



West Coast Huron Energy Inc.

64 West Street, Goderich, Ontario Canada N7A 2K4
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December 19, 2011

Ontario Energy Board
Attention: Kirsten Walli
27th Floor
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli,

RE: Reply Submissions-EB-2011-0335

Enclosed please find the Reply Submission to the second round of intervener questions.

Yours truly,

A handwritten signature in black ink, appearing to read "Wally Curry", is written over the typed name and title.

Wally Curry
Director of Strategic Relations
ERTH Corporation

WC/afl

Encl.

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board*
Act, 1998, S.O. 1998, c. 15, Sched. B, as amended;

AND IN THE MATTER OF an Application by
West Coast Huron Energy Inc. for an Order or
Orders approving or fixing just and reasonable rates
commencing October 1, 2011

**REPLY SUBMISSIONS OF WEST COAST HURON
ENERGY INC. TO THE SUBMISSIONS OF BOARD STAFF,
THE VULNERABLE ENERGY CONSUMERS COALITION
("VECC"), THE SCHOOL ENERGY COALITION ("SEC")
AND THE ASSOCIATION OF MAJOR POWER
CONSUMERS IN ONTARIO ("AMPCO")**

Part I. Introduction and Background

West Coast Huron Energy Inc. ("**West Coast Huron**") is replying to the submissions of Board Staff, VECC, SEC and AMPCO in respect of a request for a rate adder resulting from the damage and impact of the F3 Tornado that devastated the Town of Goderich on August 21, 2011. West Coast Huron acknowledges the unique nature of this Application and has strived to balance the needs of its ratepayers with its ongoing requirements. These reply submissions will address: the qualification for the relief sought, the quantum, philosophy and duration of recovery as well as specific comments to other issues raised by the intervenors.

While it was not stated in the Application, West Coast Huron would submit that the rate adder applied for should be considered interim pending finalization of costs and impact on customer loads. West Coast Huron would propose that the reconciliation of costs and loads would be performed as part of the 2013 cost of service rate hearing which is currently planned to be filed in the second quarter of 2012. In addition, West Coast Huron would request that the rate adder commence as soon as possible and continue for the stated period of 63 months subject to the reconciliation noted previously. Based upon the current revised costs included in the application West Coast Huron has updated its rate adder calculation in Table 5.

Unless specifically stated or is necessarily implied by these submissions, West Coast Huron should not be taken to accept the positions of the intervenors.

Background

The Town of Goderich was hit by an F3 Tornado on the afternoon of August 21, 2011, which first struck the harbour area and proceeded to travel east through the town wiping out numerous homes and businesses. Many homes and businesses that survived the tornado were subsequently ordered demolished and several business and government offices have been closed or are operating at reduced capacity. Access to the area was restricted for several weeks.

Table 1 below, summarizes the extent of the damage which was provided in response to Board Staff IR#3(a). The destroyed distribution infrastructure has a net book value of approximately \$229,500. Infrastructure repair/replacement has, to date, cost \$1,440,339. To put things into perspective, West Coast Huron has a distribution revenue requirement of approximately \$2,363,487 [2011].¹ As a result of the tornado, West Coast Huron lost approximately 2% of its residential customers and almost 10% of its GS<50kW customers while several other commercial/industrial customers, including the single Large User, operated below capacity for an extended period of time.

Table 1 – Summary of Damaged Distribution Infrastructure

Items	Extent
Poles	98
Polemount transformers	19
Service Wire	296 drops
4.16kV conductor	1,610.19 metres
Secondary Conductor	2,735.87 metres
Smart Meters	101
Switches	7
27.6kV Conductor	243.29 metres and 243.29 metres neutral
Total	

Table 2 – Costs Claimed

	Application	Initial Revised	Final Submission
Infrastructure Replacement	\$1,500,000	\$1,500,000	\$1,440,339 ²
Interest Cost	\$400,000	\$198,400	\$191,982
Loss In Revenue	\$500,000	\$130,000	\$130,000
NBV of Assets Destroyed		\$229,500	\$229,500
Total Amount of Recovery Sought	\$2,400,000	\$2,057,900	\$1,991,821

¹ Response to AMPCO I.R. #1(b), November 10, 2011.

² Costs identified in the Application. West Coast Huron has indicated that it anticipates additional costs related to the tornado such as the costs of this proceeding.

West Coast Huron has proposed a fixed price rate adder for each class to recover the claimed costs of the tornado over a period of 63 months. West Coast Huron has not capitalized any of the costs and therefore would not be earning a return on such costs in order to avoid adding to the burden of the ratepayer. The period 63 months was chosen to provide a reasonable time for repayment and to align with the 2017 cost of service rates. While there has been a slight delay from the proposed start date, West Coast Huron would submit the proposed duration is appropriate.

Part II. Quantum of Costs

West Coast Huron has made claims for four types of costs, direct infrastructure repair costs, loss in revenue, interest and recovery related to destroyed assets.

a) Infrastructure Repairs

West Coast Huron has confirmed recovery is sought only for costs associated with damage from the tornado. The extent of the damage was particularized in Table 1 above. In addition, several links were provided that demonstrated the amount of damage suffered.³ This type of damage was unprecedented for West Coast Huron.

Further, West Coast Huron expects to provide a reconciliation of final actual costs as part of its 2013 cost of service rate application. In order to avoid duplication of recovery West Coast Huron deducted time and equipment of staff that is recovered through rates consistent with the approach in the Storm Damage Proceeding. The summary costs for the repair of the distribution assets is provided in Table 3.

Table 3 Summary of Infrastructure Repair Claims

Costs	
• Local Distribution & Outside Contractors	\$817,534
• Materials	\$371,004
• Other	\$180,057
• Internal Labour (overtime + regular time)	\$93,201
• Internal truck time relate to regular time and OT	\$15,690
• Meals and accommodations	\$12,184
Subtotal	\$1,489,670
Less:	
• Regular Time Labour	\$39,839
• Internal Truck Time	\$,9492
Total Costs to Date	\$1,440,339

³ Response to VECC, I.R. #3, November 10, 2011.

1 No intervenor challenged the prudence or the causality of the costs noted above. West Coast
2 Huron submits the costs identified above are reasonable and the Board should permit the
3 recovery of such costs on an interim basis until a final prudence review is completed as part of
4 the 2013 cost of service application. West Coast would note that it will make further comment
5 regarding the manner of recovery in Part V below.

6 The \$500,000 insurance advance related to the operations centre destroyed by the tornado is solely
7 related to the operations centre replacement and cannot be used for distribution plant.
8

9 ***b) Interest***

10 In its revised evidence, see Table 2 above, West Coast Huron is seeking recovery of \$191,982 in
11 interest related to the net expenditures. As noted in the evidence, West Coast Huron extended its
12 line of credit by \$1million dollars to provide funding for the repairs.

13 The initial calculation reflected simple interest on the net cost after accounting for collection of
14 the rate adder on an equal basis over the proposed 63 month period. West Coast Huron would
15 agree that use of the Board prescribed interest currently at 1.47% would be consistent with the
16 application of interest on other deferral/variance accounts, however, the West Coast Huron
17 borrowing rate is not 1.47% but is currently at 3% (prime). West Coast Huron submits that using
18 a 4% interest rate is a reasonable average prime rate over the five year period. Application of the
19 current estimated borrowing rate would better compensate the utility for its increased interest
20 costs on the recoverable amount. West Coast would note that if the Board determines costs
21 should be capitalized West Coast Huron would anticipate the cost of capital will increase to
22 approximately 8% (see Appendix A).
23

24 ***c) Lost Revenue***

25 West Coast Huron has included in its claim the amount of \$130,000 related to the loss of revenue
26 resulting from the reduced demand for the period from the tornado until new rates established
27 under the upcoming 2013 cost of service application have been set. The tornado demolished a
28 number of residences and West Coast Huron used the number of residential customers and
29 GS<50kW that had been final billed to estimate the amount of the loss. Goderich also included
30 reductions related to the GS>500 to 4,999 rate class based upon historic usage versus the reduced
31 demand following the tornado.

32 Also, at the time of filing the Application, preliminary indications were that one GS>500kW to
33 4,999kW customer would not re-open. Since the Application was filed, West Coast Huron has
34 learned this customer will re-open and adjusted the forecasted lost revenue accordingly. West
35 Coast Huron's demand is dominated by one Large Use Customer who was impacted by the
36 tornado. West Coast Huron's revised forecast incorporates the most recent information
37 regarding the reduced demand for this customer.

Table 4. Summary of Forecasted Lost Revenue

Rate Class	Application Lost Revenue ⁴	Updated Lost Revenue ⁵	Reductions in Customers ⁶
Residential	\$77,461	\$61,968	61
GS<50kW	\$179,069	\$23,874	47
GS 50 to 499	\$16,500	\$3,890	1
GS 500 to 4,999	\$84,685	\$3,036	
Large User	\$142,285	\$37,232	
Total	\$500,000	\$130,000	109

West Coast Huron is aware that the Combined Proceedings on Storm Damage Cost Claims⁷ (the “**Storm Damage Proceeding**”) did not include lost revenue. However, West Coast Huron is of the view that its situation is significantly different than the Storm Damage Proceeding and such loss of revenue is a valid claim. In the Storm Damage Proceeding the damage to the utilities was not nearly as extensive as it was in the present situation.

Further, West Coast Huron submits that the load loss experienced by these utilities was assumed to be of a more short term nature and that the majority of customers would resume their load once the poles and lines were restored. In the case of recovery from the F3 tornado, customer premises have been destroyed and are being demolished. Their load requirements are significantly decreased or at nil during a more extended rebuilding time period. The Storm Damage Proceeding did not include such extensive loss of load that would continue long after the distribution system was rehabilitated.

The lost revenue calculation made by West Coast Huron had estimated the load loss by using load changes specific to customers that had their hydro disconnected and were issued final bills for its residential and GS <50 customers. West Coast Huron also included significant reduction in load for its large customer and GS 500 to 4999 category based on historic usage as these customers also have an extended recovery timeframe. The calculations incorporated only the time period from the tornado event to the implementation of new rates resulting from the cost of service (approximately 18 month period). West Coast Huron intends to further update the load loss estimate based on actual usage related to its customers and would provide these calculations as part of the presentation of the tornado related costs brought forward at the 2013 cost of service application.

⁴ Response to AMPCO I.R. # 1(a), November 10, 2011.

⁵ Response to AMPCO, I.R. #1(a), November 10, 2011, page 2 of 19.

⁶ Response to AMPCO, I.R. #5(b), November 10, 2011.

⁷ EB-2007-0514, EB-2007-0595, EB-2007-0571, EB-2007-0551, Canadian Niagara Power Inc. – Fort Erie, Canadian Niagara Power Inc. – Port Colborne, Peterborough Distribution Inc. and Lakeland Power Distribution Ltd.

1 West Coast Huron agrees that economic downturns and business discontinuances are risks that a
2 utility must consider in its business. However, the F3 Tornado was not such a risk, and it could
3 not have been managed by the utility in the ordinary course of business. In the present
4 circumstances businesses did not shut because of an economic downturn or from poor
5 management, but rather, a natural disaster the likes of which had never been experienced in the
6 Town of Goderich or surrounding area.

7 West Coast Huron agrees that the future impact of the tornado related to load loss will be
8 reflected in the 2013 cost of service load estimation process. West Coast Huron does not
9 consider the future potential increase in demand by its large user as relative to the recovery of
10 tornado related load loss and its resulting decrease in distribution revenue. Estimates related to
11 the potential increase in forecasted demand related to our large customer will be included in the
12 next cost of service as a required part of the rate setting process. Any additional revenue would
13 be earned by the utility consistent with this process as it is regularly applied to all utilities.

14 ***d) Net Book Value of Infrastructure Assets Destroyed***
15

16 As noted above, West Coast Huron has identified \$229,500 in destroyed infrastructure. This
17 infrastructure is included in rates and West Coast Huron is earning a return on such assets. West
18 Coast Huron agrees that asset retirements that are driven by other reasons do not impact rate base
19 during non-rebasing years. West Coast Huron would concur that it would be appropriate to
20 apply a calculated amount related to the revenue earned in current rates to the next cost of
21 service against the \$229,500 requested recovery to avoid duplication.
22

23 West Coast Huron records its distribution assets on a grouped basis. West Coast Huron has
24 invested in a detailed mapping of the various components of its overhead and underground
25 distribution system in order to improve its capital planning and to move toward the
26 componentization aspect of the International Financial Reporting Standards. The calculation was
27 made based on specific identification of poles, transformers, conductor, switches and conduit
28 replaced. The costs used and discounted using CPI were based on data from West Coast Huron
29 current suppliers and other utilities specific to Ontario as a more appropriate measure than the
30 U.S. based Handy-Whitman index of public utility construction costs.
31

32 West Coast Huron management is currently planning to adopt IFRS, as required, for the 2012
33 fiscal period.
34
35

1 **Part III. Z-Factor Qualification**

2 The Board issued the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's*
3 *Electricity Distributors (the "Report")* in which the Board set out its approach for dealing with
4 the costs of unforeseen events that are outside of management's control. The Board determined
5 that in order for amounts to be considered for recovery by way of a Z-factor, the amounts must
6 satisfy all three eligibility criteria of causation, materiality and prudence. West Coast Huron
7 submits that its proposal meets the three criteria.
8

9 The Board has established a materiality threshold of \$50,000 for a distribution utility the size of
10 West Coast Huron. The costs in each category of the claim exceed the threshold amount.
11

12 The costs are related to an F3 tornado that devastated the Town of Goderich. As acknowledged
13 by VECC this is the type of event that is intended to qualify as a Z-Factor event.
14

15 As West Coast Huron noted, this is not a typical Z-Factor Application in that costs were not
16 completely known during this proceeding. As such a final decision regarding prudence can't be
17 determined. West Coast Huron has suggested that a final reconciliation be performed during the
18 2013 cost of service application and that a final prudence review be performed at that time.
19

20 **Part IV. Need for Relief**

21 One of the issues that has arisen is, if the costs are recognized as prudently incurred and recoverable,
22 has West Coast Huron demonstrated the need for such interim relief. The need is directly related to
23 the additional costs resulting from the tornado and the adverse impact it has on West Coast Huron's
24 Cashflow. West Coast Huron has indicated that it requires relief to meet the interim funding
25 obligations resulting from the tornado. Generally, the theme of intervenors is that West Coast Huron
26 should only have access to recovery from ratepayers as a last resort. To this end, West Coast has
27 committed that the costs recovered would be net of any proceeds received from any third party such
28 as an insurer.
29

30 ***Insurance***

31
32 The costs for which recovery is sought are not recoverable through insurance proceeds. West Coast
33 Huron, like most utilities, does not have an insurance policy to cover storm damage to its distribution
34 plant. In the Storm Damage Proceeding the issue of insurance was discussed and the Board
35 acknowledged that the Z-factor mechanism was the preferable method of dealing with such issues.
36 West Coast Huron should not be punished for not having such insurance in place.
37

38 "With materiality, accounting procedures and capitalization practices firmed
39 up, the Z Factor mechanism is preferable at this time to mandatory
40 insurance in that it provides a reasonable expectation that prudently incurred

1 costs are recoverable, where they can be shown to be genuinely incremental
2 to costs already embedded in rates.”⁸
3

4 Costs to be incurred to rebuild the operations centre, which was destroyed by the tornado, have not
5 been included in this Application as such costs are to be covered through insurance. The \$500,000
6 insurance advance related to the operations centre is designated solely for the purpose of replacing
7 the operation centre and its contents. The insurance advance is required to be spent by August 21,
8 2012. West Coast Huron included the insurance advance in the cashflow to be transparent as the
9 utility did receive this payment as a result of the tornado damage.

10
11 ***ODRAP and Other Special Funds***
12

13 In the wake of the tornado, the Province of Ontario committed \$5million to the rebuilding of the
14 Town of Goderich. West Coast Huron confirmed that it was ineligible for funding.⁹ West Coast
15 Huron officials have met with several provincial ministers but no further funding opportunities are
16 known.

17
18 West Coast Huron has also sought assistance from the federal government through the local Member
19 of Parliament. Again, West Coast Huron has been unsuccessful in obtaining relief from any federal
20 program.

21
22 West Coast Huron is not aware of any funds or programs to which it could apply for relief.¹⁰ West
23 Coast Huron has indicated that in the event monies were received from any program such funds
24 would be used to offset the amounts claimed.

25
26 ***Equity***
27

28 There has been suggestion that the shareholder equity should be used to fund the tornado costs. West
29 Coast Huron acknowledges that prior to the tornado its equity exceeded the 40% equity deemed by
30 the Board for electric utilities. West Coast Huron’s higher level of equity was used to fund the
31 Smart Meter Program without increasing the borrowing unlike several other utilities. In addition,
32 2011 deferred capital projects will be partially funded through equity.

33
34 It should be remembered the shareholder of West Coast Huron is the Town of Goderich which also
35 suffered through the tornado. This shareholder was also impacted and has been dealing with the
36 fallout from the tornado in its own right. Finally, the ability of municipalities provide financial
37 support by the way of investment or loan is restricted by the Eligible Investments and Related
38 Financial Agreements, O. Reg. 438/97 section 3.

39
40 ***Cashflow***
41

⁸ Storm Damage Proceeding, Decision and Order, page 26.

⁹ Response to SEC IR 3, November 10, 2011, page 4 of 7.

¹⁰ Response to AMPCO IR# 4(c) and (d), November 10, 2011, page 12 of 19.

1 The claim of 'dire straits' was made by West Coast Huron in the immediate aftermath of the
2 storm when there were many unknowns. The magnitude of the damage sustained was and is
3 incredible. The approximate \$1.5 million of direct expenditures made when providing
4 emergency disaster response to its customers represents approximately 70% of the utility's
5 annual distribution revenue.
6

7 West Coast Huron provided cashflow projections that showed a substantial deterioration in its
8 cash position from a positive balance of \$469,544 at September 1, 2011 to a balance of
9 (\$336,323) or a difference of \$805,867. It should be noted this figure includes the \$500,000
10 proceeds from the insurance related to the operations centre. If this payment were excluded, the
11 cashflow position has deteriorated by \$1,305,867.
12

13 Our current situation has required West Coast Huron to borrow on its operating line in
14 December. West Coast Huron expects to require further borrowing mid month to pay usual
15 invoicing including the monthly IESO invoice. The line of credit is currently adequate to sustain
16 our operations.
17

18 In addition to funding the tornado recovery, West Coast Huron is also facing significant costs for
19 the construction of distribution assets for its single Large User. The issue West Coast Huron
20 faces is the timing of the additional cashflow requirement for the capacity expansion project on
21 top of the significant unanticipated expenditures related to the tornado. Reprioritizing of this
22 project is not an option. West Coast Huron is required as per the "Distribution System Code" to
23 provide supply to meet its customers' needs and must move forward and make this capital
24 infrastructure investment. Further, this infrastructure is intended to support the major industry
25 and employer in the area.
26

27 Our budgeted capital expenditures for 2011 have also not been completed due to staff
28 involvement in the Tornado restoration. We are currently assessing the potential further delay of
29 these 2011 projects. Finally, West Coast Huron will have to fund capital projects and other
30 expenses which were either not started or left unfinished as resources were diverted elsewhere.
31 Many of these projects are not discretionary and will have to be completed during 2012. West
32 Coast would note that it will have to fund the preparation of the 2013 cost of service rate
33 application in early 2012. These costs were not included in the cashflow projection but will
34 serve to increase expenditures.
35

36 **Part V. Other**

37 In seeking relief, West Coast Huron has treated all expenditures as costs rather than capitalizing
38 the expenditures. It has treated the costs as "repairs" and has foregone the ability to earn a return
39 on equity on such costs. West Coast Huron did not wish to burden ratepayers for the additional
40 costs associated with the capitalization of the costs. West Coast Huron would note this was also
41 consistent with the Storm Damage Proceeding.

West Coast Huron has included, see Appendix A, the cost to the ratepayer of its proposal (costs are operational not capital) as compared to the cost to the ratepayer if the costs were capitalized as suggested by VECC. As shown in Appendix A, the cost to the ratepayer would be approximately double the total cost of recovery presently requested by West Coast Huron.

Rate Adder Design

Based upon the costs claimed, West Coast Huron is seeking a rate adder to be applied on an interim basis to each rate class as indicated below. West Coast is proposing a rate adder to recover

Table 5. Updated Rate Adder

Rate Class	Updated Rate Adder
Residential	\$4.50
GS<50kW	\$10.50
GS>50kw and <499kW	\$108.37
GS>500 and <4,999	\$1,090.14
Large User	\$3,803.14
USL	\$13.32
Sentinel	\$1.74
Streetlighting	\$0.66

West Coast Huron submits the allocation of the estimated tornado costs on the basis of 2010 distribution revenue and recovery by means of a fixed rate adder represents the most equitable method to its customers. West Coast Huron submits that the damage is a general distribution issue as the infrastructure was used to serve all rate classifications. The allocation for recovery of costs should not vary by individual customer demand. The restoration costs were not different due to various customer volumes and the costs to rebuild were not specific to a customer type.

A fixed charge based on relative distribution revenue of each class has the benefit of a proportional allocation ratio to each class and results in a set charge to customers within each class regardless of their individual demand.

Interim Rates

West Coast Huron would agree that the declaration of current rates as interim should coincide more closely with the date of the rate adder application approval. West Coast Huron would continue to request that the rate adder be effective for the 63 months following the implementation date to reduce the rate impact on our customer.

Deferral and Variance: "Tornado Relief Funding Adder" and "2011 Tornado Relief Costs" Accounts

West Coast Huron agrees that we should segregate the costs into a variance/deferral account. West Coast Huron submits that collection of the rate adder prior to approval of final Z-factor will assist with the utility's cash flow and reduce the overall interest costs on the net outstanding recoverable amount.

Part VI. Conclusion

West Coast Huron has filed this Application for recovery of costs related to the F3 tornado that struck the Town of Goderich and did significant damage to the residents, businesses and to the distribution plant of West Coast Huron. In treating the expenditures as expenses rather than capitalizing such costs, West Coast Huron is reducing the long-term payments by its customers and foregoing a return on such investments.

West Coast Huron believes its request for interim relief is just and reasonable and represents a proper balancing of the interests of ratepayers and the utility.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

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APPENDIX A

COST COMPARISON

11582373.3

SCHEDULE A

West Coast Huron Energy Inc.
Tornado Relief Funding Adder Application
Board File No. EB-2011-0335

Comparison of recovery options

Type of Cost/Recovery	Option A	Option B
Capital portion of expenses on distribution system	948,747	2,412,210
OM & A costs	551,253	551,253
Net book value of assets lost	229,500	-
estimated revenue collected in current rates to January 2013	- 86,369	
Lost revenue	130,000	130,000
Interest	191,982	72,664
	<u>\$ 1,965,113</u>	<u>\$ 3,166,127</u>

Assumptions

Analysis does not include interest on amounts to be recovered via a rate adder
Analysis also does not consider the time value of money

Option A - as per application filed

Option B - Capitalize the restoration costs that would normally be capitalized under WCH current policy

Recover lost revenue and OM & A costs via rate adder

Recover net book value of assets lost via rate rebasing by specifically requesting recovery as part of the cost of service

Rate of return on capital assets is 8.01%

Deemed interest earned on investment is at 50% debt ratio at 7.62% interest per annum

Useful life of assets added is 25 years except for smart meters which are 15 years