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

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms Walli:

**Re: May 1, 2012 IRM Rate Filing Reply Submission to Board Staff
Submission / EB-2011-0201**

Pursuant to Board Staff's Submission of January 27, 2012, Waterloo North Hydro Inc. (WNH) hereby submits its Reply Submission. We enclose two (2) hard copies of WNH's Reply Submission.

WNH has previously forwarded the PDF version of the Reply Submission and the Excel Files containing the Revised PILs 1562 Continuity Schedule and 2001 through 2005 SIMPIL models via the Board's web portal.

If there are any questions, please contact Chris Amos at 519-888-5541, camos@wnhydro.com or myself at 519-888-5542, asingh@wnhydro.com.

Yours truly,

Original Signed By

Albert P. Singh, MBA, CGA
Vice-President, Finance and CFO

WATERLOO NORTH HYDRO INC.

REPLY SUBMISSION

To Board Staff Submission of January 27, 2012

EB-2011-0201

Waterloo North Hydro Inc. (WNH) has provided its Reply Submission to the Board Staff Submission of January 27, 2012 below.

**REVIEW AND DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS,
SPECIAL PURPOSE CHARGE, PILS 1562 AND LRAM**

WNH in its application and Interrogatory Response proposed a four year disposition period for its Group 1 Variance Accounts, Special Purpose Charge, PILs 1562 and LRAM Rate Riders. Board Staff has proposed a two year disposition period.

Board Staff replicated WNH's Interrogatory Response on page 4 of their Submission stating *"Waterloo North also noted that it has the majority of its 2010 and 2011 rate riders ceasing in 2014. To cease the 2012 rate riders in 2013 or 2014 would have Waterloo North's customers experience either two years in a row of increased rates due to cessation of rate riders (2013 and 2014) or to experience an even larger rate increase in 2014 if a two year disposition was ordered³."* Board Staff's Submission, also on page 4, states *"Board staff however recognizes that some volatility in electricity bills may result from adopting a shorter disposition period ..."*

WNH has provided a table below to demonstrate and clarify the effect of “even a larger rate increase in 2014 if a two year disposition period was ordered” and the volatility that WNH’s customers will experience if a two year disposition period is ordered.

The table below details the total bill effect on its customers, if all rate riders (2010, 2011 and 2012) ceased in 2014 (a two year disposition period for 2012), and compares it to the situation whereby the 2012 rate riders cease in 2016 (a four year disposition period) and the 2010 and 2011 ceased as scheduled in 2014 .

WNH has always been concerned about rate stability for its customers and the effect of rate riders on their rate impact.

As demonstrated below, if all the rate riders, including the 2012 rate riders were to cease April 30, 2014 (2 year disposition) the **monthly rate impact** ranges from **3.8% to 5.1% solely** from the cessation of rate riders. WNH finds this extremely troubling that the cessation of rate riders can cause such a large rate increase. The table below also demonstrates that a four year disposition period for 2012 rate riders results in monthly rate impact ranging from **2.0% to 3.8%** in 2014. The four year disposition period reduces the rate impact on our customers by **1.2% to 2.1%** when compared to all rate riders ceasing in 2014.

Impact of 2012 Rate Riders with a 2 Year and 4 Year Disposition Period

Rate Class	Monthly Consumption		Total Bill Estimate Prior to 2014	Total Bill Estimate with 2012 Rate Riders Ceasing in 2014	\$ Increase due to Cessation of All Rate Riders in 2014	% Increase due to Cessation of All Rate Riders in 2014	Total Bill Estimate with 2012 Rate Riders Ceasing in 2016	\$ Increase due to Cessation of 2012 Rate Riders Ceasing in 2016	% Increase due to Cessation of 2012 Rate Riders Ceasing in 2016	Increased Rate Impact to Customers in 2014 with 2012 Rate Riders Ceasing in 2014 vs 2016
	kWh	kW								
Residential	800		\$ 105.89	\$ 110.39	\$ 4.49	4.2%	\$ 109.53	\$ 2.79	2.6%	1.6%
GS < 50 kW	2,000		\$ 255.32	\$ 265.10	\$ 9.78	3.8%	\$ 263.39	\$ 6.37	2.5%	1.4%
GS > 50 kW	100,000	250	\$ 10,295.77	\$ 10,763.28	\$ 467.51	4.5%	\$ 10,689.39	\$ 319.75	3.1%	1.5%
Large User	7,000,000	12,300	\$ 652,881.47	\$ 680,177.33	\$ 27,295.86	4.2%	\$ 676,236.96	\$ 19,415.12	3.0%	1.2%
USL	250		\$ 43.83	\$ 45.61	\$ 1.78	4.1%	\$ 45.15	\$ 0.89	2.0%	2.1%
Street Light	50	0.14	\$ 6.21	\$ 6.47	\$ 0.26	4.2%	\$ 6.43	\$ 0.16	2.6%	1.6%
Embedded Distributor	2,375,000	6,000	\$ 188,259.31	\$ 197,826.26	\$ 9,566.95	5.1%	\$ 196,616.24	\$ 7,146.91	3.8%	1.3%

The figures above reflect the revised PILs 1562 proposed disposition amount and a \$1.00 SMFA, both of which are discussed further on in this document.

WNH is aware that the Board is concerned with Rate Mitigation and currently has an initiative underway, Approaches to Mitigation for Electricity Transmitters & Distributors EB-2010-0378. A four year disposition period for WNH's 2012 rate riders will provide rate mitigation for WNH's customers in 2014.

The Board approved a four year disposition period for WNH's 2010 Rate Riders in its May 1, 2010 Decision (EB-2009-0210) and WNH proposed a four year disposition period in its May 1, 2011 application, which was a receivable from its customers, in order to be fair and consistent in its payments to and from its customers. A three year disposition period was agreed upon in the Settlement process only because a four year disposition period resulted in a \$0.0000 charge for some rate classes. A disposition period for the 2012 Rate Riders greater than two years is consistent with disposition periods in previous Board Decisions.

WNH would also wish to note that the PILs 1562 disposition is covering a period for October 1, 2001 to April 30, 2006. WNH submits that a four year disposition period is reasonable for an initiative that has taken a number of years in determining the methodology of disposition.

SMART METER FUNDING ADDER (“SMFA”)

Board Staff has proposed for WNH to continue with its SMFA of \$1.00 per meter per month and prepare and file an application for disposition of its Smart Meter costs by May 31, 2012 in order for a “October 31, 2012” implementation. WNH would suggest that Board Staff meant November 1, 2012.

Continuation of SMFA of \$1.00

On page 6 of Board Staff’s Submission it states *“Board staff therefore submits that the Board may wish to consider continuation of the originally requested \$1.00 SMFA until it is replaced by an SMDR and SMIRR resulting from the Board’s decision in a smart meter cost disposition application.”*

WNH is agreeable to Board Staff’s Submission of the continuation of the originally requested \$1.00 SMFA until it is replaced by an SMDR and SMIRR resulting from the Board’s decision in a smart meter cost disposition application.

SMFA Termination and Application for Smart Meter Cost Disposition

On page 5 of Board Staff's Submission it states "Board staff is of the view that establishing a termination date of October 31, 2012 for the SMFA would be reasonable... Further, this will allow sufficient time for the utility to prepare and file an application in accordance with the recently issued SMF Guideline and model and for the Board to process such an application. Board staff notes that such an application should be filed by no later than May 31, 2012 to allow sufficient time for the application to be processed in time for a October 31, 2012 implementation."

WNH is agreeable to a termination date of October 31, 2012 SMFA, providing the error contained in the recently issued SMF model, which is discussed below, is corrected.

WNH stated in its Interrogatory Response # 8(B)(ii)(a) on page 44 that the model it had been provided in its Interrogatories contains an error in Sheet 3 for 2011 and 2012 and which is detailed below.

This error understates the Weighted Average Cost of Capital, thus, understates the return WNH is entitled to.

WNH has reviewed the Smart Meter Model Version 2.17 on the Board's website that was issued on December 15, 2011 in conjunction with Guideline G-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition and had determined that this error still exists. WNH submits it is not fair and reasonable to file its application for disposition in accordance with Smart Meter Model Version 2.17.

WNH is agreeable to filing for a November 1, 2012 implementation of its Smart Meter Costs with a revised corrected model, which would need to be provided by the Board to WNH by May 1, 2012.

Error in Calculation of Weighted Average Cost of Capital – Sheet 3 of Smart Meter Model 2011 and 2012

Cost of Capital		2011 Cost of Service	Smart Meter Model
Capital Structure			
	Deemed Short-term Debt Capitalization	4%	4%
	Deemed Long-term Debt Capitalization	56%	60%
	Deemed Equity Capitalization	40%	36%
	Preferred Shares	0%	0%
Total		100%	100%
Cost of Capital Parameters			
	Deemed Short-term Debt Rate	2.46%	2.46%
	Long-term Debt Rate (actual/embedded/deemed)	5.22%	5.22%
	Target Return on Equity (ROE)	9.58%	9.58%
	Return on Preferred Shares	0%	0%
WACC		6.85%	6.68%

WNH also noted in its IR Response # 8(B)(ii)(e) “Sheet 7 Line 29– Change in Taxable Income and Line 33 Income Taxes Payable – as the CCA exceeded the Amortization in each of the years 2008 through 2012 the Change in Taxable Income was a negative number. The model then applied the current tax rate and a negative Income Taxes Payable was calculated. This has resulted in WNH being clawed by back in their PILs, and, thus, in their overall revenue requirement. WNH is uncertain as to whether this is an intended policy or a consequence of calculations within the model.” As a Standalone Smart Meter application is required, WNH suggests that if the Change in Taxable Income is a negative number then the Income Taxes Payable should be \$0 and not a negative amount.

PAYMENTS IN LIEU OF TAXES – PILS 1562

Excess Interest True-up Calculations

Waterloo North confirms that remittance/arrears - HST/OEFC are related to interest and have been included in the interest claw-back variance calculations.

In accordance with Board Staff's instructions interest on customer deposits has been deducted from total interest expense per the financial statements, to be consistent with the decision for Hydro One Brampton and removed from the interest claw-back variance calculations.

In accordance with Board Staff's instructions and consistent with the decision for Hydro One Brampton, WNH has not deducted interest income in determining the interest expense to be used in the interest claw-back variance calculations.

WNH has changed the amount of interest expense used in the 2001-2005 SIMPIL model interest claw-back penalty calculations to reflect Board Staff's submissions, and updated the PILs 1562 continuity schedule and balance to be refunded to customers. WNH has filed the revised Excel continuity schedule and Excel PILs 2001-2005 SIMPIL models via the Board's web portal only. WNH has provided a schedule of revised interest expense identifying its components in the table below.

Interest Expense for Claw-Back Penalty Calculations

	Oct - Dec 2001	2002	2003	2004	2005
Interest Expense per Financial Statement	262,882	1,393,332	4,224,700	3,326,755	3,113,954
Add Back Interest Income Netted Against Interest Expense	32,649	38,637	249,655	259,816	326,381
Remove Customer Deposit Interest		(5,343)	(12,019)	(21,584)	(42,889)
Total	295,531	1,426,626	4,462,336	3,564,987	3,397,446
<i>Breakdown:</i>					
Senior long-term notes payable	272,728	1,250,000	2,995,533	1,828,282	1,525,699
Junior long-term notes payable		-	1,360,681	1,360,681	1,359,145
<i>Other debt:</i>					
Interest on Holding Company Loan	21,725	176,626	103,890		
Remittance/Arrears - HST/OEFC			2,026	21,904	
Bank Loan Interest				354,111	512,602
Other Interest Expense	1,078		205	9	
Total	295,531	1,426,626	4,462,336	3,564,987	3,397,446

The revised balance to be refunded to customers is (\$1,647,612) principal and (\$120,663) carrying charges for a total of (\$1,768,275).

ADJUSTMENT OF GENERAL SERVICE >50 kW MONTHLY CUSTOMER AND VARIABLE CHARGES

On Page 27 of WNH's Application it stated ""Waterloo North Hydro notes that the charges would need to be updated upon release of the updated GDP-IPI, when Statistics Canada publishes its final 2011 data in late February, 2012 and once the distributor specific stretch factors become available. The Proxy Price Cap Index of .18%, as provided in Sheet 17 of the 2012 Rate Generator Model, has been used in Table 2.9a."

The table 2.9a on page 28 of the application would need to be revised prior to the final determination of rates.