	2,045,700	1,090,400	1,198,400
1850	Line Transformers	1,935,318	2,500,991	3,014,360	2,749,860	2,305,447	2,060,000	2,488,700	3,529,600	3,730,900
1855	Services	2,503,715	2,697,447	3,368,862	3,197,482	2,200,140	1,986,000	1,991,900	2,250,700	2,443,600
1860	Meters	396,251	457,810	508,196	468,307	293,785	301,400	385,000	625,000	625,000
1908	Buildings and Fixtures	1,315,350	66,476	115,216	328,227	-	-	-	-	200,000
1915	Office Equipment	53,841	63,344	64,565	61,092	53,254	60,000	63,000	65,000	65,000
1920	Computer Hardware	130,715	253,520	420,290	174,716	170,702	339,100	307,500	200,000	292,500
1925	Computer Software	296,691	186,516	235,380	277,283	294,549	182,900	287,500	500,000	357,500
1930	Transportation Equipment	293,342	1,116,613	605,712	852,979	714,591	711,800	865,000	900,000	900,000
1935	Stores Equipment	-	-	-	-	-	2,400	1,000	-	-
1940	Tools, Shop and Garage Equipment	58,596	70,605	70,458	42,854	158,954	75,200	73,000	100,000	100,000
1945	Measurement and Testing Equipment	24,871	8,424	5,184	29,495	18,501	10,900	12,000	-	-
1950	Power Operated Equipment	-	-	19,527	156,347	101,679	118,200	-	-	-
1955	Communication Equipment	-	-	-	99,514	-	-	-	-	-
1960	Miscellaneous Equipment	-	18,443	-	-	6,183	-	-	-	-
1980	System Supervisory Equipment	37,778	-	-	-	-	-	-	-	-
CAPITAL EXPENDITURES		14,889,944	15,081,086	14,663,461	16,504,401	13,920,611	13,830,052	15,078,900	19,585,200	20,141,500
	\$\$ Increase / (Decrease)		191,142	(417,625)	1,840,940	(2,583,791)	(90,558)	1,248,848	4,506,300	556,300
	% Increase / (Decrease)		1.3%	(2.8%)	12.6%	(15.7%)	(0.7%)	9.0%	29.9%	2.8%
	Average CAPEX	14,889,944	14,985,515	14,872,274	15,583,931	15,212,506	13,875,332	14,454,476	17,332,050	19,863,350

Table 2
Revised 2004 - 2012 Capital Expenditures Summary

OEB	Description	2004	2005	2006	2007	2008	Revised 2009	Revised 2010	2011	2012
1805	Land	829,040	1,590	10,988	187,113	-	-	-	-	-
1806	Land Rights	-	-	3,750	-	-	-	-	-	-
1808	Buildings and Fixtures	7,207	321,129	163,753	202,930	1,295,001	659,000	141,400	-	-
1815	Transformer Station Equipment	3,455,835	1,322,864	483,853	1,035,485	3,642,662	3,940,900	10,396,200	2,800,000	1,700,000
1820	Distribution Station Equipment	-	-	-	94,049	-	-	-	-	-
1830	OH - Poles, Towers and Fixtures	1,258,004	1,434,052	1,390,966	2,178,610	1,834,566	1,568,000	1,886,700	2,859,200	3,289,200
1835	OH - Conductors and Devices	1,579,147	1,357,555	1,118,232	1,784,515	1,589,150	1,625,000	1,540,000	2,604,200	3,060,900
1840	UG - Conduit and Ductwork	1,012,674	1,673,095	1,293,290	1,010,458	1,822,499	1,168,000	1,380,000	2,061,100	2,178,500
1845	UG - Conductors and Cables	1,355,278	1,530,613	1,770,876	1,738,628	1,098,326	1,176,000	2,045,700	1,090,400	1,198,400
1850	Line Transformers	1,935,318	2,500,991	3,014,360	2,749,860	2,305,447	2,060,000	2,488,700	3,529,600	3,730,900
1855	Services	2,503,715	2,697,447	3,368,862	3,197,482	2,200,140	1,986,000	1,991,900	2,250,700	2,443,600
1860	Meters	396,251	457,810	508,196	468,307	293,785	301,400	385,000	625,000	625,000
1908	Buildings and Fixtures	1,315,350	66,476	115,216	328,227	-	-	-	-	200,000
1915	Office Equipment	53,841	63,344	64,565	61,092	53,254	60,000	63,000	65,000	65,000
1920	Computer Hardware	130,715	253,520	420,290	174,716	170,702	339,100	307,500	200,000	292,500
1925	Computer Software	296,691	186,516	235,380	277,283	294,549	182,900	287,500	500,000	357,500
1930	Transportation Equipment	293,342	1,116,613	605,712	852,979	714,591	711,800	865,000	900,000	900,000
1935	Stores Equipment	-	-	-	-	-	2,400	1,000	-	-
1940	Tools, Shop and Garage Equipment	58,596	70,605	70,458	42,854	158,954	75,200	73,000	100,000	100,000
1945	Measurement and Testing Equipment	24,871	8,424	5,184	29,495	18,501	10,900	12,000	-	-
1950	Power Operated Equipment	-	-	19,527	156,347	101,679	118,200	-	-	-
1955	Communication Equipment	-	-	-	99,514	-	-	-	-	-
1960	Miscellaneous Equipment	-	18,443	-	-	6,183	-	-	-	-
1980	System Supervisory Equipment	37,778	-	-	-	-	-	-	-	-
CAPITAL EXPENDITURES		16,543,654	15,081,086	14,663,461	16,669,946	17,599,990	15,984,800	23,864,600	19,585,200	20,141,500
	\$ \$ Increase / (Decrease)		(1,462,568)	(417,625)	2,006,485	930,044	(1,615,190)	7,879,800	(4,279,400)	556,300
	% Increase / (Decrease)		(8.8%)	(2.8%)	13.7%	5.6%	(9.2%)	49.3%	(17.9%)	2.8%
	Average CAPEX	16,543,654	15,812,370	14,872,274	15,666,704	17,134,968	16,792,395	19,924,700	21,724,900	19,863,350

- h. KW Hydro will provide, if requested by the Board, comparisons of Capital Forecasts to Actual in its next Cost of Service application. KW Hydro does not believe this is necessary; however, as its capital expenditures are reasonable, well documented and justified in this application.
- i. KW Hydro has concerns regarding the HST issue raised by all Intervenors. KW Hydro believes that this is a global issue that the Board needs to address from an industry-wide perspective and that a Board approved variance account is required. KW Hydro submits its argument on this issue in detail at paragraphs 135 ~142 below.

Working Capital and Working Capital Allowance (“WCA”)

- 27. Through the interrogatory process, the Applicant has adjusted its eligible distribution expenses from \$155,315,589 to \$155,151,613, resulting in a revised WCA of \$23,272,742 based on the “15% of specific OM&A accounts formula approach: referred to at page 15 of the Board’s Filing Requirements.
- 28. Board staff made the following submissions on the WCA calculation:
 - a. KW Hydro should update the WCA in determining the revenue requirement and associated distribution rates when preparing its draft Rate Order, to reflect any changes in controllable expenses and load forecasts as determined by the Board in its Decision, as well as to reflect the most current estimate to the RPP commodity price of \$0.06215/kWh, reflected in the Board’s RPP Report of October 15, 2009, as well as updates to reflect current uniform and retail transmission prices. In doing so, Board staff requested that sufficient detail and discussion should be provided by KW Hydro to aid other parties in understanding the numbers provided and their derivation.
 - b. Board staff accepts the Applicant’s use of 15% as appropriate at this time and takes no issue with KW Hydro’s methodology for calculating its WCA. In fact, Board staff suggested that the alternate method of calculating the WCA suggested by Energy Probe in interrogatory #40 should not be adopted by the Board at this time. While it is a more sophisticated method than has been traditionally used by distributors, Board staff noted that the determination of the WCA is a rough proxy at this time, particularly in light of the implementation of smart metering and TOU pricing affecting the estimation of working capital requirements.

- c. KW Hydro did not complete a lead/lag study as part of this Application; however, as a result of the interrogatory process, it has agreed to conduct a lead-lag study as part of its next cost of service rebasing application. This is supported by Board staff. This initiative was also supported by VECC and Energy Probe.
29. SEC, Energy Probe and VECC agreed with Board staff that the WCA should be adjusted to reflect the new energy prices, both RPP and non-RPP.
30. Energy Probe did not support the methodology used by KW Hydro to calculate the commodity component of the cost of power and suggested an alternate methodology in interrogatory #40. KW Hydro applied the RPP Price to non-RPP customers and volumes. Energy Probe submitted that the use of separate prices for RPP and non-RPP volumes provides a more accurate estimate of the commodity cost of power.
31. KW Hydro submits the following on working capital and the WCA:
- a. KW Hydro agrees that the calculation of the WCA should be updated to reflect Board Decisions in this application, as well as to reflect the most current estimate of the RPP commodity price of \$0.06215/kWh and updated to reflect current uniform and retail transmission rates.
 - b. KW Hydro will supply back up detail for the calculation of the components of the WCA.
 - c. KW Hydro notes that the Board issued a Decision on January 21, 2010 in EB-2008-0272, issuing new UTRs to be effective January 1, 2010. KW Hydro believes that the Application for Retail Transmission rates from Exhibit 8 pages 6~9 will need to be updated to reflect the new UTR values issued through that Decision.
 - d. KW Hydro agrees to conduct a lead lag study prior to its next rebasing application if the Board determines this to be appropriate. Due to the significant costs associated with completing such a study and because KW Hydro has not included these costs in its forecast costs for 2010, the Applicant requests approval to record the incremental costs of conducting a lead lag study in an approved deferral account. KW Hydro will seek to dispose of this account at its next rebasing application when filing its lead lag study.

- e. KW Hydro disagrees with Energy Probe as to the use of separate prices for RPP and non-RPP volumes for the estimation of the WCA. KW Hydro agrees with Board staff's arguments on this issue and further submits that it may be difficult to accurately estimate the consumption volumes for both RPP & non-RPP customers due to the recent exit of the MUSH sector from the RPP group. Estimates of RPP versus non-RPP also vary considerably as various customers enter in and out of contracts with retailers. KW Hydro believes that additional data on its customer base (RPP and non-RPP) would need to be examined before the volumes could be applied to a RPP/non-RPP-specific WCA formula. In the meantime, KW Hydro submits that the method that it used in its rate application is appropriate and has been used by the majority of distributors. This option involves applying the RPP price to all customers.

Exhibit 3: Operating Revenues

Load Forecast / Customer Forecast

- 32. KW Hydro developed its weather normalized load forecast using the following process:
 - a. A total system-wide weather normalized energy forecast was developed using a multivariate regression model that incorporated historical load, weather and economic data.
 - b. The energy forecast was adjusted by historical loss factors to derive the system-wide billed energy forecast.
 - c. The system-wide billed energy forecast was allocated by rate class using a forecast of customer numbers and historical usage per customer.
- 33. In its Application, KW Hydro sought Board approvals presented in Table 3 below:

Rate Class	Customer Count	kWh / kW	Growth Rate		Average Per Customer Consumption	
	2010	2010	2009	2010	2009	2010
Residential	78,139	650,038,341 kWh	1.50%	1.50%	-1.0%	-0.5%
GS < 50 kW	7,484	235,461,618 kWh	1.00%	1.00%	-1.0%	-0.5%
GS > 50 kW	1,003	2,231,346 kWh	-0.50%	0.00%	-2.0%	2.4%
Large User	2	140,928 kWh	-16.70%	-40.00%	-27.6%	18.1%
Streetlights	23,299	46,815 kWh	1.00%	1.00%	0.0%	0.0%
USL	820	3,287,380 kWh	0.00%	0.00%	0.0%	0.0%
	<u>110,747</u>					

34. Board staff submitted that the load and customer forecasts developed by KW Hydro are reasonable, but that KW Hydro needs to improve its techniques in support of its next Cost of Service rate application. While Board staff noted a number of improvements that would assist with the development of KW Hydro's forecast, a better model was not readily identifiable.
35. SEC did not make a submission on this issue.
36. VECC made the following submissions:

Load forecast/Weather Normalization

- a. The exclusion of the three most recent years of data (2006 ~ 2008) for weather normalization purposes will not produce the most robust estimate of weather effects; however, VECC agreed that it would be inappropriate to use a model where the resulting coefficients have counter intuitive results to project purchases for future years or even for weather normalization (Board staff also noted the exclusion of this data was a concern).
- b. KW Hydro's weather sensitivity ratios by rate class need improvement; however, the resulting 2008 weather normalized average use values calculated by KW Hydro appear to be a reasonable starting point.

Customer count

- c. KW Hydro's estimate of 1.5% growth in the Residential class should be increased to 2% per year as KW Hydro's residential customer count as grow at roughly 2% per annum and population growth in the service area is expected to grow at 1.56%.

- d. KW Hydro's estimate for GS<50kW growth should be increased to at least 1.5% per year as it is linked to residential customer growth.
- e. KW Hydro's estimate for the GS>50kW growth is reasonable although the original estimate called for a 0.5% reduction in customer count in 2009 and actual results to September 2009 show a reduction of almost 1%.

Average Consumption per Customer

- f. KW Hydro's estimate for average consumption per residential customer is too low and should be adjusted to assume only a 0.5% reduction in average residential use in each of 2009 and 2010. VECC discounts KW Hydro's CDM-related rationalization of the reductions due to their concerns as to the accuracy of the reported successes of third-tranche and OPA programs.
- g. KW Hydro's estimate for average consumption per GS <50kW customer in 2010 is too low and should be adjusted to assume only a 0.5% decrease in average GS<50kW use due to the anticipated economic recovery.
- h. KW Hydro's estimate for average consumption per GS >50kW customer in 2010 is too low and should be adjusted to assume a 1.0% reduction in average GS>50KW due to the anticipated economic recovery.

37. Energy Probe made the following submissions:

Load forecast/Weather Normalization

- a. Energy Probe agreed with Board staff's comments in general and agreed that despite the shortcoming of the approach used by KW Hydro that there is no viable alternative on the record in this proceeding.

Average Consumption per Customer

- b. Energy Probe disagreed that CDM have had the significant impact that KW Hydro used for its estimates of average consumption per customer. Energy Probe submitted that KW Hydro's estimate of 8,319 kWh in average consumption per residential customer for 2010 should be increased to 8,344 kWh per customer (a change of 0.2% from KW Hydro's forecasted 2009 average consumption per residential customer of 8,361 kWh).

kW/kWh Ratios

- c. Energy Probe disagreed with the methodology used by KW Hydro to estimate its kW/kWh ratios. KW Hydro used the average ratio over the year 2000 ~ 2008 to convert the kW demand forecast to kWh. Energy Probe believes that there is a trend to higher kW/kWh ratios for the GS>50kW and Large User class and a decline for the Street Lighting class and asked the Board to direct KW Hydro to use the same type of trend analysis for the kW/kWh ratios as it used for the average use calculation. While this calculation will not impact distribution revenues overall, Energy Probe submits that this will reduce the WCA allowance through a reduced cost of power, thereby reducing the revenue requirement.

38. KW Hydro makes the following submissions:

Load Forecast

- a. KW Hydro believes that its load forecasting model is sound and provides reliable results; however, KW Hydro does plan to improve its load forecasting techniques for its next Cost of Service rate application.
- b. There were a number of comments about the missing three years of data (for weather normalization purposes only); however, KW Hydro re-asserts that inclusion of this data adversely skewed the subsequent results stemming from the model. The three years of data **were included** for load forecasting purposes but not included for the purposes of weather normalization only and; while VECC commented that the exclusion of that data would not provide the most robust estimate of weather effects, KW Hydro submits that the weather will not have changed significantly in that three year period and the resulting model is reasonable. The model was tested for an appropriate R-square value (91.4%) and then used to see if it produced reasonable estimates of power purchases for 2008 ~ 2010, which it did, as proven by testing against actual historical data. The three years of data in question were affected by the closure of several manufacturing plants, CDM, the recession and other factors. KW Hydro will endeavor to improve the data for use in future weather normalization models provided it enhances the reliability of the results.

- c. KW Hydro used Hydro One's weather sensitivity ratios developed through the Cost Allocation Informational filing in this rate application and VECC questioned whether they were appropriate. KW Hydro submits that; although the weather sensitivity ratios may not be exact, they were the best proxy available at the time of this rate filing. KW Hydro anticipates that the data received through the use of Smart Meters will allow it to develop better rate class specific weather sensitivity ratios in the future.

Customer Counts / Average Consumption per Customer

- d. KW Hydro further submits that its estimates for customer growth and average use per customer are reasonable and appropriate for use in setting rates. With the benefit of hindsight, KW Hydro can now report to the Board that for the Bridge Year 2009, consumption is significantly down from both 2008 Actuals and the 2009 Bridge Year forecast. KW Hydro's original estimates were; in fact, overly optimistic for its three main rate classes (Residential, GS<50kW and GS >50kW) as shown below in Tables 4 ~ 6, which compares 2009 actual consumption by class to 2008 actual, 2009 Bridge forecast and 2010 Test year forecasts. Note that for the Residential rate class, KW Hydro's consumption for 2010 will need to significantly increase by 3.71% to reach its 2010 forecast consumption, shown in Table 6. KW Hydro acknowledges that the actual results provided below in Tables 4 ~ 12 are not weather normalized.

Table 4:

Rate Class	kWh / kW			% Change
	2009 Actual Consumption	2008 Actual Consumption	Change	
Residential	626,763,716.22	638,167,356.00	(11,403,639.78)	-1.79%
GS < 50 kWh	230,568,996.44	233,464,130.00	(2,895,133.56)	-1.24%
GS > 50 kW	2,176,911.76	2,227,288.00	(50,376.24)	-2.26%
Large Use	162,851.71	329,862.00	(167,010.29)	-50.63%
Streetlighting	44,426.52	45,893.00	(1,466.48)	-3.20%
USL	3,295,401.00	3,287,782.00	7,619.00	0.23%

Table 5:

Rate Class	kWh / kW			% Change
	2009 Actual Consumption	2009 Estimated Consumption	Change	
Residential	626,763,716.22	643,663,224.00	(16,899,507.78)	-2.63%
GS < 50 kWh	230,568,996.44	234,304,200.00	(3,735,203.56)	-1.59%
GS > 50 kW	2,176,911.76	2,177,346.00	(434.24)	-0.02%
Large Use	162,851.71	198,928.00	(36,076.29)	-18.14%
Streetlighting	44,426.52	46,351.00	(1,924.48)	-4.15%
USL	3,295,401.00	3,287,380.00	8,021.00	0.24%

Table 6:

Rate Class	kWh / kW			% Change
	2010 Estimated Consumption	2009 Actual Consumption	Change	
Residential	650,038,341.00	626,763,716.22	23,274,624.78	3.71%
GS < 50 kWh	235,461,608.00	230,568,996.44	4,892,611.56	2.08%
GS > 50 kW	2,231,346.00	2,176,911.76	54,434.24	2.44%
Large Use	140,928.00	162,851.71	(21,923.71)	-15.56%
Streetlighting	46,815.00	44,426.52	2,388.48	5.10%
USL	3,287,380.00	3,295,401.00	(8,021.00)	-0.24%

- e. Average consumption per customer is also down significantly as can be seen in Tables 7 ~ 9, which make the same comparisons as Tables 4 ~ 6 but using average consumption per customer instead. Note Table 9 shows how much average consumption by rate class will need to increase to reach the forecasted values from the rate application. The table also shows what the forecasted change from 2009 was at the time of filing.

Table 7:

Rate Class	kWh / kW			%	
	2009 Actual Consumption per Customer	2008 Actual Consumption per Customer	Change	Actual Change	2009 Forecast Change per Rate Application
Residential	8,165.77	8,414.00	(248.23)	-2.95%	-1.00%
GS < 50 kWh	31,053.06	31,820.00	(766.94)	-2.41%	-1.00%
GS > 50 kW	2,194.47	2,212.00	(17.53)	-0.79%	-2.00%
Large Use	54,283.90	82,466.00	(28,182.10)	-34.17%	-27.60%
Streetlighting	1.92	2.01	(0.08)	-4.22%	0.00%
USL	4,053.38	4,009.00	44.38	1.11%	0.00%

Table 8:

Rate Class	kWh / kW			% Change
	2009 Actual Consumption per Customer	2009 Estimated Consumption per Customer	Change	
Residential	8,165.77	8,361.00	(195.23)	-2.34%
GS < 50 kWh	31,053.06	31,620.00	(566.94)	-1.79%
GS > 50 kW	2,194.47	2,173.00	21.47	0.99%
Large Use	54,283.90	59,678.00	(5,394.10)	-9.04%
Streetlighting	1.92	2.01	(0.08)	-4.22%
USL	4,053.38	4,009.00	44.38	1.11%

Table 9:

Rate Class	kWh / kW			%	
	2010 Estimated Consumption per Customer	2009 Actual Consumption per Customer	Change	Actual Change Required to Reach Forecast	2010 Forecast Change per Rate Application
Residential	8,319.00	8,165.77	153.23	1.88%	-0.50%
GS < 50 kWh	31,462.00	31,053.06	408.94	1.32%	-0.50%
GS > 50 kW	2,225.00	2,194.47	30.53	1.39%	2.40%
Large Use	70,464.00	54,283.90	16,180.10	29.81%	18.10%
Streetlighting	2.01	1.92	0.08	4.41%	0.00%
USL	4,009.00	4,053.38	(44.38)	-1.09%	0.00%

- f. KW Hydro submits that the economic situation in its service territory is expected to slowly improve through 2010 and beyond; however, KW Hydro would like to remind the Board that the economy in KW Hydro's service territory has traditionally been manufacturing-driven and this area has suffered numerous plant closures and higher unemployment rates than other areas of Canada. The current unemployment rate in Kitchener-Waterloo is amongst the highest in Canada at 9.9% as recently quoted in the local newspaper *The Record* on Saturday, February 6, 2010: *"The unemployment rate in the Kitchener Census metropolitan area jumped to 9.9 per cent last month, up from 9.3 per cent in December, Statistics Canada reported Friday. The alarming report contrasted sharply with the positive news nationally."* *"At 9.9 per cent, Waterloo Region's unemployment rate is among the highest in Canada."*
- g. Fewer people moved to the city of Kitchener and Wilmot Township as the economy took a downturn. Customer counts are presented below in Tables 10 ~12. Note that the number of Large Users has been smoothed to three (3) to incorporate the gradual exit of customers from the class in 2009.

Table 10

Rate Class	# of Customers			%	
	2009 Actual # of Customers	2008 Actual # of Customers	Change	Actual Change	2009 Forecast Change per Rate Application
Residential	76,755	75,847	908	1.20%	1.50%
GS < 50 kWh	7,425	7,337	88	1.20%	1.00%
GS > 50 kW	992	1,007	(15)	-1.49%	-0.50%
Large Use	3	4	(1)	-25.00%	-16.70%
Streetlighting	23,085	22,840	245	1.07%	1.00%
USL	813	820	(7)	-0.85%	0.00%

Table 11:

Rate Class	kWh / kW			% Change
	2009 Actual # of Customers	2009 Forecast # of Customers	Change	
Residential	76,755	76,984	(229)	-0.30%
GS < 50 kWh	7,425	7,410	15	0.20%
GS > 50 kW	992	1,002	(10)	-1.00%
Large Use	3	3	(0)	-9.91%
Streetlighting	23,085	23,068	17	0.07%
USL	813	820	(7)	-0.85%

Table 12:

Rate Class	kWh / kW			%	
	2010 Forecast # of Customers	2009 Actual Consumption per Customer	Change	Actual Change Required to Reach Forecast	2010 Forecast Change per Rate Application
Residential	78,139	76,755	1,384	1.80%	1.50%
GS < 50 kWh	7,484	7,425	59	0.79%	1.00%
GS > 50 kW	1,003	992	11	1.11%	0.10%
Large Use	2	3	(1)	-33.33%	-40.00%
Streetlighting	23,299	23,085	214	0.93%	1.00%
USL	820	813	7	0.86%	0.00%

- h. KW Hydro's number of customers is already lower than forecast and increasing customer counts as suggested by VECC, and reducing the average consumption per customer, as requested by both VECC and Energy Probe, is unreasonable and should not be considered. For example, KW Hydro forecast an increase of 1.5% in its Residential customer base; however, 2009 saw an increase of only 1.2% for that rate class. In addition, average consumption per Residential customer was lower by almost 3%. In other words, KW Hydro is already playing "catch-up" on its distribution revenues and granting the requests of the Intervenor would only exacerbate the situation.
- i. KW Hydro's estimate that it would have two (2) remaining large use customers at the end of 2009 has been accurate.
- j. Energy Probe submits the Board should direct KW Hydro to use the same type of trend analysis for the kW/KWh ratios as KW Hydro has used for the average use for the Residential and GS < 50 kW class. KW Hydro submits the methodology used to determine kW/KWh ratio used for forecasting purposes is reasonable. KW Hydro has used the average ratio over the period 2000 through 2008 as the ratio to be used in the 2009 and 2010 forecast of kWh for the GS > 50 kW, Large Use and Street lighting rate classes. The kW/KWh ratio reflects the relationship between kWh and kW in a rate class and, in KW Hydro's view, this is largely influenced by how each individual customer in the class is operating the equipment within their establishment. Operational characteristics vary from year to year and between individual customers, which means it would be difficult to determine a trend in the kW/KWh ratio as the movement in the ratio would most likely not be influenced on a class basis but on a individual customer basis. As a result, in this situation the forecasted kW/KWh should be based on the average ratio over a reasonable historical period such as 2000 to 2008. On the other hand, the average use for residential and GS < 50 kW is influenced by factors that impact the whole class such as CDM programs and an economic downturn. In KW Hydro's view, it is more appropriate to use a trend analysis to forecast the average usage for the Residential and GS < 50 kW classes since the class as a whole will trend up or down based on factors that impact the whole class.

Revenue Offset / Miscellaneous Revenue

39. In its' SIC, KW Hydro increased its revenue offset by \$136,217 from \$1,725,295 to \$1,861,512 to incorporate changes stemming from the interrogatory process.
40. The changes made by KW Hydro were accepted by Board staff and all Intervenors.
41. VECC recognized the need for the new applied-for charge "Collection of Account Charge – No Disconnection", but encouraged KW Hydro to ensure that customers are aware of the new charge and advise customers of it as part of the first field visit. In addition, VECC believed that the Board should direct KW Hydro not to attempt to recover the charge at that time of the second visit if the bill is paid at the time as customers who are unaware of the charge may not be able to pay it immediately at the time of this visit.
42. KW Hydro submits that no further adjustment to the Revenue Offset is required and will apply flexibility in administering the application of this new Specific Service Charge.

Exhibit 4: Operating Costs

General

43. In its' SIC and following the revisions made during the interrogatory process, KW Hydro requested approval of \$14,487,000 in revised OM&A, inclusive of property taxes. Therefore, total expenses including amortization expense but excluding PILS totaled \$25,222,844.
44. Subject to the following points below, Board staff has accepted the changes made in KW Hydro's SIC stemming from the interrogatory process and has no concerns with respect to KW Hydro's proposed OM&A:
 - a. Non-labour expense inflation should be adjusted to incorporate the change in GDP-IPI (FDD) as updated and published by the Board in 2010. If KW Hydro submits its draft Rate Order prior to the Board's publication of this statistic, the non-labour expense inflation should be calculated based on the percentage change in the GDP-IPI (FDD) for the period from 2008 Q4 to 2009 Q3 relative to the 2007 Q4 to 2008 Q3 period.
 - b. Proposed labour expenses, IFRS and regulatory costs have been documented and fully supported by Board staff.

- c. KW Hydro should use the common half-year rule for calculating the depreciation expense for its new capital additions in the year. The overall effect of this would be a reduction to depreciation expense of approximately \$517,066. Board staff made a number of statements in its discussion of this issue as follows:
- i. The half-year rule aligns the straight-line depreciation with the addition of assets to rate base.
 - ii. Depreciation of historical assets was not considered as the 2006 EDR process for most distributors was on a 2004 historical test year.
 - iii. The Board's Decision and Order on Greater Sudbury Hydro's 2009 Cost of Service application (EB-2008-0230, issued December 1, 2009) directed the use of the half-year rule except for determination of a new CIS system.
 - iv. Board staff acknowledges KW Hydro's argument that the use of the half-year rule will put it at a disadvantage because of the significant addition to rate base for the Wilmot T.S. and the application of the half-year rule would reduce the depreciation by half (\$412K), resulting in an under-recovery of \$823K over four years of rebasing and 3rd Generation IRM. However, Board staff notes that this is related to the "lumpiness" of some capital investments and notes that KW Hydro's forecasted 2010 Capex are higher than both historical and forecast years until the middle of the decade. In the event that a full year of depreciation expense for the higher 2010 new additions was permitted, this "lumpiness" would overstate the depreciation expense for 2011 and 2012 when the CAPEX and capital additions are lower. Board staff contends that this "lumpiness" in capital investments is the issue and, without it, there would be no issue.
45. SEC submits that KW Hydro's 2010 OM&A forecast is substantially overstated, noting that KW Hydro's OM&A as of September 2009 are much lower than from the equivalent period of the previous year, and requests the following adjustment be made to OM&A:
- a. The level of overtime costs from 2008 of \$401,346 should be removed from the OM&A as overtime costs in 2008 were higher largely due to a series of major storms that caused major damage to the distribution system.
 - b. KW Hydro's proposal from its SIC to increase 2010 bad debt expense by \$10,000 should be rejected by the Board as the projected bad debt expense for 2009 was 26% higher than 2008 actual. The 2009 increase, in effect, built in the effects of the recession.

- c. A reduction of \$40,825 should be made to KW Hydro's 2010 OM&A to account for the harmonization of retail sales taxes. SEC used the same methodology as that used for its recommendation of a reduction to 2010 CAPEX (10% of the average PST paid from 2006 ~ 2008 divided by two to account for July 1, 2010 implementation).
 - d. The half-year rule on 2010 capital additions for the recording of depreciation expense should be used.
46. VECC accepted the revisions made to OM&A in KW Hydro's SIC and made the additional following submissions:
- a. Non-labour expense inflation should be adjusted to incorporate the change in GDP-IPI (FDD) as updated and published by the Board in 2010.
 - b. Regulatory costs should be reduced by \$40,000 to \$188,000 (or \$10,000 in the Test year's costs). See Energy Probe's argument below.
 - c. A reduction of \$60,000 should be made to KW Hydro's 2010 OM&A to account for the harmonization of retail sales taxes.
 - d. The half-year rule on 2010 capital additions for the recording of depreciation expense should be used. VECC makes reference to Board staff's discussion of the recent Sudbury decision where the distributor was given some dispensation with respect to the half-year rule. VECC suggests that the Board's reasoning was that the CIS system had a short amortization and would be largely amortized by the end of the IRM period and, in KW Hydro's case, this is not the case as the transformer station involved has an amortization rate of 2.5%.
 - e. Forecast property taxes for 2009 were reduced in KW Hydro's updated budgets (submitted through an Energy Probe interrogatory #31) by \$134,438. VECC submits that 2010 property tax forecast should be reduced by a similar amount to \$410,656 (from \$550,000).

47. Energy Probe accepted the changes suggested by KW Hydro in its SIC and made the following submissions:
- a. Regulatory costs related to the 2010 rebasing application should be reduced by \$40,000 to \$188,000 or \$10,000 in the Test year. Energy Probe included a table with its argument listing a number of distributors (who followed a process similar to the one followed by KW Hydro in its 2010 rebasing application) and their approved 2009 rate rebasing costs. Energy Probe's list showed an average approved rebasing cost of \$128,413; however, it notes that many of these distributors would not have had the expense of Asset Management and LRAM/SSM consultants of \$55,000. Energy Probe contends that the \$133,000 of consulting costs claimed by KW Hydro are too high and should be reduced by \$40,000. The overall effect of this reduction would be a reduction in rate rebasing costs from \$57,000 to \$47,000 for the four year amortization period.
 - b. A reduction of \$60,000 should be made to KW Hydro's 2010 OM&A to account for the harmonization of retail sales taxes.
 - c. Wage increases for non-union employees should be reduced to 2% from the 3% included in the 2010 forecast. Energy Probe accepts the 3% increase included in the collective agreements KW Hydro reached with its unions for the year 2010; however, it argues that the economic increases for all non-unionized staff should be less than that given to unionized staff.
 - d. At least a portion of the increased meter maintenance costs of \$100,000 included in the 2010 forecast are incremental and a one-time cost to catch-up on work not completed due to the Smart Meter initiative. These costs should be amortized over 4 years to reflect the one-time nature of it in the test year, reducing OM&A costs associated with meter maintenance by \$37,500.
 - e. Non-labour expense inflation should be adjusted to incorporate the GDP-IPI (FDD) used to adjust rates for those distributors under IRM.
 - f. Forecast property taxes for 2009 were reduced in KW Hydro's updated budgets (submitted through an Energy Probe interrogatory #31) by \$134,438. Energy Probe submits that 2010 property tax forecast should be reduced by a similar amount to \$410,656 (from \$550,000).

48. KW Hydro makes the following submissions on Operating Costs:

Inflation

- a. KW Hydro accepts Board staff (and other Intervenors) submission that the inflation to be applied to non-labour expense will be the change to GDP-IPI (FDD) as updated and published by the Board in 2010 and accepts the Board staff suggestion of applying the same methodology to an alternative in the event that the Board has not yet published the figures by the time it submits its Draft Rate Order.

Depreciation

- b. KW Hydro's policy and past practice has always been to take a full year of depreciation in the year of acquisition (or in-service date) for pooled assets and has consistently applied this method as part of this rate application. KW Hydro submits that the methodology that it uses for its depreciation expense is consistent with past practice, in accordance with the OEB's APH, which is in turn consistent with the CICA Handbook. KW Hydro submits that it remains appropriate to continue with this approach.
- c. Board staff refers to the "lumpiness" of capital investments and notes that KW Hydro's CAPEX in 2010 is higher than both historical and forecast years. KW Hydro reminds the Board of the discussion regarding CAPEX in the discussion at paragraph #26 where KW Hydro discusses this very issue.
- d. The 2010 rates process will establish KW Hydro's revenue requirement for the next four years. Using a full year of depreciation on asset additions in 2010 to establish a revenue requirement for the next four years is a much closer representation of the expense to be incurred by KW Hydro for depreciation on 2010 asset additions in all the years going forward past the rate year. As the CAPEX tables show, KW Hydro's CAPEX (and depreciation expense) will only continue to rise.
- e. Further, KW Hydro submits that using only half of the depreciation expense will not arrive at a data set that is more representative of a typical year in its life. In fact, recovery of only half of its depreciation expense on 2010 additions will put it at a distinct disadvantage, particularly with regard to its Transformer Station #9 coming into service in 2010. The transformer station is expected to increase rate base by \$16.8M. The estimated incremental full year's depreciation on the station and equipment alone is \$412K. Use of the half-year rule in the rebasing year will reduce its allowed depreciation expense by half of that amount for each of the four (4) filed years

- (the rebasing year plus three years IRM). This is equivalent to \$823K for the four year period up to the next scheduled rebasing year in 2014. This amount is significant enough that it may force KW Hydro to rebase sooner than it is scheduled to do so otherwise, incurring additional costs. It should also be noted that when the discussions of half-year rule began, it was expected that distributors would rebase every two years (2), not every four (4). This two (2) year difference also makes a significant impact on KW Hydro's return on assets. For example, assuming a half-year rule, KW Hydro will receive a return of \$631,680 on only one half of the transformer station for four (4) years. The total return at 7.52% over the four (4) years would be \$2,526,720. However, if KW Hydro were to rebase again 2012, the remaining net book value of \$15.9M would result in returns to KW Hydro of \$1,201,395 per year or, incrementally, an additional \$569,715 per year (almost double what it would receive per year otherwise). Over the four year period, the incremental return is \$1,139,430 – a significant amount.
- f. The purpose of depreciation expense is to assist with replacement of the assets as they wear out and the use of the half-year rule will significantly reduce KW Hydro's revenue requirement and subsequent returns. Out of this statement, a couple of issues arise: (1) The Board approved rate of return for KW Hydro for the rebasing year plus three years IRM will be below the deemed industry standard as set and approved by the Board and; (2) KW Hydro may be unable to maintain its capital expenditures program, leading to aging assets due to the reduced return.
- g. KW Hydro also submits that the OEB does not apply the half-year rule in all circumstances. For example, in dealing with applications for approval of incremental capital modules under 3rd Generation IRM, the OEB allowed depreciation on the full value of the approved incremental capital assets(s) beginning with the year in which they go into service. In its Supplemental Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors dated September 17, 2008 (EB-2007-0673), the OEB wrote: *"The incremental capital for which the Board may provide rate relief is the new capital sought in excess of the materiality threshold. The proceeding to consider an eligible distributor's application for rate relief would examine the reasonableness of the distributor's increased spending plan. If the application is approved, a rate rider would be established to reflect an amount sufficient to accommodate the portion of the approved incremental spending that exceeds the threshold amount. In calculating the rate relief, the Board has determined not to apply the half-year rule so as not to build in a deficiency for subsequent years in the term of the plan".*

- h. KW Hydro submits (and Board staff acknowledges) that the depreciation expense on its transformer station being built and coming into service in 2010 is of a material nature and the loss of over \$800K in depreciation expense due to the use of the half year rule is significant enough to create a deficiency in future years.
- i. In its decision of Greater Sudbury's 2009 rate application (EB-2008-0230), the Board also approved an exemption to the half year rule on its CIS system.
- j. VECC contends that the Board only considered (and accepted) Greater Sudbury's application for an exemption to the half-year rule because its CIS system had a short amortization period and would be largely amortized by the end of the IRM period. KW Hydro submits that the Board's approval for this exemption was to avoid creating the deficiency discussed in the 3rd Generation report. The deficiency is created based on its original capital cost and not the length of its amortization period.
- k. KW Hydro also submits that in the Board's January 5, 2010 Report on the Regulatory Treatment of Infrastructure Investment in Connection with the Rate-Regulated Activities of Distributors and Transmitters in Ontario, the Chair of the Board is quoted on page (i) of the Executive Summary confirming "*the Board's commitment to creating conditions that will foster timely and appropriate investment in electricity distribution and transmission infrastructure while ensuring that the interests of ratepayers continue to be protected*".
- l. The Report continues on the same page:

"The Board acknowledges that, with the advent of the Green Energy and Green Economy Act, 2009 (the "Green Energy Act"), it is anticipated that electricity distributors and transmitters will undertake significant new infrastructure investment, particularly to accommodate new renewable generation. Accordingly, the Board recognizes the need for a regulatory framework that provides further flexibility which utilities may need, in appropriate circumstances, to make these infrastructure investments".
- m. As a result, alternative cost recovery mechanisms have been identified by the Board which may be considered on a case-by-case basis, including, among other mechanisms (1) CWIP allowed in rate base prior to the asset coming into service, allowing the applicant to recover the carrying cost

- on the capital investment; and (2) adjusting depreciation to reflect a contract term rather than the useful life of the asset.
- n. KW Hydro submits that by its very nature, transformer station construction (i.e. KW Hydro's new TS #9 in Wilmot Township) is similar to capital investments related to the Green Energy Act, in that it is capital intensive and spanning multiple years, with long lead times required to plan and construct. KW Hydro commenced construction of its TS#9 in 2007 and it will come into service in 2010.
 - o. KW Hydro submits that by disallowing a portion of depreciation expense on its TS #9 investment through the use of the half year rule, it is being penalized for making this significant infrastructure investment. In the same manner as the Board has recognized the need for flexibility in order to accommodate investments related to the Green Energy Act, KW Hydro submits it be treated in a similar manner with respect to TS #9, which will increase the capacity and improve the efficiency and reliability of the distribution system in Wilmot Township.
 - p. Should the Board direct KW Hydro to move to the half year rule for asset amortization, KW Hydro respectfully requests that the amortization of its new transformer station being built in Wilmot Township be excluded from this requirement and that KW Hydro instead be permitted to include these expenditures in the rate base and amortize this asset on the basis of its full value in the year of acquisition.
 - q. KW Hydro further requests that an adjustment to rate base should also be permitted as a result of any change to the amount of depreciation expense.

Overtime Costs

- r. KW Hydro contends that the overtime included in its OM&A for 2010 is reasonable and appropriate. KW Hydro did not increase the overtime amounts forecast for 2009 or for 2010 in its application and consequently the ratio of overtime to total payroll has been declining. KW Hydro expects to maintain its overtime costs at the 2008 level even though the costs of labour has increased by 3% per year due to Union Collective agreements, which shows proper cost control.
- s. As discussed in the SEC interrogatory #4, overtime costs are the result of several activities which include (but are not limited to) emergency repairs due to storms, vehicle accidents, equipment failure and wildlife contacts, planned outages to suit our customers' schedules to maintain utility-

- owned equipment, transfer customer services to new poles, isolate a customer's equipment for their own work and planned work to meet customer schedules for road work projects or new service installations.
- t. KW Hydro submits that most overtime costs are non-discretionary and outside the control of KW Hydro. The advance of stimulus monies to municipalities is expected to result in significant pole line and underground cable relocation work in 2009 and 2010 and will increase the need for overtime during these years.
 - u. KW Hydro contends that the increased overtime costs in 2008 are not exclusively or predominantly a result of major storms that caused damage to its distribution system. There was significant storm activity in 2008; however, there were many other factors that increased overtime, including all of the activities named above. SEC's statement that KW Hydro should reduce its overtime forecast as much of its overtime was due to storm activity is presumptuous and not based on evidence and should be rejected by the Board.

Bad Debts

49. KW Hydro's service territory, which has traditionally been a blue-collar manufacturing hub, has been adversely affected with the recent recession. Job losses continue to occur and growth has been slow. KW Hydro expects that bad debts will continue to climb into 2010 as unemployment rates continue to remain high. In fact, the unemployment rate continues to be among the highest in Canada at 9.9%, as noted recently in the local newspaper The Record. SEC's statement that the effects of the recession have already been built into KW Hydro's original forecasts and that the \$10,000 increase in bad debt expense from the original forecast is too high should be rejected by the Board.

Rebasing Costs

50. Energy Probe's statement that KW Hydro's rebasing costs are too high is arbitrary and unreasonable and should be rejected by the Board. KW Hydro continues to incur costs related to this rebasing application from a number of different sources including additional staff, LRAM/SSM, Regulatory consultants and Intervenor participants participating in this rate application.
51. KW Hydro further submits that Energy Probe's comparison to other utilities rebasing costs is unreasonable. KW Hydro notes that the approved costs of the distributors listed are lower than the amount that KW Hydro has included in this rate application; however, all of the distributors in the list provided by Energy Probe are significantly smaller than KW Hydro (KW Hydro is the 10th largest

distributor in the province). Energy Probe's list has been recreated below in Table 13; showing the rebasing cost per customer. Even with the increased costs acknowledged by Energy Probe such as the LRAM/SSM and Asset Management consultants, KW Hydro's rebasing cost per customer is substantially lower than the average at \$2.71 per customer. The number of customers has been obtained from the OEB Yearbook of Electricity Distributors for 2008.

Table 13

File No.	Distributor	Approved Regulatory Costs	# of Customers	Rebasing Cost per Customer
EB-2008-0222	CNPI - Eastern Ontario Power	75,000	3,543	\$ 21.17
EB-2008-0223	CNPI - Fort Erie	100,000	15,616	\$ 6.40
EB-2008-0224	CNPI - Port Colborne	241,197	9,229	\$ 26.13
EB-2008-0225	Centre Wellington Hydro Ltd.	163,000	6,309	\$ 25.84
EB-2008-0226	COLLUS Power Corp.	140,000	14,387	\$ 9.73
EB-2008-0233	Innisfil Hydro Distribution System Ltd.	148,000	14,471	\$ 10.23
EB-2008-0234	Lakeland Power Distribution Ltd.	104,000	9,295	\$ 11.19
EB-2008-0236	Midland Power Utility Corporation	125,000	6,773	\$ 18.46
EB-2008-0237	Niagara-on-the-Lake Hydro Inc.	100,000	7,798	\$ 12.82
EB-2008-0241	Peterborough Distribution Inc.	50,000	34,349	\$ 1.46
EB-2008-0245	Thunder Bay Hydro Electricity Distribution Inc.	99,000	49,361	\$ 2.01
EB-2008-0246	Tilsonburg Hydro Inc.	106,000	6,622	\$ 16.01
EB-2008-0247	Welland Hydro-Electric System Corp.	95,000	21,706	\$ 4.38
EB-2008-0248	WestCoast Huron Energy Inc.	140,000	3,878	\$ 36.10
EB-2008-0250	Westario Power Inc.	240,000	21,592	\$ 11.12
	Average	128,413	14,995	\$ 14.20
EB-2009-0267	Kitchener-Wilmot Hydro Inc.	228,000	84,195	\$ 2.71

52. KW Hydro contends that its forecast rebasing costs are reasonable and should be approved as requested.

Property Taxes

53. KW Hydro agrees to the reduction of its forecast 2010 property taxes by \$134,438 to \$410,656 and will include this reduction when submitting its Draft Rate Order.

Non-Union Inflationary Wage Adjustments

54. Energy Probe's suggestion that the matching of the annual wage increase of 3% applied to unionized staff to non-unionized staff is excessive and should be reduced to 2% is arbitrary and inappropriate.

55. KW Hydro submits that it must pay a competitive wage to all employees, whether they are unionized or not and this fact has been accepted by Board staff and all other Intervenors.
56. Using two separate economic adjustment percentages would create an unlevel playing field where unionized employees are treated differently than their non-unionized counterparts. KW Hydro has always had a policy of treating all employees fairly and the equally – regardless of their affiliation.
57. It is already difficult for LDCs to hire and retain skilled and professional staff and the use of a lower economic adjustment for non-unionized staff will reduce our competitiveness and cause higher employee turnover (as they can do better elsewhere).
58. KW Hydro also submits that it does not have any employee bonus plans or other compensation or incentives to reward non-union employees as many other LDCs do.

Meter Maintenance

59. KW Hydro submits that the 2010 forecasted increase of \$100,000 in meter maintenance costs are not a one-time item. They are incremental costs associated with additional planned maintenance activities in 2010 and beyond within the GS>50kW rate class after Smart Meter deployment is completed. Meter maintenance activities within this class have been largely deferred during Smart Meter deployment and will resume with a multi-year meter re-verification and testing program commencing in 2010.

Provincial Sales Tax

60. KW Hydro has concerns regarding the HST issue raised by all Intervenors. KW Hydro believes that this is a global issue that the Board needs to address with from an industry-wide. KW Hydro submits its argument on this issue in detail in paragraphs 135 ~ 142 below.

Payments-in-Lieu-of-Taxes (PILS)

61. In its SIC, KW Hydro proposed a revised forecasted PILS expense for 2010 of \$2,691,869, comprised of \$111,067 of Ontario Capital Tax and \$2,580,802 of provincial and federal income taxes.
62. Board staff accepted that KW Hydro's proposed PILS methodology and estimate, was reasonable and compliant with Board practice and policy and with known tax legislation. Noting that additional changes will be made to KW Hydro's earnings due to Board findings in this rate case, Board staff also submitted that KW Hydro should flow through future applicable changes in operating and capital costs, and update

the PILS allowance to determine the revenue requirement and rates resulting from the Board's Decision in its draft Rate Order filing.

63. SEC did not make a submission on this issue and VECC accepted the revisions made in KW Hydro's SIC.

64. Energy Probe submitted that the changes made in KW Hydro's SIC were appropriate and further noted:

- a. KW Hydro should calculate its income and capital taxes using the most recent information available, including tax rates that are expected to be applicable in 2010.
- b. Changes made through the Board's final Decision in this process should be incorporated into the tax model and updated.
- c. With regard to tax credits for Apprentice (two (2) credits both federal and provincial) and Cooperative training (one (1) provincial credit), Energy Probe noted that the two provincial credits are to be reflected as regulatory income in the current tax year and that the federal tax credit is to be added to income in the following year. The total tax credits in 2010 to be claimed by KW Hydro equal \$122,000. In the event that KW Hydro did not include these tax credits when calculating its taxable income for 2010, the impact of the tax credits to be added to regulatory taxable income would be \$106,000, increasing taxes payable by \$32,849 from the amount forecast in the SIC.

65. KW Hydro makes the following submissions on PILS:

- a. KW Hydro agrees to calculate its income and capital taxes using the most recent information available, including tax rates that are expected to be applicable in 2010 and any changes made through the Board's final Decision in this process will be incorporated into the tax model and updated.
- b. KW Hydro submits that it did not include the two (2) tax credits in its regulatory taxable income mentioned by Energy Probe in its Final Submission and these will have to be added when KW Hydro submits its Draft Rate Order. KW Hydro will therefore add the \$106K to its taxable income for 2010, increasing taxes payable.

Exhibit 5 - Cost of Capital and Rate of Return

66. In its SIC, KW Hydro did not make any changes to its requested capital structure outside of the amounts that changed due to the decreased rate base. Requested parameters included:

Cost of Capital Parameter	KW Hydro's Proposal
Capital Structure	60% debt (composed of 56% long-term debt and 4% short-term debt) and 40% equity
Short-Term Debt	1.33%, but to be updated in accordance with section 2.2.2 of the Board Report
Long-Term Debt	7.62%, reflecting the rate of promissory notes due to the City of Kitchener and Township of Wilmot
Return on Equity	8.01% , but to be updated in accordance with the methodology in Appendix B of the Board Report
Weighted Average Cost of Capital	7.52% as proposed, but subject to change as the short-term and long-term debt rates and ROE are updated per the Board Report at the time of the Board's Decision

67. Board staff submitted that KW Hydro’s proposals for Cost of Capital, as amended through discovery, comply with the guidelines documented in the Board’s Cost of Capital Report and that KW Hydro must update the parameter values when they become available.

68. SEC submitted the following arguments:

- a. The notes are not callable on demand as defined by the Board as they are not callable during the rate year.
- b. The notes are technically variable rates as they are pegged to be exactly equal to the Board’s deemed long-term debt rate.
- c. KW Hydro is not demonstrating prudence in its debt costs as it can repay the loans at any time “without notice or bonus” and is not trying to obtain third party financing at a lower rate.
- d. The fact that KW Hydro’s shareholders may not want to provide a guarantee so as to allow the company to obtain lower priced debt in the open market is purely a function of the fact that in the current regulated environment the shareholders profit from the higher rate.

- e. Even if the entire amount of the Notes could not be repaid, the difference between the amount of the Notes and KW Hydro's deemed long-term debt for 2010 of \$14,381,383 could be funded at a rate lower than the Board's current deemed long-term debt rate.
 - f. The increased ROE approved in the Board's December 2009 Cost of Capital report will increase the revenue requirement for KW Hydro by \$1.6 million, particularly affecting the GS>50 kW rate class. SEC believes that the revenue impact of the Board's Cost of Capital Decision for each rate class should be specified in the Board's Order.
 - g. In agreement with Energy Probe (see below), the ROE should be reduced by fifty basis points to remove the flotation costs embedded in the Board's ROE.
69. VECC submitted that KW Hydro's proposed capital structure is consistent with the Board's report and raised the following:
- a. The deemed long-term debt rate for 2010 is the appropriate rate to use for KW Hydro's existing debt.
 - b. Based on other Applications currently before the Board, VECC submitted that the interest rate charged by Infrastructure Ontario loans is likely to be less than 5%. As KW Hydro is currently in discussions with Infrastructure Ontario for a \$10 million loan to assist with financing its Smart Meter initiative, VECC submitted that the average cost of KW Hydro's long-term debt should be based on its existing debt and a new loan for \$10 million from Infrastructure Ontario issued half way through the year at a rate of 5%.
70. Energy Probe submitted the following arguments:
- a. The short-term debt rate should be updated to reflect the Board's methodology as outlines in the Board's Cost of Capital Report.
 - b. The deemed long-term debt rate as calculated based on the methodology outlined in the Board's Cost of Capital Report should apply to KW Hydro's long-term debt.

- c. The 4% deemed level of short-term debt is not reasonable and that the incremental costs imposed on ratepayers are neither just nor reasonable.
- d. The revised 9.75% figure for ROE from the Board's Cost of Capital Report includes an implicit premium of 50 basis points for floatation and transaction costs and this amount should be removed from the ROE for KW Hydro as it is unlikely that it will incur such costs.

71. KW Hydro makes the following submissions:

- a. On December 11, 2009, during the course of this proceeding, the Board issued its revised guideline Cost of Capital methodology in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities under EB-2009-0084 (the "December 2009 Report"). The December 2009 Report is a guideline, but departures from the methodology in the report are expected to be adequately supported. While the December 2009 Report was issued subsequent to this Application, the report states that the revised guidelines apply to applications for rates effective in 2010 or later and determined through review of Cost of Service applications. Thus the December 2009 Report supplements the guidelines documented in the December 2006 Report and both reports apply to this Application.

Capital Structure

- b. Energy Probe suggests that a "mismatch" between the level of deemed short-term debt and KW Hydro's requested working capital component of its rate base is indicative that the Board is justified in not applying its well established cost of capital policy to KW Hydro because of the specific circumstances in the Application.
- c. Energy Probe relies on the Board's commentary at page 13 of the December 2009 Report, included in response to specific concerns regarding the scope of outcome from the Board's consultation process, as authority for its argument. The relevant portion of the December 2009 Report provides:

"The final "product" of this process, of course, is a Board policy. This was not a hearing process, and it does not - indeed cannot - set rates. The Board's refreshed cost of capital policies will be considered through rate hearings for the individual utilities, at which it is possible that specific evidence may be proffered and tested before the Board. Board panels assigned to these cases will look to the report for guidance in how the cost of capital should be determined. Board panels considering individual rate applications, however, are not bound by the Board's policy, and

where justified by specific circumstances, may choose not to apply the policy (or a part of the policy)."

72. KW Hydro submits that the Intervenor have failed to raise circumstances sufficient to justify the Board departing from its well established policy on Cost of Capital. At page 49 of the December 2009 Report, the Board states that :

"The Board's current policy with regard to capital structure for all regulated utilities continues to be appropriate. As noted in the Board's draft guidelines, capital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals."

73. The Board's current policy is articulated in the Board's December 2006 Report, where the Board adopted a single deemed capital structure for all distributors for rate-making purposes - fixing a split of 60% debt, 40% equity for all distributors and including a short-term debt amount fixed at 4% of rate base. The Board has been rightfully hesitant in past proceedings to depart from its policy on deemed capital structure. The policy is the result of a broad ranging public consultation process and it has created much needed certainty for both distributors and Intervenor in the Board's rate setting process.

74. The Board justified its deemed short-term debt amount at page 9 of the December 2006 Report, noting:

"Based on filings of distributors pursuant to the Board's Electricity RRR and in 2006 rate applications, it is clear that many distributors use short-term debt. The actual average for the industry is about 4%. Some distributors use it extensively as a substitute for long-term debt. This may be advantageous in a period characterized by low inflation and interest rates, but such a practice exposes the distributor – and its customers – to inordinate risk if rates climb."

75. To take advantage of the low interest rates currently applicable to short-term debt, Energy Probe argues that the Board should abandon its well established policy and increase the short-term debt component of KW Hydro's capital structure beyond the deemed amount of 4%.

76. The Board has previously considered and rejected as problematic an approach that would use the actual short-term debt of a distributor to determine the appropriate percentage of the distributor's capital structure. Specifically, page 11 of the December 2006 Report states:

"Although using a distributor's actual short term debt component may seem to be a more accurate approach, it may be problematic. Short-term debt is optimally used as an interim solution for managing a firm's financing requirements. It may fluctuate, although generally within a limited range. Using a firm's actual short-term debt component would be administratively challenging given the number of electricity distributors and the associated volume of data that would need to be reported and verified."

77. KW Hydro submits that Energy Probe's approach is similarly problematic. Specifically, if the Board accepts Energy Probe's argument the Board will create a tremendous administrative challenge as it opens the floodgates to numerous parties making a wide variety of arguments to change the deemed capital structure based upon a mix of evidence of a distributor's current capitalization rates and other evidence drawn from elsewhere in the rate application which has no direct relationship to the capital structure of the utility. Indeed, Energy Probe does not make reference to KW Hydro's actual short-term debt to suggest that the deemed rate is inappropriate. Instead, it makes a tremendous leap in logic to imply that the working capital component of KW Hydro's rate base is somehow equivalent to what KW Hydro's actual short-term debt amount should be.
78. KW Hydro submits that its proposed working capital allowance was prepared strictly for the purposes of contributing to the rate base component of the Application. The working capital allowance has no real correlation to KW Hydro's actual level of short-term debt nor should it be used as a proxy for the level of short-term debt the Board will use for rate setting purposes. KW Hydro submits that its proposed capital structure, including the short-term debt component, complies with the December 2009 Report and is appropriate for rate setting purposes.
79. In the alternative, KW Hydro submits that Energy Probe has erred in suggesting that all working capital should be financed through short-term debt. KW Hydro submits that this is simply not the case, and that Energy Probe's argument equating working capital to short-term debt is misleading in this regard.
80. At page 10 of its December 2006 Report, the Board states that:
- "As a general principle for ratemaking purposes, the Board believes that the term of the debt should be assumed to be similar to the life of the assets that are to be acquired with that debt. This suggests that, in theory, for an industry with long-lived assets, the majority of debt should be long-term. However, in reality, some short-term debt is a suitable tool to help meet fluctuations in working capital levels."*
81. It is a well understood principle of corporate finance that firms need both a long-term (or permanent) investment in working capital and a short-term or cyclical one. The permanent working capital investment provides an ongoing positive net working capital position, that is, a level of current assets that exceeds current liabilities. This allows KW Hydro to operate with a comfortable financial margin and minimizes the risk of being unable to pay its employees, vendors, lenders, or the government (for taxes). To have a continuous positive net working capital, a company must finance part of its working capital on a long-term basis.

82. Beyond this permanent working capital investment, KW Hydro also needs seasonal or cyclical working capital. Since the demand for power and KW Hydro's controllable expenses vary over the course of a year, KW Hydro needs to finance these costs to prepare for their peak sales period and accounts receivable until cash is collected. KW Hydro acknowledges that cyclical working capital can sometimes be financed by short-term debt since the seasonal build-up of assets to address seasonal demand will be reduced and converted to cash to repay borrowed funds within a short predictable period. However, KW Hydro does not accept the suggestion that the cyclical portion of working capital should be used as a proxy for the short-term debt applicable to a utility's capitalization structure.
83. KW Hydro submits that, in light of the foregoing, the Intervenor's have failed to raise circumstances sufficient to justify the Board departing from its well established policy on Cost of Capital and requests that the Board approve the capital structure as proposed in its rate application.

Long Term Debt Rate

84. KW Hydro has two (2) long standing (since 2001) promissory notes with its shareholders, the City of Kitchener and the Township of Wilmot, totaling just under \$77 million. This is the only long debt KW Hydro has at the time of our filing.
85. Terms within these notes specify that the interest rate is the "Ontario Energy Board Established Rate" which shall change from time to time. A copy of both notes was filed at Exhibit 5, Appendix A in KW Hydro's rate application.
86. SEC argues that the notes are technically variable rates as they are pegged to be exactly equal to the Board's deemed long-term debt rate. KW Hydro agrees.
87. Since the promissory notes are with affiliates and are not callable within the test year (but are callable within an eighteen month period on demand), KW Hydro submits that the debt cost should be treated in accordance with guidelines pertaining to variable debt rates and acknowledges that the December 2009 Report provides on page 53 that:
- "For debt that has a variable rate, the deemed long-term debt rate will be the ceiling on the rate allowed for that debt. This applied whether the debt holder is an affiliate or third party".*
88. KW Hydro submits that as the promissory interest rates are established to be the exact rate equal to the OEB deemed debt rate, they do not exceed the Board's ceiling allowed for that debt.

89. KW Hydro also submits that it has been prudent in its debt costs as the deemed long-term debt rate is considered to be a “market-based rate” by the Board as acknowledge on page 53 of its December 2009 report. The current environment includes Smart Meter installs, Green Energy Act capital investments and other initiatives that have a significant impact on KW Hydro’s working capital and financing requirements. KW Hydro is reviewing all financing options to meet these demands including long-term debt.
90. Finally, KW Hydro submits that there is no basis in evidence to accept VECC’s proposal of a weighted average of KW Hydro’s existing long-term debt and an Infrastructure Ontario rate that does not relate to KW Hydro’s actual debt at the time of filing. KW Hydro submits that evidence related to the Infrastructure Ontario loan is related strictly to the purchase of Smart Meters. The loan, if exercised, should properly be considered in the determination of the smart meter adder separate from the standard distribution business rates at this time.
91. KW Hydro requests the Board approve its long-term debt rate of 7.62% (deemed long-term debt rate) as submitted, subject to the update by the Board when the deemed parameter value becomes available.

Short Term Debt Rate

92. KW Hydro agrees with Board staff and Energy Probe that the short term debt rate should be updated when the Board issues the updated parameters in early 2010.

Allowed Return on Equity

93. Following the Board’s December 2009 Cost of Capital Report, KW Hydro proposes to update its rate application to account for changes to the return on equity reflected in the Report, increasing the ROE to 9.75%, resulting in an updated requested weighted average cost of capital of 8.72%. KW Hydro’s updated proposal remains subject to further updates based on January 2010 market interest rate information.
94. Energy Probe suggests that KW Hydro should not qualify for the 9.75% ROE figure on the basis that the 50 basis point transactional costs are not appropriate for KW Hydro. KW Hydro submits that Energy Probe is recommending a dramatic departure from Board’s policy in respect of ROE. Notably, that the premium for flotation and transaction costs have be included ever since the Board first introduced the premium in the early 1990s. The Board has never before asked distributors to produce evidence of its

flotation and transaction costs to support recovery the allowable ROE. KW Hydro submits that Energy Probe's approach creates an entirely new and unexpected burden of proof that would open the floodgates to numerous arguments about all aspects of the allowable ROE – requiring utilities to hire costly consultants to justify a proposed ROE and subjecting the Board to lengthy administratively cumbersome proceedings on disputed ROE allowances. KW Hydro submits that the Board should reject Energy Probe's approach and affirm KW Hydro's use of a 9.75% ROE pursuant to the December 2009 Report.

Exhibit 6 – Calculation of Revenue Deficiency or Surplus

95. There were no comments from Board staff or any Intervenors on Exhibit 6 – Calculation of Revenue Deficiency or Surplus.

Exhibit 7 - Cost Allocation

96. KW Hydro requested approval of distribution rates that would move its revenue to cost ratios toward the Board's policy range and provided updated summaries with its SIC.
97. Board staff supported KW Hydro's proposed cost allocation and revenue to cost ratios as presented in its SIC but submitted that KW Hydro integrate the Embedded Distributor class into any subsequent cost allocation study by the time of its next Cost of Service application.
98. SEC did not comment on cost allocation.
99. VECC did not agree with KW Hydro's cost allocation model methodology and results and recalculated the 2010 cost allocation results. The results of both KW Hydro's model and VECC's model are shown below:

Rate Class	Existing Rates		Final Proposed	
	KW Hydro	VECC	KW Hydro	VECC
Residential	93.83%	90.70%	93.90%	Add Shortfall
GS<50	102.59%	104.60%	102.55%	No Change
GS>50	111.95%	116.90%	111.94%	No Change
Large User	96.75%	96.00%	100.22%	No Change
Street Lighting	108.91%	128.10%	107.66%	120.00%
USL	135.53%	159.50%	110.81%	120.00%

- a. VECC submitted that the Street Lighting and USL rate classes should be adjusted to 120% as the results of its cost allocation model show both of them as being outside of the range. Further, as the Residential rate class has the lowest revenue to cost ratio, the shortfall should be recovered from that class. VECC asked for no changes to the other rate classes.
- b. VECC agreed with Board staff that the Embedded Distributor rate class be integrated into future cost allocation studies.

100. Energy Probe supported KW Hydro's cost allocation model as submitted in its SIC and noted that all KW Hydro's rate classes have revenue to cost ratios well within the Board target ranges with the exception of the USL class and supports KW Hydro's proposal to move the USL class to a 110.81% revenue to cost ratio as the move has little impact on the other rate classes.

101. KW Hydro makes the following submissions:

- a. KW Hydro's submits that the Board should accept its recommendations for cost allocation amongst the customer classes as filed in its SIC. KW Hydro notes that its cost allocation methodology was accepted by all classes except VECC.
- b. KW Hydro followed the Board's Report on Cost Allocation in the processing of the revenue to cost ratios.
- c. KW Hydro will endeavor to include the Embedded Distributor in future cost allocation studies if directed by the Board but notes that doing so will likely require direct allocation of costs to this

- rate class at significant cost and effort relative to the very small component of KW Hydro's revenue requirement (\$70K or 0.18%). KW Hydro has no experience with direct allocation of costs using the Board's cost allocation model.
- d. KW Hydro accepts, but does not recommend, VECC's suggestion to stay at the upper end (120%) for the Street Lighting and USL rate classes as the amounts involved are not of a highly material nature.

Exhibit 8 – Rate Design

102. Board staff made the following submissions on rate design:

- a. KW Hydro's proposal, as adjusted and documented in its SIC, is reasonable in terms of the fixed/variable proportions of revenue, and is consistent with Board policy as articulated in the Board's Cost Allocation report and in previous decisions.
- b. The rates for the Embedded Distributor should be updated by the Cost of Capital parameters, tax rates and other findings of the Board's decision on this application.
- c. Board staff submitted that interim approval should be granted to KW Hydro to continue its Standby Charge.
- d. Board staff requested clarification on KW Hydro's requested loss factors.
- e. KW Hydro's proposal to discontinue the transformer ownership allowance for customers who own their own transformers over 1,500 kVA is accepted by Board staff and noted Board acceptance in a similar proposal in London Hydro's 2009 Cost of Service application (EB-2008-0235).
- f. Board staff submitted that it accepts KW Hydro's proposal for adjustments to Retail Transmission Service Rates ("RTSRs"); however, it was noted that the January 1, 2010 RTSRs had not yet been finalized and that the Board would need to decide what rates KW Hydro would need to use in its calculation for 2010.

103. SEC noted KW Hydro's proposal to keep the fixed monthly charges for every rate class frozen at their existing level. SEC states that this will create an inequitable rate increase to the GS<50kW rate class as the fixed/variable split for each rate class falls and increases in revenue will be recovered through the variable rate. SEC submitted that the fixed service charge for the GS<50kW rate class should be increased proportionate to the revenue requirement for the class and remain frozen for the entire IRM period, making the increase more gradual.

104. VECC made the following submissions:

- a. KW Hydro's proposed total loss factor and retail transmission rates are appropriate.
- b. KW Hydro's proposal to maintain the monthly charges at their current level for all its customer classes (with the exception of the Residential and USL classes) is reasonable and should be adopted by the Board. For the Residential and Street Lighting rate classes, VECC notes that the proposed rate design conforms with the Board's guidelines; however, VECC believes a more balanced approach would be to base the 2010 monthly service charge on the fixed-variable split that arises from applying the 2009 rates to the 2010 forecast billing determinants for each class, provided the results do not exceed the ceiling established by the Board's guidelines.

105. Energy Probe did not comment on the fixed/variable split.

106. KW Hydro makes the following submissions:

- a. KW Hydro's submits that the Board should accept its recommendations for rate design as filed in its SIC. KW Hydro also submits that it followed traditional rate design techniques in the calculation of its rates and followed the cost allocation methodology from the Board Report on Cost Allocation.
- b. KW Hydro agrees to update its Embedded Distributor rates by the Cost of Capital parameters, tax rates and other findings of the Board's decision on this application.
- c. KW Hydro applied to change its Total Loss Factor - Secondary Metered Customer < 5,000 kW only. Board staff's table is presented below with the applied for loss factors:

Total Loss Factor - Secondary Metered Customer < 5,000 kW	1.0320
Total Loss Factor - Secondary Metered Customer > 5,000 kW	1.0154
Total Loss Factor - Secondary Metered Customer < 5,000 kW	1.0226
Total Loss Factor - Secondary Metered Customer > 5,000 kW	1.0053

- d. KW Hydro notes that the Board issued a Decision on January 21, 2010 for Uniform Transmission Rates effective January 1, 2010 (EB-2008-0272). KW Hydro will update its Application for revised Retail Transmission Rates using the same methodology as accepted by all participants in this proceeding to calculate new rates effective May 1, 2010 when it submits its Draft Rate Order.
- e. KW Hydro had originally filed to increase its monthly service charge for the Residential rate class to \$12.05 (from \$9.55); however, based on VECC interrogatory #35, KW Hydro revised its request in its SIC and moved the monthly service charge request back to \$9.55, as the existing monthly service charge already exceeded the ceiling as set by the Board. For the GS<50kW rate class, KW Hydro maintained the existing service charge for the same reason. Distributors were encouraged not to increase monthly service charges through the Board's Report on Cost Allocation if they exceeded the ceiling.
- f. KW Hydro submits that the lower monthly service charges will encourage conservation from its customers; however, the impact of the change in the fixed/variable split will be greater for some customers than for others.
- g. KW Hydro requests approval to discontinue the transformer ownership allowance for customer who their own transformers over 1,500 kVA; and to increase the transformer ownership credit for customers below 1,500 kVA, who own their own transformer from \$0.60/kW to \$0.70/kW.

Exhibit 9: Deferral and Variance Accounts

Deferral and Variance Accounts

107. KW Hydro requested disposition of a number of its deferral/variance accounts in the amount of a credit of \$5,773,603. In its original submission, KW Hydro proposed to dispose of the balances over a period of four years; however, in order to reduce bill impacts in both the 2010 and 2014 rebasing years, KW Hydro revised its proposal in its SIC. The SIC proposed a disposition period of two years. Further, KW Hydro

requested Board approval to use account 1595 – Disposition and Recovery of Regulatory Balances to record disposition of and recoveries of approved deferral and variance account balances.

108. In response to Board staff interrogatory #31, KW Hydro recalculated its Deferral and Variance account rate riders in the following manner:

- a. Disposal of the deferral and variance account balances, excluding the Global Adjustment (“GA”) sub-account (using 2008 actuals as the billing determinant);
- b. Disposal of the GA sub-account balance separate from the other deferral and variance account balances for which disposition had been requested.

109. During the interrogatory process, KW Hydro submitted that the customers responsible for the balance of the GA should be the ones that pay the rate rider, if established. It was unable; however, at present, to exclude the MUSH sector customers who had exited the RPP as of November 2009 and paid an exit fee, if a separate rate rider for disposition of the GA was established.

110. Board staff submitted the following on this issue:

- a. KW Hydro’s methodology for the proposed disposition of deferral and variance account balances is consistent with similar disposition of such costs as determined by the Board in recent decisions.
- b. Board staff generally supported KW Hydro’s revised proposal to refund the amounts over 24 months, rather than the 48 months originally proposed, and requested KW Hydro to supply a detailed spreadsheet showing the rate rider calculation as part of its draft Rate Order calculation.
- c. The Board must decide whether the disposition of the balance of the GA should be subject to a separate rate rider or be included in the single rate rider per class applicable to all customers in that class.
- d. Board staff seeks a confirmation from KW Hydro as to whether its billing system can implement a rate rider applicable solely to non-RPP customers, for collecting or refunding the balance of Account 1588 GA.

111. Board staff accepted KW Hydro's proposed to retain its current smart meter funding adder of \$1.00 per month per metered customer. This was also supported by Energy Probe.
112. VECC accepted KW Hydro's proposals for clearing its variance and deferral accounts as consistent with the Board's EB-2008-0046 Report.
113. Energy Probe accepted the accounts and the amounts proposed to be rebated by KW Hydro as appropriate.
114. In addition, Energy Probe submits that the disposal of all deferral and variance accounts, inclusive of the GA, through a single rate rider is appropriate for KW Hydro. Energy Probe further submitted that the Board should adopt a separate rate rider for recovery of the GA sub-account whenever a distributor is able to apply a different rate rider to different customers within a rate class, as this follows the cost causality principle.
115. Noting that the use of a single rate rider for all deferral and variance accounts, inclusive of the GA, would create an inappropriate subsidy, Energy Probe expressed concern that the costs that may be incurred to design and implement a separate GA-only rate rider may outweigh the benefits. Energy Probe asked the Board to direct KW Hydro to investigate the cost of being able to have different rate riders for different customers within a rate class.
116. Energy Probe further submitted that the Board should initiate a consultation process to review who can and who cannot dispose of the GA to non-RPP customers only and what are the likely costs and benefits for those distributors and their ratepayers that currently cannot follow the principles approach.
117. Energy Probe supported KW Hydro's proposal to dispose of its deferral and variance accounts over the 24 month period, rather than the 48 month disposal period originally proposed.

118. KW Hydro makes the following submissions:

- a. KW Hydro submits that disposal of its deferral and variance accounts over 24 months will reduce customer bill impacts not only for the current 2010 rebasing exercise but also for the next rebasing to be completed in 2014. As this methodology was supported by all parties in this proceeding (or participants were silent on the issue), KW Hydro formally submits its request for disposal of these accounts through a 24 month rate rider.

- b. In the event that the Board orders a separate rate rider for the Global Adjustment account balance, KW Hydro also requests a 24 month disposition period for it as well.
- c. Board staff requested additional information on the effects on the rate rider caused by shortening the disposition period. KW Hydro submits the revised rate riders below (based on a 24 month disposition period) in Table 14. Note that these negative rate riders are very close to being twice as much as when they were originally calculated.

Table 14:

Table 14 - Rate Riders Calculation

	Account			Unmetered							
Deferral and Variance Accounts:	Number	Amount	ALLOCATOR	Residential	GS < 50	GS > 50	Large Users	Scattered Load	Street Lighting	Total	
RSVA - Wholesale Market Service Charge	1580	\$ (5,164,694)	kWh	\$ (1,803,798)	\$ (653,385)	\$ (2,453,164)	\$ (198,913)	\$ (9,122)	\$ (46,312)	\$ (5,164,694)	
RSVA - Retail Transmission Network Charge	1584	\$ (2,874,602)	kWh	\$ (1,003,971)	\$ (363,666)	\$ (1,365,399)	\$ (110,712)	\$ (5,077)	\$ (25,777)	\$ (2,874,602)	
RSVA - Retail Transmission Connection Charge	1586	\$ (1,958,220)	kWh	\$ (683,919)	\$ (247,734)	\$ (930,130)	\$ (75,419)	\$ (3,459)	\$ (17,560)	\$ (1,958,220)	
RSVA - Power (excluding the GA)	1588	\$ 1,065,138	kWh	\$ 372,005	\$ 134,750	\$ 505,927	\$ 41,023	\$ 1,881	\$ 9,551	\$ 1,065,138	
RSVA - Power (GA)	1588	\$ 2,049,873	kWh for non-RPP customers	\$ 145,796	\$ 61,312	\$ 1,499,475	\$ 328,704	\$ -	\$ 14,584	\$ 2,049,873	
Recovery of Regulatory Asset Balances	1590	\$ (258,888)	Recovery Share	\$ (56,541)	\$ (29,151)	\$ (51,363)	\$ (103,529)	\$ (3,573)	\$ (14,731)	\$ (258,888)	
Subtotal - Group 1		\$ (7,141,394)		\$ (3,030,427)	\$ (1,097,873)	\$ (2,794,654)	\$ (118,846)	\$ (19,350)	\$ (80,244)	\$ (7,141,394)	
Other Regulatory Assets	1508	\$ 1,279,437	Dx Revenue	\$ 655,084	\$ 169,262	\$ 411,816	\$ 20,964	\$ 5,931	\$ 16,380	\$ 1,279,437	
Retail Cost Variance Account - Retail	1518	\$ (108,825)	# of Customers	\$ (98,130)	\$ (9,399)	\$ (1,260)	\$ (3)	\$ (26)	\$ (8)	\$ (108,825)	
CDM Expenditures & Recovery	1565	\$ 269	% of CDM Expenditures	\$ 45	\$ 40	\$ 157	\$ -	\$ 27	\$ -	\$ 269	
Retail Cost Variance Account - STR	1548	\$ 56,528	# of Customers	\$ 50,972	\$ 4,882	\$ 654	\$ 1	\$ 14	\$ 4	\$ 56,528	
Misc. Deferred Debits	1525	\$ 14,493	# of Customers with rebate cheques	\$ 13,209	\$ 1,192	\$ 92	\$ -	\$ -	\$ -	\$ 14,493	
RSVA - One-time Wholesale Market Service	1582	\$ 125,890	kWh	\$ 43,968	\$ 15,926	\$ 59,796	\$ 4,849	\$ 222	\$ 1,129	\$ 125,890	
Subtotal - Group 2		\$ 1,367,791		\$ 665,147	\$ 181,904	\$ 471,255	\$ 25,812	\$ 6,168	\$ 17,505	\$ 1,367,791	
Total to be Recovered		\$ (5,773,603)		\$ (2,365,280)	\$ (915,969)	\$ (2,323,399)	\$ (93,034)	\$ (13,181)	\$ (62,739)	\$ (5,773,603)	
Balance to be collected or refunded, Variable		\$ (5,773,603)		\$ (2,365,280)	\$ (915,969)	\$ (2,323,399)	\$ (93,034)	\$ (13,181)	\$ (62,739)	\$ (5,773,603)	
Number of years for Variable	2										
Balance to be collected or refunded per year, Variable		\$ (2,886,801)		\$ (1,182,640)	\$ (457,985)	\$ (1,161,699)	\$ (46,517)	\$ (6,591)	\$ (31,370)	\$ (2,886,801)	

Class
Deferral and Variance Account Rate Riders, Variable
Billing Determinants

GS > 50 Non				Unmetered	Street
Residential	GS < 50 KW	TOU	Large Users	Scattered Load	Lighting
\$ (0.0018)	\$ (0.0019)	\$ (0.5206)	\$ (0.3301)	\$ (0.0020)	\$ (0.6701)
kWh	kWh	kW	kW	kWh	kW

- d. For comparability, KW Hydro has also provided those same rate riders provided to Board staff through its interrogatory #31 using the 24 month disposition period. Table 15 shows the rate rider for all deferral and variance accounts requested for disposition net of the global adjustment. Table 16 shows a separate global adjustment rate rider calculated based on a 24 month disposition.

Table 15:

Table 15 - Rate Riders Calculation

	Account			Unmetered							
Deferral and Variance Accounts:	Number	Amount	ALLOCATOR	Residential	GS < 50	GS > 50	Large Users	Scattered Load	Street Lighting	Total	
RSVA - Wholesale Market Service Charge	1580	\$ (5,164,694)	kWh	\$ (1,803,798)	\$ (653,385)	\$ (2,453,164)	\$ (198,913)	\$ (9,122)	\$ (46,312)	\$ (5,164,694)	
RSVA - Retail Transmission Network Charge	1584	\$ (2,874,602)	kWh	\$ (1,003,971)	\$ (363,666)	\$ (1,365,399)	\$ (110,712)	\$ (5,077)	\$ (25,777)	\$ (2,874,602)	
RSVA - Retail Transmission Connection Charge	1586	\$ (1,958,220)	kWh	\$ (683,919)	\$ (247,734)	\$ (930,130)	\$ (75,419)	\$ (3,459)	\$ (17,560)	\$ (1,958,220)	
RSVA - Power (excluding the GA)	1588	\$ 1,065,138	kWh	\$ 372,005	\$ 134,750	\$ 505,927	\$ 41,023	\$ 1,881	\$ 9,551	\$ 1,065,138	
RSVA - Power (GA)	1588	\$ -	kWh for non-RPP customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Recovery of Regulatory Asset Balances	1590	\$ (258,888)	Recovery Share	\$ (56,541)	\$ (29,151)	\$ (51,363)	\$ (103,529)	\$ (3,573)	\$ (14,731)	\$ (258,888)	
Subtotal - Group 1		\$ (9,191,266)		\$ (3,176,224)	\$ (1,159,185)	\$ (4,294,129)	\$ (447,550)	\$ (19,350)	\$ (94,829)	\$ (9,191,266)	
Other Regulatory Assets	1508	\$ 1,279,437	Dx Revenue	\$ 655,084	\$ 169,262	\$ 411,816	\$ 20,964	\$ 5,931	\$ 16,380	\$ 1,279,437	
Retail Cost Variance Account - Retail	1518	\$ (108,825)	# of Customers	\$ (98,130)	\$ (9,399)	\$ (1,260)	\$ (3)	\$ (26)	\$ (8)	\$ (108,825)	
CDM Expenditures & Recovery	1565	\$ 269	% of CDM Expenditures	\$ 45	\$ 40	\$ 157	\$ -	\$ 27	\$ -	\$ 269	
Retail Cost Variance Account - STR	1548	\$ 56,528	# of Customers	\$ 50,972	\$ 4,882	\$ 654	\$ 1	\$ 14	\$ 4	\$ 56,528	
Misc. Deferred Debits	1525	\$ 14,493	# of Customers with rebate cheques	\$ 13,209	\$ 1,192	\$ 92	\$ -	\$ -	\$ -	\$ 14,493	
RSVA - One-time Wholesale Market Service	1582	\$ 125,890	kWh	\$ 43,968	\$ 15,926	\$ 59,796	\$ 4,849	\$ 222	\$ 1,129	\$ 125,890	
Subtotal - Group 2		\$ 1,367,791		\$ 665,147	\$ 181,904	\$ 471,255	\$ 25,812	\$ 6,168	\$ 17,505	\$ 1,367,791	
Total to be Recovered		\$ (7,823,475)		\$ (2,511,077)	\$ (977,281)	\$ (3,822,874)	\$ (421,739)	\$ (13,181)	\$ (77,324)	\$ (7,823,475)	
Balance to be collected or refunded, Variable		\$ (7,823,475)		\$ (2,511,077)	\$ (977,281)	\$ (3,822,874)	\$ (421,739)	\$ (13,181)	\$ (77,324)	\$ (7,823,475)	
Number of years for Variable	2										
Balance to be collected or refunded per year, Variable		\$ (3,911,738)		\$ (1,255,538)	\$ (488,641)	\$ (1,911,437)	\$ (210,869)	\$ (6,591)	\$ (38,662)	\$ (3,911,738)	

Class
Deferral and Variance Account Rate Riders, Variable
Billing Determinants

Residential	GS < 50 KW	GS > 50 Non TOU	Large Users	Unmetered		Street Lighting
				Scattered Load		
\$ (0.0019)	\$ (0.0021)	\$ (0.8566)	\$ (1.4963)	\$ (0.0020)		\$ (0.8258)
kWh	kWh	kW	kW	kWh		kW

Table 16

Table 16 - Global Adjustment Rate Rider Calculation										
Deferral and Variance Accounts:	Account Number	Amount	ALLOCATOR	Residential	GS < 50	GS > 50	Large Users	Unmetered Scattered Load	Street Lighting	Total
RSVA - Wholesale Market Service Charge	1580	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSVA - Retail Transmission Network Charge	1584	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSVA - Retail Transmission Connection Charge	1586	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSVA - Power (excluding the GA)	1588	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSVA - Power (GA)	1588	\$ 2,049,873	2008 kWh for non-RPP customers	\$ 145,797	\$ 61,312	\$ 1,499,475	\$ 328,704	\$ -	\$ 14,584	\$ 2,049,873
Recovery of Regulatory Asset Balances	1590	\$ -	Recovery Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal - Group 1		\$ 2,049,873		\$ 145,797	\$ 61,312	\$ 1,499,475	\$ 328,704	\$ -	\$ 14,584	\$ 2,049,873
Other Regulatory Assets	1508	\$ -	Dx Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Retail Cost Variance Account - Retail	1518	\$ -	# of Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDM Expenditures & Recovery	1565	\$ -	% of CDM Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Retail Cost Variance Account - STR	1548	\$ -	# of Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Misc. Deferred Debits	1525	\$ -	# of Customers with rebate cheques	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSVA - One-time Wholesale Market Service	1582	\$ -	kWh	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal - Group 2		\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total to be Recovered		\$ 2,049,873		\$ 145,797	\$ 61,312	\$ 1,499,475	\$ 328,704	\$ -	\$ 14,584	\$ 2,049,873
Balance to be collected or refunded, Variable		\$ 2,049,873		\$ 145,797	\$ 61,312	\$ 1,499,475	\$ 328,704	\$ -	\$ 14,584	\$ 2,049,873
Number of years for Variable	2									
Balance to be collected or refunded per year, Variable		\$ 1,024,937		\$ 72,898	\$ 30,656	\$ 749,738	\$ 164,352	\$ -	\$ 7,292	\$ 1,024,937
Class				Residential	GS < 50 KW	GS > 50 Non TOU	Large Users	Unmetered Scattered Load	Street Lighting	
Deferral and Variance Account Rate Riders, Variable				\$ 0.0001	\$ 0.0001	\$ 0.3360	\$ 1.1662	\$ -	\$ 0.1558	
Billing Determinants				kWh	kWh	kW	kW	kWh	kW	

119. KW Hydro restates (as noted in our response Board staff interrogatory #31) that it currently does not have the ability to implement a rate rider to specific customers. KW Hydro requested its IT department to conduct an analysis on the time and incremental costs required to implement a global adjustment rate rider under three different scenarios listed below:

1. A standard kWh/kW amount for all non-RPP customers
2. A standard kWh/kW amount that is rate class specific
3. A standard kWh/kW amount for only those customers that were not on RPP as of December 31, 2008.

120. Preliminary estimates show that under scenarios #1 and #2, the incremental cost would be approximately \$3,000. Scenario #3 is more complex and would require additional time costing a total of approximately \$8,500. This cost would increase even higher if custom reporting was required as well.

121. KW Hydro notes that costs related to a separate global adjustment rate rider were not anticipated and therefore not included in its rate application. KW Hydro therefore requests recovery of its costs in the event that the Board requires KW Hydro to implement a separate global adjustment rate rider.

Exhibit 10: LRAM and SSM

122. KW Hydro filed an Addendum to its application on November 18, 2009 for a revised LRAM & SSM application for an amount of \$846,530 (\$672,537 for LRAM and \$173,993 for SSM) to be recovered over four years in response to the Board's Decision re: Horizon Utilities (EB-2009-0192).

123. Board staff submitted that KW Hydro's application for LRAM and SSM recovery is consistent with the Board's Guidelines and the Board's Decision on Horizon's application (EB-2009-0192) for LRAM and SSM recovery.

124. VECC made a number of submissions on this issue:

- a. VECC accepts for LRAM purposes, the OPA verification of OPA-funded CDM programs and also KW Hydro's SSM claim, as revised.
- b. VECC expressed concerns; however, regarding the LRAM claim for third-tranche programs. It has been able to reasonably reconcile the results between the as filed and revised LRAM claims for the Residential, GS<50kW and USL rate classes; however, it has been unable to verify the LRAM result for the GS>50kW class.

- c. VECC has requested that KW Hydro confirm/verify the following and reflect any adjustment in the final rate order:
- i. Confirm the third tranche kWh/kW savings shown in VECC IRR 40 (a) for the GS<50 kW class (including clarifying the assignment of Cool Shops) and GS>50kW.
 - ii. Verify the LRAM amounts shown in the (Revised) EnerSpectrum Report – Addendum Exhibit 10- Page 24 Filed: November 18, 2009.
 - iii. Ensure the LRAM has been adjusted for carrying charges.
 - iv. Revise the Residential and GS<50kW rate riders to reflect adjusted LRAM amounts
 - v. Revise the GS>50kW rate rider to reflect the adjusted LRAM amount.
- d. Further VECC stated that it has been unable to verify the revised SSM claim and submitted that, at a minimum, the support for the significant changes to the third-tranche CDM SSM claim should be provided by KW Hydro and verified by Board staff prior to approval.
- e. Lastly, VECC contends that the OPA-sponsored 2006 Every Kilowatt Counts Mass Market CDM program results are inflated and that the Board should accept this situation but take that into account when considering other aspects of LDC LRAM claims.

125. Energy Probe supported the comments put forward by VECC on the LRAM and SSM issue.

126. KW Hydro makes the following submissions:

127. KW Hydro submits that its LRAM and SSM application is correct and is supported by evidence in this rate application. Further, KW Hydro also submits that its LRAM and SSM results have been verified by an independent third party, EnerSpectrum.

128. KW Hydro further submits that it acted prudently and proactively by filing an Addendum to its LRAM and SSM claims on November 18, 2009 in response to the Board's Decision with respect to Horizon Utilities' application for LRAM and SSM recovery dated June 23, 2009 (EB-2009-0192).

129. KW Hydro submitted VECC's Final Submission to Enerspectrum for follow up and to respond to any issues that were outlined in the report.

130. EnerSpectrum confirms the third tranche kWh/kW savings shown in VECC IRR 40(a) for the GS<50kW class (including the assignment of Cool Shops) and GS > 50kW.
131. EnerSpectrum also confirms the LRAM amounts in the (Revised) EnerSpectrum Report – Addendum Exhibit 10 – Page 24 Filed: November 18, 2009. Also see attached below Table 17 prepared by Enerspectrum, which verifies the LRAM amounts:

		2006				2007				2008				2009				
Class Program	Year Implemented	Load Unit	kWh or kW	Rate per Unit	Revenue	Load Unit	kWh or kW	Rate per Unit	Revenue	Load Unit	kWh or kW	Rate per Unit	Revenue	Load Unit	kWh or kW	Rate per Unit	Revenue	Total Revenue
Third Tranche																		
RESIDENTIAL																		
Fuel Switching (Residential)	2006					1,212,920	kWh	0.0124	\$14,999.78	1,212,920	kWh	0.0123	\$14,959.35	1,212,920	kWh	0.0123	\$14,918.92	\$44,878.04
Fall Discount Coupon Program	2005	290,800	kWh	0.0123	\$3,569.57	290,800	kWh	0.0124	\$3,596.22	290,800	kWh	0.0123	\$3,586.53	290,800	kWh	0.0123	\$3,576.84	\$14,329.15
Ceiling Fan		5,092	kWh	0.0123	\$62.50	5,092	kWh	0.0124	\$62.97	5,092	kWh	0.0123	\$62.80	5,092	kWh	0.0123	\$62.63	\$250.89
CFL 15W		121,072	kWh	0.0123	\$1,486.16	121,072	kWh	0.0124	\$1,497.26	121,072	kWh	0.0123	\$1,493.23	121,072	kWh	0.0123	\$1,489.19	\$5,965.84
Indoor Light Timers		4,531	kWh	0.0123	\$55.62	4,531	kWh	0.0124	\$56.04	4,531	kWh	0.0123	\$55.89	4,531	kWh	0.0123	\$55.73	\$223.28
SLED 5W		35,198	kWh	0.0123	\$432.05	35,198	kWh	0.0124	\$435.28	35,198	kWh	0.0123	\$434.10	35,198	kWh	0.0123	\$432.93	\$1,734.36
SLED Mini		4,456	kWh	0.0123	\$54.70	4,456	kWh	0.0124	\$55.11	4,456	kWh	0.0123	\$54.96	4,456	kWh	0.0123	\$54.81	\$219.59
Outdoor Timers		5,512	kWh	0.0123	\$67.65	5,512	kWh	0.0124	\$68.16	5,512	kWh	0.0123	\$67.98	5,512	kWh	0.0123	\$67.79	\$271.58
Programmable Thermostat - Space Cooling		25,199	kWh	0.0123	\$309.32	25,199	kWh	0.0124	\$311.63	25,199	kWh	0.0123	\$310.79	25,199	kWh	0.0123	\$309.95	\$1,241.68
Programmable Thermostat - Space Heating		89,740	kWh	0.0123	\$1,101.56	89,740	kWh	0.0124	\$1,109.79	89,740	kWh	0.0123	\$1,106.80	89,740	kWh	0.0123	\$1,103.80	\$4,421.95
Energy Conservation Kits	2005	636,534	kWh	0.0123	\$7,813.45	636,534	kWh	0.0124	\$7,871.80	636,534	kWh	0.0123	\$7,850.58	636,534	kWh	0.0123	\$7,829.37	\$31,365.21
CFL 15W		42,768	kWh	0.0123	\$524.98	42,768	kWh	0.0124	\$528.90	42,768	kWh	0.0123	\$527.47	42,768	kWh	0.0123	\$526.05	\$2,107.39
Showerhead		540,000	kWh	0.0123	\$6,628.50	540,000	kWh	0.0124	\$6,678.00	540,000	kWh	0.0123	\$6,664.00	540,000	kWh	0.0123	\$6,642.00	\$26,608.50
Weatherstripping		53,766	kWh	0.0123	\$659.98	53,766	kWh	0.0124	\$664.91	53,766	kWh	0.0123	\$663.11	53,766	kWh	0.0123	\$661.32	\$2,649.32
																		\$90,572.40
GENERAL SERVICE (< 50 kW Demand)																		
Low Income Program - Social Housing Lighting	2006					92,439	kWh	0.0091	\$841.19	92,439	kWh	0.0090	\$835.03	92,439	kWh	0.0090	\$831.95	\$2,508.18
Refrigerator Replacement	2007									18,576	kWh	0.0090	\$167.80	18,576	kWh	0.0090	\$167.18	\$334.99
SHSC Energy Management	2005	33,176	kWh	0.0091	\$300.25	33,176	kWh	0.0091	\$301.91	33,176	kWh	0.0090	\$299.69	33,176	kWh	0.0090	\$298.59	\$1,200.43
Motion Detector		17,101	kWh	0.0091	\$154.76	17,101	kWh	0.0091	\$155.62	17,101	kWh	0.0090	\$154.48	17,101	kWh	0.0090	\$153.91	\$618.76
Smart Thermostat		13,029	kWh	0.0091	\$117.91	13,029	kWh	0.0091	\$118.56	13,029	kWh	0.0090	\$117.70	13,029	kWh	0.0090	\$117.26	\$471.43
T																		

132. Based on VECC interrogatory #40(d), KW Hydro added \$64,407 in carrying charges onto the LRAM claim for a total LRAM of \$736,944. Carrying charges were applied by rate class proportionate to the LRAM claim. When added to the SSM amount of \$173,993, the total claim is \$910,937.13.

133. The revised LRAM rate riders, inclusive of carrying charges are presented below in Table 18.

Table 18								
2010 Test Year - LRAM and SSM Rider								
Rate Class	Amounts (2005 ~ 2007)		Billing Units (2008)		Rate Riders			Four Year Rate Rider
	LRAM	SSM			LRAM	SSM	Total	Total
	\$	\$	kWh	kW	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)	\$/unit (kWh or kW)
Residential	592,748.69	49,182.13	638,167,356		0.0009	0.0001	0.0010	0.0003
GS < 50	37,972.98	18,783.20	233,464,130		0.0002	0.0001	0.0002	0.0001
GS > 50	74,687.99	78,146.56		2,227,288	0.0335	0.0351	0.0686	0.0172
USL	31,533.79	27,881.40	3,287,782		0.0096	0.0085	0.0181	0.0045
Total	736,943.45	173,993.29						

134. Enerspectrum has also prepared Table 19 (below) to assist all parties in verifying the third tranche CDM SSM claim. KW Hydro submits that all information required has been submitted and is correct.

ATTACHMENT C
SSM Amounts by Class and Program

Class	Input Assumptions	Total Costs \$	Total Benefits \$	Net Benefits \$ NPV	Benefits/Cost Ratio	SSM Amount \$
Program						
Third Tranche						
RESIDENTIAL						
Fuel Switching (Residential) Based on 1,212,920kWh and 82.47kW	Direct Input	\$164,220.00	\$707,371.35	\$543,151.35	4.31	\$27,157.57
Fall Discount Coupon Program	OEB Tables	\$62,591.63	\$231,418.29	\$168,826.66	3.70	\$8,441.33
Ceiling Fan		\$2,664.90	\$2,557.58	-\$107.32	0.96	-\$5.37
CFL 15W		\$5,605.20	\$70,998.29	\$65,393.09	12.67	\$3,269.65
Indoor Light Timers		\$414.00	\$2,273.63	\$1,859.63	5.49	\$92.98
SLED 5W		\$1,235.00	\$12,938.82	\$11,703.82	10.48	\$585.19
SLED Mini		\$1,235.00	\$4,951.90	\$3,716.90	4.01	\$185.84
Outdoor Timers		\$2,682.00	\$33,422.97	\$30,740.97	12.46	\$1,537.05
Programmable Thermostat - Space Cooling		\$9,504.00	\$34,649.64	\$25,145.64	3.65	\$1,257.28
Programmable Thermostat - Space Heating		\$3,672.00	\$69,625.48	\$65,953.48	18.96	\$3,297.67
Program Costs		\$35,579.53	\$0.00	-\$35,579.53		-\$1,778.98
Residential Education	Cost only	\$74,569.00	\$0.00	-\$74,569.00	0.00	-\$3,728.45
Energy Conservation Kits	OEB Tables	\$16,297.03	\$404,132.77	\$387,835.74	24.80	\$19,391.79
CFL 15W		\$1,980.00	\$25,079.68	\$23,099.68	12.67	\$1,154.98
Showerhead		\$6,930.00	\$328,817.55	\$321,887.55	47.45	\$16,094.38
Weatherstripping		\$2,970.00	\$50,235.54	\$47,265.54	16.91	\$2,363.28
Program Costs		\$4,417.03	\$0.00	-\$4,417.03	0.00	-\$220.85
EnerGuide for Houses (REEP)	Cost only	\$21,733.00	\$0.00	-\$21,733.00	0.00	-\$1,086.65
Low Income Residential Education (WWOW)	Cost only	\$3,000.00	\$0.00	-\$3,000.00	0.00	-\$150.00
School Energy Conservation Kits	Cost only	\$17,575.00	\$0.00	-\$17,575.00	0.00	-\$878.75
GENERAL SERVICE (< 50 kW Demand)						
Low Income Program - Social Housing Lighting Based on 92,432kWh and 25kW	Direct Input	\$10,260.00	\$21,811.87	\$11,551.87	2.13	\$577.59
Refrigerator Replacement Based on 19,980kWh and 5kW	Direct Input	\$18,900.00	\$19,816.61	\$916.61	1.05	\$45.83
SHSC Energy Management	OEB Tables	\$13,260.82	\$104,204.05	\$90,943.23	7.86	\$4,547.16
T8		\$1,638.00	\$2,171.94	\$533.94	1.33	\$26.70
Motion Detector		\$2,047.50	\$8,856.84	\$6,809.34	4.33	\$340.47
Smart Thermostat		\$4,914.00	\$93,175.27	\$88,261.27	18.96	\$4,413.06
Program Costs		\$4,661.32	\$0.00	-\$4,661.32	0.00	-\$233.07
Cool Shops	OEB	\$119,592.90	\$399,847.53	\$280,254.63	3.34	\$14,012.73
11W CFL	Commercial	\$461.70	\$1,960.32	\$1,498.62	4.25	\$74.93
15W CFL	Tables	\$10,717.20	\$79,486.98	\$68,769.78	7.42	\$3,438.49
LED Exit Signs		\$108,414.00	\$318,400.23	\$209,986.23	2.94	\$10,499.31
Commercial Customer Education	Cost Only	\$8,002.42	\$0.00	-\$8,002.42	0.00	-\$400.12
GENERAL SERVICE (> 50 kW Demand)						
Key Account Seminars & Education	Cost Only	\$6,661.00	\$0.00	-\$6,661.00	0.00	-\$333.05
Energy Management Workshops	Cost Only	\$10,643.00	\$0.00	-\$10,643.00	0.00	-\$532.15
Lighting Retrofit Program (commercial/industrial) Based on 3,877,147kWh and 728kW	Direct Input	\$922,151.96	\$1,488,761.48	\$566,609.52	1.61	\$28,330.48
In-House Retrofit Program: LED Sign	Cost Only	\$18,443.00	\$0.00	-\$18,443.00	0.00	-\$922.15
In House Retrofit Program: Windows Replacement Based on 175,000kWh	Direct Input	\$29,207.50	\$104,175.37	\$74,967.87	3.57	\$3,748.39
In-House Retrofit Program: Fuel Switching (Boiler Replacement) Based on 500,000kWh and 300kW	Direct Input	\$137,640.00	\$449,240.80	\$311,600.80	3.26	\$15,580.04
Main Office Lighting Based on 157,351kWh and 33kW	Direct Input	\$59,720.00	\$64,414.49	\$4,694.49	1.08	\$234.72
Garage Heating Based on 880,000kWh and 439kW	Direct Input	\$130,866.79	\$726,696.60	\$595,829.81	5.55	\$29,791.49
Municipal Building Lighting Program Based on 284,202kWh and 39kW	Direct Input	\$52,848.00	\$97,823.74	\$44,975.74	1.85	\$2,248.79
UNMETERED SCATTERED LOAD						
LED Traffic Lights Based on 1,587,209 kWh	Direct Input	\$561,600.00	\$1,119,228.03	\$557,628.03	1.99	\$27,881.40
TOTALS		\$2,459,783.05	\$5,938,943.00	\$3,479,159.95		\$173,958.00

Harmonization of Sales Taxes

135. There were numerous submissions regarding the harmonization of the provincial sales tax (“PST”) with the federal goods and services tax (“GST”), known as the HST.
136. KW Hydro did not make any adjustments to its forecasts (capital or operating) to incorporate reductions stemming from the implementation of the HST.
137. Intervenors, in general, have submitted to the Board that reductions should be made to both KW Hydro’s operating and capital forecasts to incorporate the implementation of the HST on July 1, 2010. In addition to these reductions, there was general consensus amongst Board staff and Intervenors of a need for the Board to establish a variance account to track the incremental tax savings resulting from the implementation of the HST to be trued up at a future date.
138. KW Hydro does recognize that the implementation of the HST will affect both its actual capital and operating costs by reducing them through the use of an ITC credit.
139. KW Hydro believes that the HST implementation issue is an industry-wide issue that should be applied consistently to all LDC’s across the industry. A Board Decision is required to resolve this matter, which could come as a result of a public consultation process whereby all of the viable alternatives are discussed and the best one chosen.
140. In the event that the Board directs all LDCs to capture the reduction in capital and OM&A expenditures re: PST and GST harmonization, KW Hydro supports the implementation of a Board approved Deferral account to record incremental savings and costs stemming from the HST implementation in 2010.
141. KW Hydro does not support the reductions to its capital and operating forecasts included in its 2010 rate application as suggested by Intervenors.
142. KW Hydro also submits the following concerns:
- a. In its interrogatory #1, Energy Probe questioned KW Hydro about the dollar amount of PST that it paid in the past few years. KW Hydro responded to the interrogatory noting “KW Hydro does not have data on provincial sales tax at such a granular level. PST costs are embedded in those costs for which it is applied and, in order to get more detailed information, it would require

- significant time and effort”. Further, in its response, KW Hydro added “Based on preliminary analysis, KW Hydro estimates that between 80 – 90% of the total PST paid is applied to capital with the remainder going to OM&A”.
- b. KW Hydro would like the Board to note, as outlined to Energy Probe above, that the percentages given in response to this interrogatory by KW Hydro were preliminary estimates. A full analysis has not been conducted and the numbers and percentages supplied should not be used as reliable audited data.
 - c. Intervenors in this rate case have used the numbers and percentages supplied by KW Hydro and used them to calculate proposed reductions to both capital and operating costs. KW Hydro submits that the use of these numbers to generate these reductions is arbitrary and has no basis in fact.
 - d. KW Hydro submits that; since the HST has not yet been implemented, it is difficult, if not impossible to calculate the estimated cost reductions.
 - e. KW Hydro also notes that there have been no reductions in rate cases prior to 2010 due to HST implementation and the Board should be consistent in its treatment of distributors on this issue. There should be no differing treatment on this issue amongst distributors and the Board should supply standard calculations and reporting to all affected parties. The Board’s solution in tracking any savings should be simple and not onerous. The method should be Board prescribed to ensure consistent results.
 - f. The use of a Board approved deferral account to track the net savings resulting from the implementation of HST is reasonable. KW Hydro submits that such a deferral account should be implemented on an industry wide basis and should not be restricted to individual rate cases before the Board.
 - g. KW Hydro submits that the reductions proposed by the Intervenors in this case, coupled with a deferral account, would force two reconciliations and make the calculation of the deferral account more difficult and complex. Since the amount suggested by Intervenors is arbitrary, it would also require to be “trued up” after the deferral account balance has been calculated.

- h. KW Hydro submits that, while distributors should generate savings from the implementation of the HST, that there will be additional one-time costs for most LDCs. The Board also needs to contemplate how these costs are to be reconciled as well.
- i. KW Hydro reminds the Board that there are complex transitions rules with regards to the implementation of HST. For example, HST transitional rules prohibit ITC credit claims for five (5) years on certain purchases such as road vehicles weighing less than 3,000 kilograms and fuel to power these vehicles (among other products and services) for most LDCs, including KW Hydro (business with taxable sales in excess of \$10 million).
- j. It is therefore not accurate nor practical to estimate savings based on total historical purchases. Rather than remove an arbitrary, inaccurate amount from OM&A and capital expenditures, KW Hydro would track the actual savings in an OEB approved deferral account.
- k. The Board should therefore reject the reductions proposed by the Intervenors to KW Hydro's capital and operating forecasts and implement a Board approved deferral account to record net savings generated from the implementation of the HST.