



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Waterloo North Hydro Inc.

EB-2007-0829

January 18, 2008

INTRODUCTION

Waterloo North Hydro Inc. (“WNH”) submitted an application on October 25, 2007, seeking approval for changes to the rates that WNH charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On October 30, 2007, WNH filed an addendum proposing adjustments to its retail transmission service rates.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

WNH proposes to reduce its RTR — Network Service Rate by 21% and its RTR — Line and Transformation Connection Service Rate by 6% for all its customer rate classes.

Discussion and Submission

In calculating its proposed RTR adjustment, WNH determined the percentage decrease in the wholesale transmission rates resulting from the Board Rate Order dated October 17, 2007 (EB-2007-0759). WNH notes that the RTR – Network Service Rates and its RTR – Line and Transformation Connection Service Rates decreased by 18% and 5% respectively for the period November 1, 2007 to December 31, 2008. To achieve the effect of a 14 month reduction over the 12 month period starting May 1, 2008, the RTR – Network Service Rates and the RTR – Line and Transformation Connection Service Rates would need to be decreased by 21% and 6% respectively. WNH further proposes that on May 1, 2009 these rates revert back to the rates that were effective May 1, 2007 (EB-2007-0585), subject to further Board rate orders.

Board staff submits that it is not clear whether the additional adjustments proposed by WNH are necessary given the temporary mismatch between wholesale transmission costs and their recovery through RTR will be captured in variance accounts 1584 and

1586. Staff notes that under WNH's proposal, RTR would need to be adjusted upwards at the end of the period (i.e. May 2009) even if wholesale transmission rates would remain unchanged. Parties are asked to comment on whether this approach is appropriate.

In addition, Board staff does not understand the underlying rationale for proposing that effective May 1, 2009 that the RTR rates should be reverted to the May 1, 2007 level pending further Board orders.

REGULATORY ASSET RECOVERY RATE RIDER

Background

WNH is proposing to extend its Regulatory Asset Recovery Rate Riders ("Rate Riders") at their current rates on an interim basis from May 1, 2008 to April 30, 2009. WNH suggests that continuation of the Rate Riders will decrease a current outstanding balance in account 1590. Since the existing rate riders are negative, this proposal would have the effect of reducing customers' bills for the 2008 rate year. WNH states that the continuation of the Rate Riders will allow rate stability and avoid future rate shock.

Discussion and Submission

WNH does not specify the factors contributing to the remaining credit balance in account 1590 or provide information as to how the continuation of the Rate Riders would affect the balance in this account, and how this residual balance in account 1590 compares to the balances accumulated in other deferral or variance accounts.

The usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances are also generally dealt with in aggregate rather than clearing a single account.

The Board should consider whether further disposition of account 1590 should be dealt with in isolation rather than in aggregate since other deferral or variance accounts may contain debit balances. Also, given that one of the intents of the Incentive Regulation

Mechanism was to provide a streamlined process for setting rates, the Board should consider whether it should wait for the review of the disposition of all deferral and variance accounts until such time as WNH's rates are rebased, which is scheduled to occur in 2010.

All of which is respectfully submitted.