KITCHENER WILMOT HYDRO INC.
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January 29, 2008

BY COURIER

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

Re: Kitchener-Wilmot Hydro Inc.
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0883
Ontario Uniform Transmission Rate Order, EB-2007-0759

Dear Ms. Walli:

Pursuant to Board Staff's Submission of January 21, 2008, Kitchener-Wilmot Hydro Inc. (KWH) has the following responses:

1) Board Staff Submission

To derive their proposed RTR adjustments, KWH calculated the rates required over the May 1, 2008, to April 30, 2010, to bring the total revenues equal to the total costs over the period starting from January 2005 to April 2010. KWH's calculation assumes that the wholesale transmission rates will revert back to their pre-November 1, 2007 level starting in January 2009. Based on their derivation of their proposed RTR adjustments, staff notes that this assumption leads to a lesser reduction of those rates than would be the case if they assumed the new wholesale transmission rates remained at the same post December 2008. Staff also notes that KWH did not include the rationale underlying this assumption.

KWH Response

KWH's existing Board-approved regulatory rate rider, implemented on May 1, 2006, was based on its regulatory asset variance account balances as of December 31, 2004. KWH therefore assumed that balances prior to January 1, 2005 were cleared and were not included in the calculation.

Further, KWH is of the understanding that the Ontario Energy Board Rate Order EB-2007-0759, setting new Uniform Transmission Rates for Ontario transmitters for the period November 1, 2007 to December 31, 2008, is in essence a fourteen (14) month rate reduction. In its calculation, KWH therefore decreased its projected retail transmission costs for a

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corresponding fourteen month period to coincide with Hydro One's rate order. In the absence of any other Hydro One rate order, KWH then assumed that its retail transmission costs would revert back to their previous level.

2) Board Staff Submission

KWH effectively proposes that the resulting rate riders to dispose of account 1584 and 1586 be embedded within the proposed rates. KWH did not provide separate calculation for the adjustment due to the change in wholesale transmission rates and the rate riders to dispose of accounts 1584 and 1586. 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.

KWH Response

The Board's letter was issued to all electricity distributors on October 29, 2007 directing each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances in its 2008 Incentive Rate Mechanism (IRM) application. It should be noted that IRM rate applications were due on November 1st. The Board-imposed time frame within which KWH had to calculate the proposed new rates was insufficient to allow KWH to conduct as detailed an analysis as it would have preferred; thus variance reduction was attained through the retail transmission rates per se.

It should be noted that KWH's projected retail transmission variances as at April 30, 2008 are not significant as the previous regulatory asset rate rider, coupled with KWH's April 30, 2006 approved reduction in retail transmission rates has, for the most part, reconciled past variance balances. However, credit variances will be created starting in 2008 due to the reduction in Hydro One's rates on a go-forward basis. KWH is being proactive in reducing its retail transmission rates to reflect closer-to actual costs and to mitigate very large credit variance balances in the future.

KWH also recognizes that the Board's objective is to minimize the prospective variance in the retail transmission accounts and to avoid customer rate shock. KWH supports these objectives. Due to the large rate decrease in Hydro One's retail transmission and connection rates, KWH's projected credit variances by the time that it rebases in 2010 are significant and KWH wants to return any credit variance balances back to its customers as quickly as possible, without deferring it to 2010.

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3) Board Staff Submission

KWH provides the unaudited September 30, 2007, balances in accounts 1584 (a credit of $1,351,023) and 1586 (a credit of $943,727) upon which the forecasted changes up to April 30, 2008 are added. These balances do not appear to include interest. 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 most up-to-date audited balances for accounts 1584 and 1586 are dated December 31, 2006.

KWH Response

In its calculation of projected variance balances, KWH used audited variance account balances (net of interest) as of December 31, 2006. Actual sales and expenses as recorded in KWH's general ledger for the period ending September 30, 2007 were added to these audited balances. Estimated sales and expenses were then projected for the future. As per its audited statements of December 31st, 2006, the interest credits accrued in accounts 1584 and 1586 are $144,734.62 and $62,805.71 respectively are not overly significant. KWH assumed that these balances would be dealt with at a future date.

As mentioned above, KWH's projected variances as at April 30, 2008 are not significant as the previous regulatory asset rate rider, coupled with KWH's April 30, 2006 reduction in retail transmission rates has, for the most part, reconciled past variance balances. A rate rider is not currently required to clear the present balance in its retail transmission variance accounts. KWH's objective is to avoid very large credit variance balances which will accumulate over the next two (2) years until it rebases in 2010 and thus avoid any large rate swings in the future due to the reconciliation of the variance account balances through a regulatory asset rate rider.

4) Board Staff Submission

KWH effectively proposed to dispose of forecast balances, which, if accepted, would be precedent-setting. The disposition of deferral and variance account balances are also generally dealt with in aggregate rather than clearing discrete accounts.

KWH Response

The Board's letter of October 29th did not direct electricity distributors to propose a regulatory asset rider for their aggregate regulatory asset account balances, but rather to review the retail transmission variance accounts in isolation. KWH believes that it followed the instructions as directed by the Board.

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5) Board Staff Submission

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.

Also, 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 consider waiting for the review of the disposition of all RSVA accounts until such time as KWH applies for its distribution rates to be rebased, which is scheduled to occur in 2010.

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KWH Response

While it is preferable to deal with the disposition of deferral and variance account balances in aggregate, the Board should recognize that many of KWH's regulatory asset variance account balances are running significant credit variances. KWH would like the opportunity to either begin to clear some of these balances before 2010, or as a minimum, mitigate the escalation by reducing its retail transmission rates closer to actual costs. These credit balances, in aggregate, will continue to grow more quickly as Hydro One's retail transmission rates fall and KWH's retail transmission rates remain unchanged.

Electronic copies of this letter have been filed through the Board's RESS system and emailed to boardsec@oeb.gov.on.ca. Should you require any further information, feel free to contact the undersigned.

Respectfully submitted,

Original Signed by

J. Van Ooteghem, P.Eng. President & CEO
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