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Ontario

BY E-MAIL

February 6, 2008

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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Kenora Hydro Electric Corporation
2008 Incentive Regulation Mechanism Rate Application
Board File Number EB-2007-0835

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

Yours truly,

Original signed by

David Brown
Senior Policy Advisor, Regulatory Policy Development

Encl.

Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Kenora Hydro Electric Corporation Ltd.

EB-2007-0835

February 6, 2008

INTRODUCTION

Kenora Hydro Electric Corporation Ltd. (“Kenora”) submitted an application on October 26, 2007 seeking approval for changes to the rates that Kenora charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On January 16, 2008, Kenora 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 Kenora.

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.

Kenora proposes to reduce its RTR – Network Service Rate and its RTR – Transformation Connection Service Rate by 13.0% and 27.5% respectively. Kenora states that the proposed reductions to its RTR will serve to equalize the collections from customers and the wholesale transmission charges from the IESO on an annual basis.

Kenora indicates that the balance as of September 30, 2007 in the network variance account (1584), including carrying charges, is minimal (credit of $15,907). Kenora also states that the balance in the connection variance account (1586) for the same period is significant (credit of $471,235).

Kenora explains that in late October 2007, one of its three primary transformers failed, and that the system is currently operating at 2/3 of its normal capacity. Kenora estimates that the purchase and installation of the replacement transformer will be in excess of $800 000, capitalized in late 2007. This unplanned expenditure, coupled with the required substation re-build, which also began in late 2007, will have an immediate $1.8 million impact, with further substation capital expenditures budgeted for $3.7 million over the next three years.

Kenora further states that if the May 1, 2008 rates were to be set to refund the balances in variance accounts 1584 and 1586, a material decline in rates would ensue (potential 60% decrease in residential rates). Kenora explains that its next rate filing will include significant substation capital expenditures, thereby subsequently resulting in another large rate swing (estimated increase in rates by as much as 17.5%). Consequently, Kenora proposes to defer to future rate filings the disposition of variance the balance in variance accounts 1584 and 1586.

Discussion and Submission

To derive their proposed RTR adjustments, Kenora estimated the balances up to December 31, 2009 in variance accounts 1584 and 1586. The 2007 historical network costs payable to the IESO were adjusted to reflect the approved 18% reduction in the IESO's wholesale Network Rate. Similarly, Kenora adjusted its 2007 historical connection costs to reflect the 28% reduction in the IESO's Line Connection Rate. For RTR revenue, Kenora assumed no growth and adjusted its existing RTR rates to reflect their RTR proposal effective May 1, 2008. The objective was to derive RTR – Network Service Rate and RTR – Transformation Connection Service Rate that would eliminate the growth in variance accounts 1584 and 1586, and having RTR revenue that are more closely in line with the new IESO charges.

Board staff notes that in its evidence, Kenora appears to have adjusted its RTR – Network Service Rate and its RTR – Transformation Connection Service Rate by 13%

and 27.5% respectively starting June 1, 2008 instead of May 1, 2008. Kenora is invited to confirm and comment on the need for a different start date for their RTR proposal.

All of which is respectfully submitted.