



WELLAND HYDRO-ELECTRIC SYSTEM CORP.

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February 12, 2010

Delivered by Courier and E-file

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

Dear Ms. Walli:

Re: Welland Hydro-Electric System Corp.
2010 Distribution Rates Application
Board File No. EB-2009-0252

Please find enclosed paper copies (2) of responses to Submissions filed by Ontario Energy Board technical staff. An electronic copy has been filed using the OEB's E-filing services.

Yours very truly,

Wayne Armstrong
Director of Finance
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Introduction

1 Welland Hydro-Electric System Corp. ("Welland Hydro") filed its 2010 Rate Application on
2 October 20, 2009 seeking changes to distribution rates effective May 1, 2010. The application is
3 based on the 2010 3rd Generation Incentive Regulation Mechanism.

4 This document represents Welland Hydro's reply submission in response to the Board Staff
5 Submission dated February 3, 2010.

1) Potential Tax Sharing Rate Rider

6 The Supplemental Filing module calculated an \$18,110 refund to customers based on a 50/50
7 sharing of currently known legislated tax changes. Board staff suggests that applying Welland's
8 volumetric billing determinants results in a kWh rate rider less than four decimal places and a
9 demand-based kW rate rider less than two decimal places. Welland Hydro submits that this is
10 true of the kWh rate rider but incorrect for the kW rate rider. A copy of F1.3 Calculate Tax
11 Change Rate rider Option B Volumetric (Appendix A) clearly shows Sentinel and Street
12 Lighting being impacted to two decimal points. General Service > 50kW and Large Use are
13 impacted to three decimal points. However, as the Schedule of Rates and Tariffs implements
14 rates to four decimal places General Service > 50kW, Large Use, Sentinel Lighting, and Street
15 Lighting bills are impacted correctly by the currently generated rate rider.

16 Board Staff submits that as a result of the rate riders exceeding four decimal places for the kWh
17 customer classifications the refund amount of \$18,110 will not be refunded and that the Board
18 may wish to consider directing Welland to record the Tax Sharing refund in variance account
19 1595 for disposition in a future rate setting.

20 Welland Hydro proposes another alternative which will avoid the use of the variance account and
21 refund amounts to customers in the current year. The Distribution Tax rate rider is a separate
22 line item in the Schedule of Rates and Tariffs. As a result, Welland Hydro would agree to round
23 to four decimal points and enter the following amounts in Sheet J2.1 Tax Change Rate Rider:

1	<u>Rate Class</u>	<u>kWh Rate Rider</u>	<u>kW Rate Rider</u>
2	Residential	\$-.0001	
3	General Service < 50 kW	\$-.0000	
4	General Service > 50 kW		\$-.0061
5	Large Use		\$-.0037
6	Unmetered Scattered	\$-.0001	
7	Sentinel Lighting		\$-.0303
8	Street Lighting		\$-.0531

9 Although this would actually result in a slightly higher return to customers, Welland Hydro
10 would accept this methodology. Although the General Service < 50 kW class still does not
11 receive any benefit, Welland Hydro submits that rounding is a normal part of the rate application
12 process and tends to even out over time.

2) Disposition of Deferral and Variance Accounts

a) Global Adjustment Variance Account

13 Board Staff has suggested that the Board may wish to consider establishing a separate rate rider
14 for the disposition of the global adjustment sub-account balance which would apply
15 prospectively to non-RPP customers and exclude the MUSH sector and other designated
16 customers that were on RPP.

17 Welland Hydro views all matters in relation to the Global Adjustment/Provincial Benefit as
18 complex and difficult for all customer classifications to understand and proposes that in the
19 future a change in its treatment is required. Residential customers who have signed with a
20 retailer have commented many times about the "unfairness" of this charge in relation to rates
21 charged to RPP customers. Welland Hydro's only available response to these customers is that

1 the RPP rates include amounts for Global Adjustment and that they are adjusted retrospectively
2 to adjust for estimates versus actual. Industrial customers have pointed out that having a low
3 energy charge and a high provincial benefit charge provides no or little incentive to switch usage
4 to off peak periods which was an initial goal of spot market pricing. Welland Hydro is unsure of
5 the future relevance of spot market pricing given the fact that the continued issuing of guaranteed
6 contract pricing for green energy generation should only drive the Provincial Benefit Charge
7 higher.

8 As a result, Welland Hydro submits that the appropriate method for disposition of the Global
9 Adjustment Sub-Account is the same manner as the 1588 Power Variance (and all other Group 1
10 variances) which is across all customers within each rate class and eliminates the need for an
11 additional rate rider. This would add a column to E1.1 Cost Allocation kWh and remove from
12 E1.2 Cost Allocation Non-RPP kWh. This appears to be in line with the alternative suggested by
13 Board Staff which states "However, the Board may wish to consider, as an alternative, to recover
14 the allocated global adjustment sub-account balance from all customers in each class. This
15 approach would recognize the customer migration that might occur both away from the non-RPP
16 customer group and into the non-RPP group." The total kWh on which the Global Adjustment
17 Sub-Accounts is distributed increases from 227,260,598 kWh to 439,828,360 kWh. This method
18 also eliminates any requirement to make adjustments for the MUSH sector.

19 Should the Board not adopt this method, Welland Hydro submits that the Global Adjustment
20 Sub-Account should be disposed of as filed in its application of October 21, 2009. This method
21 allocates the Global Adjustment Sub-Account to customer classifications based on non-RPP
22 kWh but it is still applied across all customers within each classification. In response to Board
23 Staff interrogatory #2a, Welland Hydro prepared a table which shows that there doesn't appear
24 to be any material unfairness to RPP customers within the affected rate classes.

25 As a result, Welland Hydro once again respectively recommends against the use of a specific rate
26 rider to dispose of the Global Adjustment Sub-Account variance to only non-RPP customers.

b) Duration of Rate Rider

1 Board Staff submits that both the Global Adjustment and all other Group 1 variances be disposed
2 over a one year period. Board Staff submits that a one year period is required for the global
3 adjustment variance in order to reduce inter-generational inequities. Board Staff submits the
4 balance of Group 1 variances fall under the one-year default disposition period contemplated in
5 the EDDVAR Report because Welland Hydro did not identify cash flow as a concern.

6 Welland Hydro proposed a two year disposition for three specific reasons as follows:

i) Cash Flow

7 By selecting a two year period Welland Hydro was acknowledging that cash flow is a concern.

ii) Smoothing of Rate Changes

8 Welland Hydro is currently returning to customers \$798,772 in variances over a 1.75 year period
9 from the 2009 Rate Application. These reductions will expire April 30, 2011. Welland Hydro
10 has requested in this rate application to return an additional \$577,051 to customers over a two
11 year period. If the variances were returned over a one year period these reductions would also
12 expire April 30, 2011. The expiration of both rate riders at the same time will lead to volatility
13 in rates in 2011 as a preliminary review of variance accounts at December 31, 2009 shows there
14 will be no additional refunds to customers during the 2011 IRM rate setting process.

iii) Smart Meter Funding Adder

15 Welland Hydro has taken a conservative approach to increasing the Smart Meter funding adder
16 (no increase from the current \$.27/mth in the 2009 Rate Application) which has impacted cash
17 flows.

18 As a result of the above issues, Welland Hydro proposes that a two year disposition of the
19 current variance amounts is more appropriate.

c) Disposition of Account 1590

1 In its application Welland Hydro acknowledged that it had recorded recoveries from the 2006
2 EDR on an actual basis from January 1, 2005 to April 30, 2006 which is contrary to the direction
3 communiqué "Disposition of Residual Balance in Account 1590 for 2006 Approved Regulatory
4 Assets" issued by the Board on September 4, 2009. Welland Hydro has acknowledged that it has
5 completed the Deferral and Variance Schedules to account for the January 1, 2005 to April 30,
6 2006 recoveries at the amounts estimated in the 2006 EDR as required. The result is an increase
7 in the amount requested to be recovered from customers from the \$6,357 balance currently in the
8 1590 general ledger to \$28,137. Welland Hydro stated that it would wait for approval from the
9 Board before adjusting the amount in the 1590 variance account because it is higher than the
10 current amount in the general ledger. Welland Hydro submits that it has filed the Deferral and
11 Variance Schedule correctly in relation to account 1590 and the balance for disposition should be
12 a recovery of \$28,137.

3) Smart Meter Funding Adder

13 Board Staff submits that Welland has complied with the policies and filing requirements of the
14 Smart Meter Guidelines. As a result, Welland Hydro submits that the proposed increase in the
15 smart meter funding adder from the current \$.27/mth to \$1.81/mth per metered customer should
16 be approved by the Board.

4) Revenue to Cost Ratios Adjustments

17 Board Staff takes no issue with Welland's revenue to cost ratio adjustments. As a result,
18 Welland Hydro submits that the proposed adjustments be approved as submitted.

5) Retail Transmission Service Rate (RTSR)

19 Board Staff has correctly pointed out that Welland Hydro's proposed Retail Transmission Rates
20 contained in the application are based on the July 1, 2009 UTR rates as these were the rates
21 available at the time the application was submitted. Since the application was submitted, a
22 further decision on Hydro One EB-2008-0272 was issued and revised rates became effective

1 January 1, 2010. As a result, Welland Hydro agrees with Board staff that Welland should revise
2 Retail Transmission Rates (Line & Connection) to reflect the rates contained in the Uniform
3 Transmission Rates (Appendix B). The revised RTR rates are included in Appendix C.

6) Harmonized Sales Tax

4 Welland Hydro respectfully disagrees with Board Staff in the interpretation of its response to
5 Interrogatory #8. Welland Hydro wishes to clarify its response as follows:

a) HST Related to Capital Expenditures

6 Welland Hydro submits that HST related to capital expenditures must be excluded from any
7 possible variance account. Welland Hydro submitted a Cost of Service Application with 2008 as
8 the Bridge Year and 2009 as the Test Year. Capital Expenditures during this time are subject to
9 the current PST and appropriately contained in Rate Base. Welland Hydro did not provide a
10 forecast for capital expenditures beyond April 30, 2010. The proposed HST is scheduled to be
11 implemented July 1, 2010. Capital expenditures beyond April 30, 2010 are not included in rate
12 base and are therefore not included in current distribution rates. As a result, they should be
13 excluded from any possible variance account.

b) HST Related to OM & A Accounts

14 In its response to Board Staff interrogatory #8 Welland Hydro submitted that PST is a cost issue
15 resulting in changes to OM & A expenses and is not an income tax related issue. Welland
16 submitted that during the IRM rate setting process, the Board typically does not make
17 adjustments to rates as a result of changes in distributors OM & A expenses including
18 depreciation expense which can increase significantly as a result of capital spending not included
19 in current distribution rates. That said, Welland Hydro submitted that should the Board approve
20 a variance account in relation to the HST it should only be at a 50% level similar to those of
21 changes in income taxes. There is significantly more administrative work in relation to HST
22 which will occur on every single invoice compared to an income tax filing prepared by a tax
23 expert once per year. The Provincial and Federal governments' pronouncements regarding the
24 stimulative and competitive results of harmonization have more to do with pricing in the supply

1 chain (which is impossible to track, but could eventually be reflected in the price of materials)
2 than the administrative burden of tracking savings in a regulated environment.

3 Welland Hydro presented examples of possible entries which could be required for every invoice
4 entered into the accounts payable module of current software. These entries deal with items such
5 as HST exemptions where sales exceed \$10,000,000. As a result of these exemptions, expenses
6 such as hydro which are not currently subject to PST would actually increase costs compared to
7 amounts currently included in distribution rates.

8 In summary, the accounts payable clerk would be responsible to make the following decisions:

- 9 i) If it is a capital expenditure invoice, no entry to the variance account is required.
- 10 ii) If an exempt expenditure not currently subject to PST debit the variance account.
- 11 iii) If an item charged to stores inventory account, estimate the portion related to OM &
12 A expenses and credit the variance account with a percentage of the HST (exclude
13 amounts related to capital).
- 14 iv) If an OM & A expenditure but not exempt, credit the variance account.

15 Welland Hydro submits that this process will be subject to numerous human errors and could
16 present the situation in which savings on capital expenditures are erroneously passed on to
17 customers. In addition, Welland Hydro submits that all of the costs associated with the proposed
18 HST have not been identified. There is no doubt there will be a negative one time impact on
19 Working Capital which could impact the levels of interest income included in approved rates.

20 In conclusion, there are a significant portion of invoices received which are charged to stores
21 inventory. Any variance account set up would be based on an estimate of expense versus capital
22 and subject to timing differences. The Board would then be approving for disposition a variance
23 account which is for the most part "estimated". Welland Hydro would also submit that when
24 capital items are excluded, the amount of HST savings on OM & A expenses (net of
25 administration costs) would not be as significant as many other items not subject to review
26 during an IRM application.



Name of LDC: Welland Hydro-Electric System Corp.
 File Number: EB-2009-0252
 Effective Date: May 1, 2010

Calculate Tax Change Rate Rider Option B Volumetric

Rate Class	Total Revenue \$ by Rate Class A	Total Revenue % by Rate Class B = A / \$H	Total Z-Factor Tax Change \$ by Rate Class C = \$I * B	Billed kWh D	Billed kW E	Distribution Volumetric Rate kWh Rate Rider F = C / D	Distribution Volumetric Rate kW Rate Rider G = C / E
Residential	\$5,763,484	65.67%	-\$11,893	166,999,701	0	-\$0.000071	
General Service Less Than 50 kW	\$981,001	11.18%	-\$2,024	55,348,528	0	-\$0.000037	
General Service 50 to 4,999 kW	\$1,308,634	14.91%	-\$2,700	160,762,066	440,796		-\$0.006126
Large Use	\$300,780	3.43%	-\$621	49,804,199	169,563		-\$0.003661
Unmetered Scattered Load	\$43,266	0.49%	-\$89	1,072,774	0	-\$0.000083	
Sentinel Lighting	\$38,113	0.43%	-\$79	1,098,311	2,592		-\$0.030343
Street Lighting	\$341,042	3.89%	-\$704	4,722,781	13,262		-\$0.053066
	\$8,776,320	100.00%	\$8,710				

Enter the above value onto Sheet
 12.1 Tax Change Rate Rider
 of the 2010 OEB IRM3 Rate

Appendix A

EB-2008-0272
Appendix C**ONTARIO UNIFORM RATE ORDER
REVENUE ALLOCATORS
Effective January 01, 2010**

Transmitter	Network	Line Connection	Transformation Connection
Uniform Transmission Rates (\$/kW-Month)	2.97	0.73	1.71
	↓	↓	↓
Five Nations Energy Inc.	0.00411	0.00411	0.00411
Canadian Niagara Power Inc.	0.00366	0.00366	0.00366
Great Lakes Power Ltd.	0.02758	0.02758	0.02758
Hydro One Networks Inc.	0.96465	0.96465	0.96465
Total	1.00000	1.00000	1.00000



Name of LDC: Welland Hydro-Electric System Corp.
 File Number: EB-2009-0252
 Effective Date: May 1, 2010

Applied For TX Network General

Method of Application	Uniform Percentage				
Uniform Percentage	15.600%				
Rate Class	Applied to Class				
Residential	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kWh	0.006200	15.600%	0.000967	0.007167
Rate Class	Applied to Class				
General Service Less Than 50 kW	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kWh	0.005500	15.600%	0.000859	0.006359
Rate Class	Applied to Class				
General Service 50 to 4,999 kW	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kW	1.692600	15.600%	0.295246	2.187846
Retail Transmission Rate -- Network Service Rate -- Interval metered	\$/kW	1.677300	15.600%	0.282859	2.170159
Rate Class	Applied to Class				
Large Use	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kW	1.375600	15.600%	0.214594	1.590194
Rate Class	Applied to Class				
Unmetered Scattered Load	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kWh	0.005500	15.600%	0.000858	0.006358
Rate Class	Applied to Class				
Sentinel Lighting	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kW	1.762700	15.600%	0.274981	2.037681
Rate Class	Applied to Class				
Street Lighting	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate -- Network Service Rate	\$/kW	1.758800	15.600%	0.274373	2.033173



Name of LDC: Welland Hydro-Electric System Corp.
 File Number: EB-2009-0252
 Effective Date: May 1, 2010

Applied For TX Connection General

Method of Application	Uniform Percentage				
Uniform Percentage	5.200%				
Rate Class	Applied to Class				
Residential	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.005000	5.200%	0.000260	0.005260
Rate Class	Applied to Class				
General Service Less Than 50 kW	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.004500	5.200%	0.000234	0.004734
Rate Class	Applied to Class				
General Service 50 to 4,999 kW	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.528000	5.200%	0.079456	1.607456
Retail Transmission Rate - Line and Transformation Connection Service Rate - Interval metered	\$/kW	1.830300	5.200%	0.095176	1.925476
Rate Class	Applied to Class				
Large Use	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	2.032500	5.200%	0.105690	2.138190
Rate Class	Applied to Class				
Unmetered Scattered Load	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kWh	0.004500	5.200%	0.000234	0.004734
Rate Class	Applied to Class				
Sentinel Lighting	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.423200	5.200%	0.074006	1.497206
Rate Class	Applied to Class				
Street Lighting	Yes				
Rate Description	Vol Metric	Current Amount	% Adjustment	\$ Adjustment	Final Amount
Retail Transmission Rate - Line and Transformation Connection Service Rate	\$/kW	1.420100	5.200%	0.073845	1.493945