



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

West Coast Huron Energy Inc.

EB-2007-0892

January 21, 2008

INTRODUCTION

West Coast Huron Energy Inc. (“West Coast”) submitted an application on October 30, 2007, seeking approval for changes to the rates that West Coast charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On December 6, 2007, West Coast filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff after its review of the evidence submitted by West Coast.

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.

West Coast’s proposal would result in an increase in the RTR- Network Service Rate of 2.61% and a reduction in the RTR - Line and Transformation Connection Service Rate of 9.51% for all customer rate classes as of May 1, 2008. West Coast also proposes that effective May 1, 2009, the RTR- Network Service Rates be decreased by 5.44% while the RTR- Line and Transformation Connection Service Rate would be reduced by 8.81%. Staff will comment below upon the methodology underlying these proposals.

Discussion and Submission

As part of their proposed RTR adjustments, West Coast reported the variance between transmission costs and revenue for network and connection from May 2006 through to September 30, 2007, and estimated the variances for the period October 1, 2007 to

April 30, 2008. The expected variance as of April 30, 2008 for network is a debit of \$56,292.67 while the projected variance for connection is a credit of \$4,532.85. West Coast proposes to adjust their RTR - Network Service Rate and RTR- Line and Transformation Connection Service Rates in 2008 to clear these forecast variances, and reflect the changes in the IESO's wholesale transmission rates for network and connection respectively. Starting in May 2009, West Coast proposes that the RTR rates be further adjusted to remove the adjustment relating to the referenced above variances, and therefore only reflect the changes in the IESO's wholesale transmission rates.

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 is also generally dealt with in aggregate rather than clearing discrete accounts. Also, as noted above, West Coast proposes to reflect in its RTR in 2008 the effect of disposing of historical and forecast transmission variances. Staff notes that the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself.

The parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition.

Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, the parties are asked to comment on whether the Board should consider waiting for the review of the disposition of all deferral and

variance accounts until such time as West Coast applies for its distribution rates to be rebased, which is scheduled to occur in 2009.

Staff notes apparent errors in the calculations provided by West Coast. For example, the new Wholesale Network Rate charged by the IESO declined from \$2.83/kW to \$2.31/kW while West Coast appears to have used a new rate of \$2.52/kW in their calculations. Similarly, the new Line and Transformation connection Rates charged by the IESO declined from \$2.31/kW to \$2.20/kW while West Coast appears to have used a new rate of \$2.09/kW in their calculations. The percentage RTR unit rate change for the proposed rate effective May 1, 2009 were also calculated in relation to existing RTR. It is unclear to Staff why the difference between transmission revenues and costs for network and connection were not included for the period January 1, 2005 to April 30, 2006.

All of which is respectfully submitted.