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February 18, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms Walli:

Re: Waterloo North Hydro Inc. Reply Submission to Board Staff Submission on 2010 Electricity Distribution Rates Application Board File No. EB-2009-0210

Please find attached Waterloo North Hydro Inc.'s (WNH) Reply Submission to Board Staff's February 1, 2010 Submission to Waterloo North Hydro Inc. (WNH) on its 2010 Electricity Distribution Rates Application. We enclose two (2) hard copies of WNH's Reply Submission and a CD ROM containing an electronic format of the PDF documentation e-mailed to the Board.

WNH has previously forwarded two (2) electronic versions via e-mail to boardsec@oeb.gov.on.ca and an electronic filing of the application through the Board's web portal.

If there are any questions, please contact Chris Amos at 519-888-5541, camos@wnhydro.com or me at 519-888-5542, asingh@wnhydro.com .

Yours truly,

Original signed by

Albert P. Singh, MBA, CGA
Vice-President, Finance and CFO

WATERLOO NORTH HYDRO INC.
RESPONSE TO BOARD STAFF SUBMISSION
EB-2009-0210

WNH welcomes the opportunity to provide its Reply to the Submission of Board Staff as follows:

A. DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

1. Time Period over which Rate Riders should apply

"Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer's best interest. Board staff recognizes that some volatility in electricity bills may result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties."

WNH submits that Board Staff's submission above will disadvantage WNH as well as create rate shock for its customers.

WNH notes that a one-year disposition period to clear its deferral accounts represents a cash flow outgoing amount of approximately 64% of its annual Distribution Revenue before PILs. WNH submits that the balances accumulated over a four year period and to require WNH to repay almost two-thirds of its Distribution Revenue in one year appears not to be fair, nor reasonable.

1. Time Period over which Rate Riders should apply - continued

WNH also notes that a one year disposition period may also disadvantage WNH's cash flow and revenue requirement in the future. A one-year Rate Rider applied to commence May 1, 2010 would, thus, end on April 30, 2011. Customers would experience positive rate shock in the year of disposition and they would experience negative rate shock for rates commencing May 1, 2011. WNH will be submitting its Cost of Service Filing this summer for rates effective May 1, 2011. WNH submits that as a consequence of a one-year disposition of deferral and variance accounts, the negative rate shock in May 1, 2011 may cause the Board to require WNH to mitigate its May 1, 2011 Distribution Rates. WNH deems that any mitigation of its distribution rates due to the removal of the one-year rate rider effective May 1, 2011 is penalizing WNH's revenue requirement and cash flow needs required to run its distribution operations.

WNH has applied, and continues to apply, Carrying Charges to its Deferral and Variance Accounts at the Board Prescribed Interest Rates, thus, ensuring that customers are compensated on the Deferral and Variance Account Balances.

As noted in WNH's Manager's Summary 20091020 filed with its original application and the two tables (updated based upon WNH's interrogatory response submission) below, Table 1 demonstrates the rate shock, if a one year disposition period was required. Customers would enjoy, and may likely forget, this decrease in year one and only respond when such a large increase is applied the following year. WNH submits that a one year disposition period is not in the best interests of its customers' rate stability. As demonstrated in Table 1, the decreases are still quite substantial to the customer with a four year disposition period. As Tables 1 and 2 demonstrate, the decreases resulting from a one year disposition period not only create large rate shocks, in the case of four rate classes, the One Year Rate Rider equals or is in excess of the proposed Distribution Volumetric Charge.

1. Time Period over which Rate Riders should apply - continued

Table 1 – Range of Decrease in Distribution Charges, One Year vs. Four Year Disposition

Class	Range of Decrease in % of Distribution Charges with One Year Disposition	Range of Decrease in % of Distribution Charges with Four Year Disposition
Residential (250 - 2,250 kWh)	**(14.4%) – (52.2%)**	**(4.1%) – (13.6%)**
General Service <50 kW (1,000 - 20,000 kWh)	**(25.3%) – (86.2%)**	**(6.9%) – (22.3%)**
General Service >50 kW (20,000 kWh/50 kW–2,006,000 kWh/5,000 kW)	**(53.9%) – (108.8%)**	**(14.0%) – (27.7%)**
Large User (2,600,000 kWh/5,000 kW – 26,000,000 kWh/50,000 kW)	**(118.9%) – (168.6%)**	**(30.3%) – (42.7%)**
Unmetered Scattered Load (500 – 20,000 kWh)	**(26.5%) – (95.4%)**	**(7.2%) – (24.6%)**
Street Lighting (37 kWh/.10 kW – 183 kWh/.50 kW)	**(38.8%) – (51.9%)**	**(10.7%) – (13.5%)**

Table 2 – Comparison of One Year Deferral and Variance Rate Rider to Proposed Distribution Volumetric Rate

Class	Deferral and Variance Rate Rider One Year Disposition	Proposed Distribution Volumetric Charge
General Service <50 kW (kWh)	**($0.0105)**	**$0.0105**
General Service >50 kW (kW)	**($3.9666)**	**$3.5773**
Large User (kW)	**($4.8948)**	**$2.7227**
Unmetered Scattered Load (kWh)	**($0.0108)**	**$0.0104**

1. Time Period over which Rate Riders should apply - continued

In summary, WNH submits that a one-year disposition of its Deferral and Variance accounts represents an unjust and unreasonable repayment equivalent to 64% of its Distribution Revenue before PILs. In addition this disposition period may have a secondary consequence on WNH's May 1, 2011 Distribution Revenue if the rate shock due to the removal of the Rate Riders requires WNH to mitigate its distribution revenue. WNH's customers would experience large rate shocks in two successive years which could be minimized by adoption of a four year disposition period.

2. Global Adjustment

"Waterloo North have requested that the Board review and approve the disposition of the December 31, 2008 balances of other Group 1 Deferral and Variance accounts as defined by the EDDVAR Report. "

WNH notes that in a Board Decision, made subsequent to WNH's Interrogatory Responses, EB-2009-0405 on January 29, 2010, in the matter of an Application by Enersource Hydro Mississauga Inc. for an order or orders to dispose of certain deferral and variance account balances, the following decision was made:

*"**Board Findings***
With regard to Enersource's request for the disposition of its Group 1 account balances as of December 31, 2008 (other than account 1588), the Panel finds that the application is consistent with Board's guidelines outlined in the EDDVAR Report and approves the disposition of those balances …."

"The Panel also approves Enersource's proposal to dispose of the balance in account 1588 as of September 30, 2009. While recognizing the value of the EDDVAR Report in guiding our decisions with respect to the disposition of deferral and variance accounts, the Panel considers that the public interest requires us to deviate from it under these circumstances."

2. Global Adjustment - continued

WNH submits that as this decision was made subsequent to its Interrogatory Responses and that WNH also has a significant increase (receivable) in its Account 1588 at September 30, 2009 of $1,289,405 as reflected in Sheet C1.4a of its submitted 2010 IRM2 Deferral Variance Account Workformv4, WNH requests the following:

> **WNH requests the disposition of its Group 1 account balances as of December 31, 2008 (other than account 1588) and the disposition of its balance in account 1588 as of September 30, 2009.**

WNH submits that this is a reasonable request and avoids the refunding of the balance in account 1588 at December 31, 2008 and subsequently having to recover some of these funds from its customers in the future for its increase in account 1588 at September 30, 2009. WNH notes that this material change has occurred, is known and quantified at the time this application is before the Board.

WNH notes that this proposal will assist in its cash flow issues, however, by no means is WNH recommending that the change in the disposition date for account 1588 in anyway removes its requests for a four year disposition period as discussed in # 1 above. If the balance in account 1588 was disposed of at September 30, 2009, rather than December 31, 2008, and a one-year disposition period was required, the amount of disposition would still be what WNH considers to be an unreasonable amount of 58% of its Distribution Revenue before PILs. In addition it would not alleviate the potential future cash flow and revenue impacts of the removal of the rate rider at the time WNH is proposing for its Cost of Service Filing to be effective on May 1, 2011.

3. Deferral and Variance Account Balance Disposition Rate Riders Approved on a Final Basis.

WNH supports Board Staff's suggestion *"that the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis."*

B. ADJUSTMENT TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

"Board staff submits that the applicant's proposed rates be revised to reflect the January 1, 2010 values."

WNH supports Board Staff's submission to reflect the January 1, 2010 rates as set by the Rate Order of January 21, 2010 in the EB-2008-0272 proceeding.

C. ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

"Board staff notes that many distributors' comments on the administrative burden and costs of sales tax harmonization are at odds with the provincial and Federal governments' pronouncements regarding the stimulative and competitive results of harmonization. Because the costs and savings are not clear at this point, Board staff submits that tracking of these is warranted at this point to quantify, per government pronouncements, that the potential savings for corporations like Waterloo North could be significant. Accordingly, Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until Waterloo North's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until Waterloo North's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first."

WNH is quite concerned that the comments of many distributors regarding the administrative burden and costs of sales tax harmonization have not been taken into account. The high level of administrative burden and costs would result from the creation of the Deferral Account and the determination as to whether the cost of subject items are included in the category of distribution revenue requirement and its quantification, rather than the implementation of the HST itself.

HST - continued

WNH is also concerned that the introduction of an HST Deferral Account is being done in isolation within the revenue requirement context. An HST Deferral Account presupposes that suppliers that previously charged PST will pass on this savings to its customers and that prices will not rise. Given the economic conditions that have been experienced, and continued to be experienced, the automatic reduction of prices by PST amount cannot be assumed. If prices do indeed rise and an HST Deferral Account is required within the IRM regime, distributors may be disadvantaged as they will be required to pass on the HST, however, they will have not ability to recover the increased prices. WNH also notes that costs reflected in a distributor's rates (which in WNH's case are 2004 costs) may have experienced normal price increases. If price increases have occurred, the associated PST would also increase, thus, to refund the amount of PST currently paid may require a distributor to refund an amount that is higher than the PST that is included in its rates.

WNH also notes that numerous other government mandated rates and costs may change during an IRM regime, including, but not limited to, WSIB rates, Canada Pension Plan Rates, Employment Insurance Rates and Property Taxes. A distributor is not required to track these costs in a deferral account, or allowed to adjust its rates during an IRM regime for any such changes and to isolate only the PST change is neither justifiable, nor fair.

WNH submits that another area in which distributors will be impacted by the HST change during an IRM regime is in the area of working capital. Distributors will be required to pay the IESO the additional 8% increase due to the implementation of the HST before they can collect this increase from their customers. This increased need for working capital will not be reflected in the distributor's revenue requirement and again illustrates that the creation of the HST Deferral Account, for PST only, would be a single issue rate adjustment.

WNH suggests that a distributor may find that much of the PST it currently pays may be capital related, if this is indeed the case the revenue requirement amount associated with it will be a long-term recovery, and thus, the revenue requirement amount may not be that material.

WNH proposes that if the Board determines that an HST Deferral Account is required, a distributor may make an assessment of the ability, administrative burden and costs of tracking each invoice and its associated revenue requirement amount (if any), and propose a reasonable proxy to determine the deferral amount, if such an assessment determines that tracking each invoice is not feasible or cost efficient.

All of which is respectfully submitted