Welland Hydro-Electric System Corp.
Response to Board Staff Comments
2008 Retail Transmission Rates/Rate Riders
EB-2007-0855

Introduction

Welland Hydro-Electric System Corp. ("Welland Hydro") submitted an application on October 30, 2007 seeking approval for changes to electricity distribution rates based on the 2008 Incentive Regulation Mechanism. Subsequent to the original application, Welland Hydro filed an addendum on November 22, 2007 proposing adjustments to its Retail Transmission Rates ("RTR"). The addendum was filed in response to a directive from the Ontario Energy Board ("OEB") for each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances. The OEB directive is the result of the Ontario Uniform Transmission Rate Order, EB-2007-0759 which results in decreased wholesale transmission rates.

The purpose of this document is to respond to comments made by Board Staff in a submission to the OEB dated January 28, 2008.

Retail Transmission Service Rates Adjustment

In the directive to Electricity Distributors dated October 29, 2007 the OEB indicated that the objective in resetting retail transmission rates is to minimize the prospective variance in these accounts and to ensure that the prospective variance that remains does not have a consistent pattern of increased credits or debits over time.

Prior to the recently reduced wholesale transmission rates Welland Hydro was experiencing unfavorable variances in both the Network Service Variance (1584) and the Line & Transformation Connection Variance (1586). Welland Hydro proposed to adjust both rates by comparing current monthly revenue with revised monthly expenses using the new wholesale transmission charges payable to the IESO. As a result, Welland Hydro recommended a 10.5% decrease in RTR-Network Service Rates and a 1.4% increase in RTR-Line and Transformation Connection Rates. Welland Hydro used a uniform percentage to adjust rates across all rate classes.

Board staff has asked Welland Hydro to comment of the appropriateness of using a uniform allocation of the proposed changes to RTR across rate classes.

The methodology of applying a uniform percentage across all rate classes represents the methodology used in the 2006 EDR process. Adjustments made to RTR in the 2006 EDR were made on a percentage basis across rate classes in an attempt to eliminate

monthly variances. In both the 2006 EDR and the 2008 IRM submissions, no analysis was conducted to determine the drivers of the existing revenue deficiencies. Such a process would take considerable evaluation and a lengthy review. As a result, Welland Hydro considers using a percentage adjustment across rate classes as the best method to adjust RTR during the 2008 IRM process.

Disposition of Variance Accounts

For the disposition of variance accounts 1584 Network and 1586 Connection, Welland Hydro proposed two separate rate riders. The rate riders would have disposed of the projected values in the variance accounts including interest as of April 30, 2008 over a two year period.

Board staff has indicated three separate issues concerning Welland Hydro's proposed rate riders. The first issue is that usual practice for disposing of variance accounts in the electricity sector is to use the most up-to-date audited balances plus forecasted carrying charges on those balances up to the start of the new rate year. The second is to consider whether the disposition of the two variance accounts should be dealt with in aggregate in order to minimize fluctuations in amounts refunded to or collected from customers. The third issue is that the methodology used to derive the proposed rate riders differs from the approach followed in the 2006 EDR for the calculation of regulatory asset rate riders.

Welland Hydro is resubmitting the 2008 IRM Model as a result of revisions made to distribution rates (EB-2007-0663) after the original submission. In response to Board Staff comments, Welland Hydro will adjust proposed RTR rate riders included in the revised submission to reflect balances in variance accounts as of December 31, 2006 along with estimated interest to April 30, 2008. In addition, Welland Hydro will combine the two proposed rate riders into a single rate rider to be collected over a two year period. However, Welland Hydro does not propose making any changes to the methodology used to derive the rate rider. Regulatory Asset rate riders in the 2006 EDR were composed of both RSVA and Non-RSVA variances. The balances in the RSVA variance accounts, which include both RTR Network & Connection, were distributed to rate classes based on a percentage of kilowatt hours in each class compared to total kilowatt hours. Since RTR billing for some classes is based on demand (kilowatts) this method could lead to customers in each class being charged more or less than their proportion of the actual variance. Welland Hydro's proposal takes the total monthly variance to be collected over expected monthly billings and then applies the same percentage to each class.

Summary

The last issue that Board Staff has asked Welland Hydro to comment on is "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."

Welland Hydro has submitted revised Retail Transmission rates and made proposals for disposition of variances as directed by the Board on October 29, 2007. The proposal made would see no change in the total Retail Transmission Rates charged to customers until the variances are substantially eliminated. If the Board were to defer collecting variances and at the same time reduce current Retail Transmission Rates it would lead to price instability in which large decreases are followed by large increases in Welland Hydro's case.

Welland Hydro would suggest that the two viable options available to the Board are to set both new Retail Transmission Rates and Rate Riders or defer any changes to Retail Transmission Rates until rebasing occurs. The current build up of unfavorable variances requires significant study as to the drivers behind the revenue deficiency. Welland Hydro suggests that revising current Retail Transmission rates would be better accomplished during the rebasing process.