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**BY E-MAIL**

January 28, 2008

Ontario Energy Board  
P.O. Box 2319  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Welland Hydro Electric System  
2008 Incentive Regulation Mechanism Rate Application  
Board File Number EB-2007-0855**

Please find attached Board staff's submission for the above proceeding for distribution to the applicant and any intervenors.

Yours truly,

*Original signed by*

Angela Pachon  
Policy Advisor, Regulatory Policy Development

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

2008 ELECTRICITY DISTRIBUTION RATES

Welland Hydro-Electric System Corp.

EB-2007-0855

**January 28, 2008**

## **INTRODUCTION**

Welland Hydro-Electric System Corp. (“Welland”) submitted an application on October 30, 2007, seeking approval for changes to the rates that Welland charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 22, 2007, Welland 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 Welland.

## **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.

Welland proposes to reduce its RTR — Network Service Rates by 10.45% and increase its RTR — Line and Transformation Connection Service Rates by 1.37% for all rate classes. Welland also proposes to introduce a Network Service Rate Rider and a Line and Transformation Rate Rider to collect the projected balance in variance accounts 1584 and 1586 as of April 30, 2008 over a two year period.

### **Discussion and Submission**

Welland proposes to adjust its current RTR — Network Service Rates by comparing average monthly revenue under existing RTR — Network Service Rates to the new monthly wholesale transmission network charges payable to the IESO. The monthly

average for revenue and expenses was taken over the May 2006 to September 2007 period. The difference between the monthly average for revenue and new level of expenses, in percentage, was applied to the existing RTR — Network Service Rates to derive the proposed RTR — Network Service Rates. The same methodology was used to determine the proposed RTR — Line and Transformation Connection Service Rates. These adjustments were calculated on an aggregate level and the resulting rate changes for RTR network and connection were applied uniformly to all rate classes.

Staff notes that for both network and connection services, there is a revenue deficiency when comparing current revenues to current expenses. In the case of network services, the 18.4% decrease in wholesale transmission network charges payable to the IESO results in a decrease of 10.5% for the RTR — Network Service Rates. In the case of connection services, the revenue deficiency remains after the overall 5.2% reduction wholesale transmission connection charges payable to the IESO. Consequently Welland proposes to increase its RTR — Line and Transformation Connection Service Rates by 1.4%. Board staff are unclear on the drivers of the existing revenue deficiency.

Welland is asked to comment on the appropriateness of using a uniform allocation of the proposed changes to the RTR across rate classes.

Welland is also proposing to dispose, over a two year period, the projected balances as of April 30, 2008 in variance accounts 1584 and 1586. The estimated balances in variance accounts 1584 and 1586, including interest, are debit balances of \$403,686 and \$234,221 respectively. Welland proposes the establishment of rate riders to dispose of these projected variance account balances.

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.

Parties are asked to comment on whether the Board should consider whether the disposition of deferral and variance account balances should be dealt with in aggregate since some accounts may contain debit balances while others have credit balances. Disposing of all deferral and variance accounts 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, parties are asked to comment on whether the Board should wait for the review of the disposition of all deferral and variance accounts until such time as Welland applies for its distribution rates to be rebased, which is scheduled to occur in 2009.

Finally, staff notes that the methodology that Welland used to derive the proposed rate riders differs from the approach followed in the 2006 EDR for the calculation of regulatory asset rate riders. Board Staff are unclear about the methodology and rationale underlying Welland's rate riders derivation.

All of which is respectfully submitted.