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SENT BY E-FILING AND COURIER

Toronto, March 14th, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
PO Box 2319
Toronto, ON, M4P 1E4

Dear Ms. Walli:

RE: EB-2007-0762
Rideau St. Lawrence Distribution Inc.

Please find enclosed the final submissions of Rideau St. Lawrence Distribution Inc. with respect to the above-referenced matter.

Yours very truly,



Andrew Taylor
AT/mej

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1. Introduction

Rideau St. Lawrence Distribution Inc. (RSL) is a licensed electricity distributor that services six communities of customers in Eastern Ontario. The six communities are mature areas with a customer density of 60 customers per kilometer of line. The distribution network includes nine sub-transmission stations owned by RSL and two stations that are shared with Hydro One. The system combines 9 km of underground lines, 97 kilometers of overhead lines supported by 1924 poles and 735 utility owned transformers. The distance from the eastern most community to the western most community is 130 km.

Rideau St. Lawrence Distribution Inc. is one of the applicants that self-nominated for the 2008 rebasing. Rideau St. Lawrence Distribution Inc. estimates that its present rates will produce a deficiency in distribution revenue of \$269,703 for the 2008 Test Year. Rideau St. Lawrence Distribution Inc. therefore seeks the Ontario Energy Board's approval to revise its rates applicable to its distribution of electricity for distribution rates effective May 1, 2008 to April 30, 2009 (the "2008 rate year").

Through this Application, Rideau St. Lawrence Distribution Inc. seeks:

- To Recover:
 - Revenue Deficiency arising from changes in OM&A, Amortization, Rate of Return, Interest, costs for wholesale meters that were transferred to distribution expenses effective November 1, 2007, as result of unbundling transmission rates, and PILS;
 - Deferral and Variance Account balances
- To Change:
 - Distribution Loss Factor;
 - Customer Classes;
 - Retail Transmission Rates

- To Reflect:
 - Just and reasonable Distribution Rates that have been modeled in accordance with the OEB Filing Requirements for Distribution Rate Applications.

The following submission addresses the various components of Rideau St. Lawrence Distribution Inc.'s application and responds to submissions from Board Staff, SEC and VECC.

2. Operations, Maintenance & Administration and Shared Services

2.1 Overview

The OM&A costs in this application represent Rideau St. Lawrence Distribution Inc.'s integrated set of asset maintenance and customer activity needs to meet public and employee safety objectives; to comply with the Distribution System Code, environmental requirements and Government direction; and to maintain distribution business service quality and reliability at targeted performance levels. These costs represent the reasonably incurred cost to provide services to customers connected to Rideau St. Lawrence Distribution Inc.'s distribution system, and to meet the service levels stipulated in the Standard Supply Service Code and the Retailer Settlement Codes.

2.2 Issues:

Rideau St. Lawrence Distribution Inc. provided responses to Board Staff and intervener Interrogatories to provide a more thorough understanding of the OM & A costs and the way those costs are shared with the affiliate company RSL Utilities Inc. Board Staff, VECC and SEC each provided submissions on the OM & A and shared services components in the RSL Rate Application . In the Board Staff submission, a cost driver table was prepared to assist in reviewing OM & A costs. Board Staff have made comments on the way that costs are allocated through its shared services model. Board staff also has invited further clarification on certain items relating to OM & A costs.

VECC in its submission has no submissions regarding the increased wages and salaries or the addition of new employees. VECC has commented similar to Board staff as to the lack of detail for the allocation of shared services for Meter reading, Billing and Collecting costs between Hydro and water services and administration costs. VECC proposes a “nominal” reduction of \$10,000 to the 2008 OM & A costs to reflect what VECC says will be savings created through operational efficiencies created by the proposed capital spending to upgrade the CIS (Harris Billing System Software). In regard to Regulatory Expense, The parties are in agreement with RSL’s proposal to spread the costs of preparing the current Application over three years. In regard to Wholesale meter costs VECC states its concern that the increase in OM & A due to the restructuring of Wholesale Transmission rates has not been “offset” by a decline in RSL’s retail transmission service rates. VECC submits that RSL should be directed to adjust its amortization expense due to the postponement of certain capital spending from 2007 to 2008.

SEC agrees with Board staff that further evidence is required to justify its shared services costs and the allocation of Billing and Administration costs to RSL.

SEC on page 1 of their submission proposes a decrease of \$45,266 based on a revised allocation of billing costs.

2.3 Discussion and Submission:

Elimination of Wholesale Meter Credit.

RSL notes an error in the response to Board staff IRR 3 d). In the cost driver table there was an error for the effects of the “Wholesale Meter from Hydro One Credit Eliminated”, was shown as \$62,400. The actual amount is \$62,700. This same amount was correctly shown in RSL’s response to Board Staff IRR 17(ii). In that response a detailed breakdown of the cost component was supplied. The effect of the costs that RSL expects to incur without the receipt of the wholesale metering credit from Hydro One must be reviewed in the context of the recently eliminated Hydro One credit of \$5,700 per metering point multiplied by our 11 wholesale metering points. The current OEB approved rate for Hydro One is \$6,200 per metering point.

The forecasted costs of \$62,700 was derived from our actual and expected costs.

The total expense forecast in account 5114 for 2008, consists of the \$62,700 for wholesale metering costs and \$8,000 for sub-station maintenance.

Detailed costs for Maintenance of Wholesale Metering Points:

<u>Cost Component</u>	<u>2008</u>
Labour- Outside Staff	\$15,800.00
Communications	\$19,800.00
MSP Services	
Peterborough	\$16,500.00
Hydro One	\$ 6,200.00
MTR Investigation	\$ 4,400.00
Total	\$62,700.00

As VECC has noted, this increase in RSL's OM & A is due to the restructuring of Wholesale Transmission Rates and will be reflected in Hydro Ones Retail Transmission rates to be in effect May 1, 2008. Further on in this submission, RSL has proposed revised rates which reflect a reduction to our Retail Transmission Service Rates.

Maintenance of PCB transformers:

This is a recurring expense that continues through 2010. The 2007 costs were for the in-service transformer analysis and external testing to confirm the PCB levels, if any. The costs for 2008 to 2010 rate years are for completing the testing, and for decontamination, retrofitting, and or disposal of PCB contaminated transformers. Internal costs are \$10,000 and external costs are \$30,000 per year for the years 2008 through 2010. A draft regulation was posted in the Canada Gazette November 4, 2006, requiring that transformers containing > 500 mg/kg, and those with > 50 mg/kg in sensitive locations, should be eliminated by December 31, 2009. It is expected that the Regulation will be passed early in March 2008.

Regulatory Expenses:

Details of RSL's claim for Regulatory expense was provided in response to Board staff's interrogatories, item 3 (d) on page 13 of our response. The 2008 Rate Application estimated cost of \$70,000 is to be spread evenly over the three rate years.

Costs Estimates for the 2008 Rate Application:

Legal Representation	\$28,000
Rate Model and Licensing	10,000
Consultant Support	13,000
Misc. Costs (Printing, Admin., Support)	
Advertising)	6,500

Auditors Support	5,000
Intervenor Costs	7,500
Total	\$70,000

Tree Trimming:

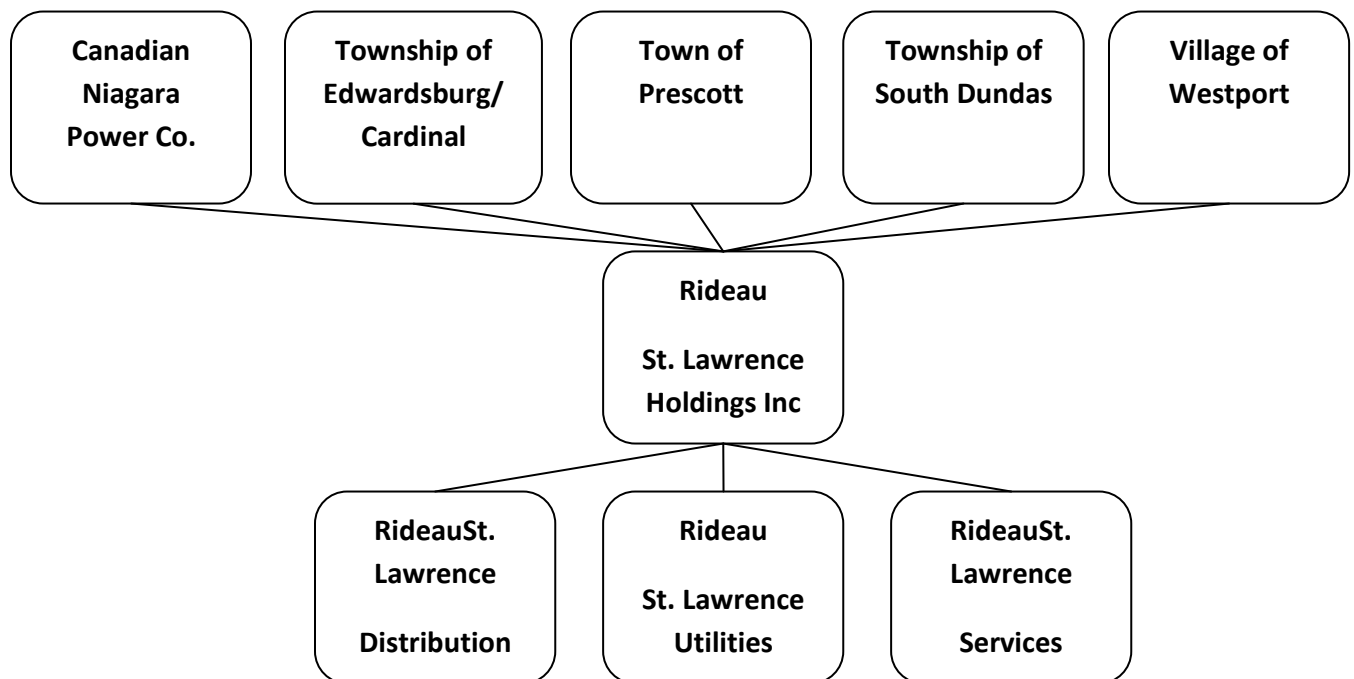
By way of clarification, in 2006 RSL paid a total of \$9,660 in tree trimming cost to third party contractors. This was incremental to the in-house labour. RSL does most of its own tree trimming, but additional help was required in 2006 due to a back yard line rebuild, and due to an employee being off sick for over 6 months in 2006. Therefore the third party contractor cost is not a recurring event and is not reflected in proposed rates. However, with the additional lineman, and the return to work of the regular employee, the equivalent cost is included in costs going forward.

RSL staff completed 684 hours of tree trimming in 2007 (normal levels) and that is expected to continue throughout the three year rate period. With the additional lineman added in 2007 RSL has been able to carry out all of its tree trimming work in-house. Costs for 2007 for tree trimming were \$30,600 for in-house labour and \$390.00 for third party labour. The 2008 forecasted costs are \$35,000.

Shared Services

Background:

CORPORATE ENTITIES RELATIONSHIP CHART



Rideau St. Lawrence Holdings Inc.(Corporation)

Corporation was incorporated on October 17, 2000 under the laws of the Province of Ontario. The principle activity is as a Holding Company.

Rideau St. Lawrence Distribution (RSL)

RSL was incorporated on October 17, 2000 under the laws of the Province of Ontario. The principle activity of the Company is to provide electrical power distribution in the Town of Prescott and the Villages of Westport, Williamsburg, Morrisburg, Iroquois, and Cardinal.

Rideau St. Lawrence Utilities (Utilities)

Utilities was incorporated on October 17, 2000 under the laws of the Province of Ontario. The principle activity of the Company is to provide services to Rideau St. Lawrence Distribution Inc., water and sewer billing to the Town of Prescott and the Villages of Westport, Morrisburg, Iroquois, and Cardinal, as well as hot water tank rentals and service.

Rideau St. Lawrence Services (Services)

Services was incorporated on October 17, 2000 under the laws of the Province of Ontario. The principle activity is to provide dark fibre and high speed communication in Cardinal and Prescott, but is not limited to those locations.

The above organization chart was included in our 2008 Rate Application in Exhibit 1, Tab 1, Schedule 14, on page 51. We have included the chart, as an overview/picture to assist us in our explanation of the corporate relationship of Rideau St. Lawrence Holdings Inc. and all of its subsidiaries. It will also assist with the explanation of the shared services approach utilized by Rideau St. Lawrence Holdings Inc., and all its subsidiaries.

All personnel involved in the provision of distribution services by RSL are employed by Rideau St. Lawrence Utilities Inc. There are no employees in any other company. All work between the companies, is performed in accordance with a Master Services Agreement.

Corporation

There are no charges from any subsidiary to Corporation and there are no charges from Corporation to any subsidiary.

Services

Services has two active dark fibre leases remaining, which generate annual revenue of \$6,000. Utilities charges Services an annual administrative fee of \$200 for the invoicing (\$100 per Invoice) and collecting of the dark fibre leases.

RSL charges Services for joint use pole rental fees for each pole that the fibre is on. The rate used is the OEB approved rate of \$22.35 per pole. Annual revenues to RSL for the rental are 86 poles @ \$22.35 or \$1,922.10.

Utilities would be paid on a time and expense basis if there was any problem with the dark fibre that require investigation. In the seven years of the dark fibre leases to date, there have been no charges, and none are included in our Test Year.

This summarizes all of the charges between affiliates, except for the services provided by Utilities to RSL, which is addressed in the next section.

Shared Services between RSL and Utilities:

Rideau St. Lawrence Holdings Inc., and its subsidiaries were formed to meet the requirements of the Electricity Act. As part of this process, four former public utilities -

Cardinal HEC, Prescott Public Utilities, South Dundas Hydro, and Westport Public Utilities – were amalgamated.

Utilities continues to perform the meter reading, billing, and collecting functions that were previously provided by the former public utilities for over 100 years. It has been, and it still remains, a beneficial working agreement for RSL, RSL'S ratepayers and the municipalities.

To aid in the process of forming the new organization in 2000, a consultant was hired to lead the process, and they worked with a task force composed of representatives from each of the merging entities. Each former entity had its own billing system, banking, and Auditors. There was limited commonality, and new requirements for billing system were required for the market opening. For these reasons it was decided to go to market requesting competitive quotes (RFP) for Billing systems to handle the new deregulated market, Settlement, Banking, and Auditing.

We also received a quote for meter reading, and billing services from Utility Reading and Billing (URB). After reviewing the independent quote, it was decided that Utilities would continue to offer the meter reading, billing and collecting services to the municipalities that RSL served, as well as to RSL. If this had not been done, the meter reading, billing and collecting costs on a stand alone basis for RSL would have been significantly higher than they have been, and rates would have been higher.

A consulting firm worked with RSL to evaluate the external quote versus continuing the same service through contracts offered by Utilities.

Because Utilities was there to read the hydro meters, and it was sending out a hydro bill to each customer anyway, it was clear Utilities could offer a competitive service to the municipalities that would lead to a lower cost to be charged to ratepayers.

The price quoted was prepared on an allocated cost basis, not on an incremental basis. The shared cost basis meant that costs were shared by the organizations. Pricing on an incremental basis would have meant a lower price quoted for the water and sewer billing. The meter reading fee built into our municipal contracts was 87 cents per meter for an inside read, 38 cents if there is a remote beside the electric meter, and 52 cents if

the water requires a backyard read, while the incremental fee based on the URB quote was 20 cents per read. The URB stand alone price for the water/sewer meter reading, billing, and collecting was \$4.09 per bill. Utilities shared cost (shared cost for meter reading, billing, and collecting) price is currently at \$3.06 per bill. This price includes a 10% fee for administration. This demonstrates that the RSL/Utilities proposal was beneficial to the shareholders, and to the ratepayers.

If Utilities had not been able to get the contract to provide the water sewer service described above, the following costs are examples of costs that would have been 100% assigned to RSL, with no way to share them:

<u>Service/Cost Element</u>	<u>Cost</u>	<u>Annual bills Issued</u>		<u>% of Total</u>		<u>Allocated Cost</u>		<u>Total Cost</u>
		<u>Electric</u>	<u>W/S</u>	<u>Electric</u>	<u>W/S</u>	<u>Electric</u>	<u>W/S</u>	
Postage	0.52	47,868	35,100	57.7%	42.3%	\$14,361	\$10,530	\$24,891
Bills, Envelopes, paper	0.11	47,868	35,100	57.7%	42.3%	\$3,038	\$2,228	\$5,266
Collecting, payment processing	0.46	47,868	35,100	57.7%	42.3%	<u>\$12,704</u>	<u>\$9,315</u>	<u>\$22,019</u>
						\$30,103	\$22,073	\$52,176

For the above cost examples, RSL would incur an additional annual cost of \$22,073, without the water and sewer contracts by Utilities. The cost examples are fixed, and cannot be reduced.

Board staff requested the total cost of annual expenses incurred by shared services in IRR 7.

RSL provided the requested information, and Board staff summarized the information in a table on page 9 of the staff Submission. Board staff indicated that the evidence may not be sufficient to support the shared services model.

RSL is providing additional information, in the chart below, that provides the cost in 2008 for Utilities that apply to the water and sewer meter reading, billing, and collecting. If Utilities were not able to provide that billable work, a significant portion of the cost, not be able to be allocated, and would remain as a cost to RSL.

Cost Category – 2008 cost	RSL Cost	Utilities Cost
Meter Reading	\$51,693	\$34,462
Billing	178,669	43,671
Collecting	<u>32,388</u>	<u>23,749</u>
Subtotal	\$262,750	\$101,882
Administration @ 10% of Utilities Cost	<u>(\$10,188)</u>	<u>10,188</u>
Total/Net cost	\$252,562	\$112,070

Billing:

Board staff expressed concern about the 20% increase in billing costs from 2006 to the 2008 test year. For 5 months in 2006, we were short one third of our billing clerks due to a Long Term Disability claim. We hired a replacement billing clerk at the end of May 2006 and the starting wage for that person was less than the former employee, who was at the top of the rate. If the effect of the employee turnover is added into the 2006 base year, the billing increase would have been 3% for 2007, and a further 3% increase for 2008 as shown in the chart prepared by Board staff.

Examples of costs that are specific to the provision of electricity billing that Board staff questioned are Settlement Services for the commodity, IT support and special cost to deal with the MSP, the IESO, the OEB. Those costs are clearly not applicable to the municipal water sewer billing service provided by Utilities and are properly dealt with as Hydro only costs.

SEC expressed concern about the “complexity factor” applied to hydro bills. Steps that RSL has to take for a hydro bill that are not required for water and sewer billing are:

- usage is sent to the Retailers, Bill Ready Charges are received back from the Retailer and must be added to the customers bill, Global adjustments factors must be included, and variances must be analyzed and reported. None of the items described above, apply to water/sewer billing. These are 100% costs over and above water/sewer billing.
- Complexity factors considered are: Hydro billing has 15 different billing profiles for a multitude of different variable rates, plus seven different customer categories, with several bill codes within the category to accommodate special situations such as multi unit residential properties that can self certify to get the fixed residential rate for each unit. For water/sewer billing, we have one profile, two categories, 6 (six) bill codes, and charges such as the GST, DRC are not applicable.

Therefore it is appropriate to apply a complexity factor so that these costs are properly allocated to RSL.

Administration:

There are two parts for the 10% adder for executives, that we would like to explain. First of all, when we prepared the quotes, we added 10% to our price to include administration fees.

The second part is based on our actual cost and effort involved managing our staff, and the contracts for water/sewer. No Regulatory effort is involved in water and sewer rates. All customer billing rates are set by the municipality. The business is very mature (the PUCs have been providing the service for over 100 years), the executives are providing a caretaker roll only. To our costs for meter reading, billing, and collecting for water and sewer contracts, we add 5% of the Operations manager's time (re meter reading), and 5% for office administration time to supervise the billing clerks. The contracted value will not go down. RSL has a 5 year contract, with an inflation factor built in. The contract value is going up.

These administration charges reduce the administration cost to RSL and its ratepayers, and the administration cost is added to all non-hydro activities.

Operations, Maintenance, and Capital (OM&C):

Board staff expressed concern regarding a 28% increase in OM&C from 2006 to 2008.

Staff indicated that they are unclear about the extent to which costs are allocated to other affiliates, and how such allocations would impact RSL. Costs are allocated to RSL based on work performed. Costs are allocated based on time sheet tracking.

Further detail on year to year changes is provided below:

Operations: 2006 – \$102,152 2007 – \$153,543 2008 – \$160,151

The increase in operations is largely due to the operations manager being off for six months in 2006. If we add the savings from the lost time, back into the 2006 base, we would have a 3% increase in operations for 2007, and we have an increase of 4% in operations for 2008.

Maintenance: 2006 – \$211,837 2007 – \$275,350 2008 – \$303,983

As discussed previously, RSL has a mature outside workforce (average age 52 years, and several health issues). RSL hired a lineman trainee in 2007. An additional cost of \$75,000 has been built into the 2008 Maintenance cost for the trainee. This is a necessary cost incurred to ensure that there is a sufficient workforce in place for RSL to provide reliable distribution services to its customers.

Capital: 2006 –\$ 42,930 2007 – \$42,578 2008 – \$43,643

Capitalized labour has remained constant.

Costs that remain in Utilities are based on time recorded on timesheets for non LDC work.

Examples where costs are not allocated to RSL are for hot water tank maintenance, street light repairs, and any contract work awarded to Utilities based on quotes provided to third parties. The 2008 budgeted costs for hot water tank maintenance are \$28,000, plus \$80,000 for billable street light maintenance, and contract work to third parties.

If this work was not undertaken, RSL would have to absorb additional costs which would lead to higher rates.

The shared cost approach has a clear benefit to RSL, to RSL ratepayers, to Utilities, to the Shareholders, and to the taxpayers. By using fully allocated costs, and spreading

the costs over all services (electricity, water, sewer, contract work, etc.) more work is able to be performed locally at a lower cost. RSL customer rates are lower as a result.

The allocations described in detail in this Submission provide for fully allocated costs to the parties which are reasonable.

2.4 Conclusions

Any reduction to the OM & A costs or increased allocation resulting from a shared services allocation would be arbitrary in nature and jeopardize the ability of Rideau St. Lawrence Distribution Inc. to fulfill its obligations as a distributor, to the detriment of ratepayers. Neither SEC or VECC have presented evidence that would justify a reduction in the OM & A cost.

3. Rate Base & Capital Expenditures

3.1 Overview:

The Capital Expenditures in this rate application represent Rideau St. Lawrence's approach to asset replacement and additions to ensure that Rideau St. Lawrence Distribution Inc. continues to provide current and future customers with safe, reliable and adequate service.

3.2 Issues:

Board staff notes that the information on rate base filing is essentially complete. Board staff noted that there are relatively large percentage increases in 2007 due to a truck replacement and in 2008 due to wholesale metering point and software upgrades. Board staff also note that two capital projects; truck replacement and

interval meter program were carried over from 2007 to 2008 but were included in the 2007 rate base. Board staff have invited comments from all parties as to whether or not there is a requirement to make an adjustment in revenue requirement related to the timing of the postponement of these two capital projects. Board staff are looking for further information regarding wholesale metering costs.

Board staff has also stated “It is not clear to Board staff if RSL had undertaken any initiatives related to development of an asset management plan and have invited comment on the development of an asset management plan”.

VECC submits that there is a need for RSL to update the 2008 Rate base calculation and depreciation expense to remove the capital spending planned in 2007 that was postponed. VECC also submits that RSL should update the purchased cost of power component of the working capital calculation based the on a more recent forecast which is now available from Navigant that covers all of 2008. VECC submits that RSL should be directed to reduce the RTS Costs included in its working capital calculation in anticipation of the approval of Hydro One’s revised retail transmission rates, by 10% for Network Service and 5% for Transformation and Line Connection.

SEC submits that it is more appropriate to treat the 2007 postponed capital expenditures as 2008 capital expenditures. They would therefore be subject to the half-year rule and depreciation expenses adjusted in the same manner. SEC believes that an asset management plan is necessary to address reliability and asset condition problems.

3.3 Discussion and Submission

Board Staff have prepared a detailed table illustrating historical capital spending for the period 2002-2008 which reflects RSL’s capital plans.

In regard to wholesale metering points, On June 4, 2003 market rule changes provided meter market participants with various options upon meter seal expiry with respect to their wholesale meter points. Discussions with the LDCs within Cornerstone Hydro Electric Concepts (a co-op of 16 Ontario LDCs of which RSL is a member) resulted in the majority of those LDCs choosing what was thought

to be the best alternative for Market Participants. That decision was to upgrade all wholesale meter points to IESO standards as the seal dates on the meters became due which meant purchasing the meters from Hydro One and paying for the upgrades.

The \$13,000 budget in 2007, for the Prescott East Wholesale metering point upgrade, should have been increased by the stranded asset cost of \$5,200 that we were required to pay to Hydro One. Total to be spent on that capital upgrade should have been forecasted \$18,200.

The 2008 forecast of \$62,400 for wholesale meter point capital upgrades is detailed as follows:

<u>Description</u>	<u>Cardinal MS # 2</u>	<u>Iroquois</u>
Peterborough MSP Quote	\$ 18, 200	\$19,800
Hydro One Stranded Asset	5,200	5,200
Permits, Conduit, Wiring	3,000	3,000
RSL Labour	2,000	2,000

In addition, we have allowed \$2,000 in cost to convert Prescott West, and \$2,000 to convert Cardinal MS#1 metering points, from an analog cell phone network connection to a digital cellular connection. Our MSP is currently testing solutions with the IESO for an acceptable solution. In 2007, the Cantel/Rogers analog cell phone technology was discontinued. We were able to convert these two points to Bell Canada's analog network, but we have been told that the Bell analog network will not be operational after November 2008.

RSL provided information in their response to Board Staff IR 19 b) regarding the delay in capital spending for two 2007 projects.

These projects are expected to be completed and in service in 2008. RSL agrees that these projects should be subject to the half year rule and would revise the rate base and depreciation expense accordingly.

RSL's cost of power used in the Application, the forecast for the 2007 cost of power used eight months of actual costs and the estimated rate of \$57.04 per MWh for the last four months to develop a blended rate for the year. Because of the materiality of the commodity – Account 4705 RSL obtained an estimate of the cost per MWh for the last four months of 2007 and 2008. The forecast of \$57.04MWh was derived as a result of discussions between our application model consultant, Elenchus Research Associates (ERA) and information from the Navigant Report to the Board title "Ontario Wholesale Electricity Market Price Forecast" – for the period May, 2007 through October 31, 2008 dated April 12, 2007, page (i) of the Executive Summary.

VECC has submitted that better information, contained in a recent forecast from Navigant that covers all of 2008 is now available.

RSL agrees with VECC that the cost of power forecast used in the calculation of rate base and working capital, should be based on the best information available. RSL agrees that the most reliable estimate of the cost of power available is contained in the October 12, 2007 report entitled "Ontario Wholesale Electricity Market Price Forecast" prepared by Navigant Consulting Inc. to the Board. The forecast HOEP is to be just over \$54.00 per MWh.

Further on in this Submission, RSL has proposed revised retail transmission service rates for its customers. In the Application RSL had not provided revised RTSR rates. RSL proposed to provide revised RTSR rates when further information was available. RSL now better understands the impact of the Hydro One application on its' retail transmission services costs and have provided rates further on in this Submission.

Board Staff and SEC have commented on the requirement of the development of an Asset Management Plan. RSL would respond that we do have an asset management plan in place that is considered during capital planning process. In practice, Capital Budgeting and Maintenance purposes, RSL gathers information on asset condition through a combination of a pole inventory program and inspections by qualified staff of the distribution system components. The loading and conditioning of the sub- transmission stations, poles, wire and rolling stock

are assessed on a continuous basis as part of the capital planning process for RSL. The process of reviewing the asset conditions feeds into RSL's capital planning process as described in the Application.

3.4 Conclusion

Rideau St. Lawrence agrees to update the rate base calculation for the cost of power to the HOEP forecast contained in the Navigant report dated October 12, 2007 or if the Board has determined a generic cost for all distributors RSL would propose to use that.

RSL will revise its Rate Base and working capital calculations to reflect the revised transmission service rates contained further in this Submission.

RSL will revise the rate base and depreciation calculations based on the half year rule for the two capital projects that were not undertaken in 2007.

RSL submits that its method of reviewing asset condition is acceptable and effective in the way it is linked to the capital expenditure planning process.

Cost of Capital

4. Overview

Rideau St. Lawrence Distribution Inc. has a current a current deemed capital structure of 50% debt, 50% equity, as approved by the Ontario Energy Board in RP-2005-0020, and a return on equity of 9.00%, consistent with the return specified in the Board's Decision in EB-2005-0414, dated April 12, 2006.

Rideau St. Lawrence Distribution Inc. is requesting Board approval to continue with the current deemed capital structure.

4.1 Issues:

Board staff have discussed RSL's proposal and have concluded that "RSL has not demonstrated why the Board should deviate from the guidelines and allow RSL to retain a deemed 50:50 capital structure until the next time that RSL rebases."

VECC submits that RSL has provided no rationale as to why it should be exempt from moving to the 64/40 deemed capital structure consistent with the Boards' established policy.

SEC submits that RSL's proposal for capital structure should be rejected.

4.2 Discussion and Submission

RSL has proposed to retain the current approved capital structure of 50% debt to 50% equity for ratemaking purposes.

The Board Report, referred to by Board Staff in their Submission, is a guideline that sets out a generic approach to the cost of capital. Notwithstanding this generic approach, the Board is still legally obligated to consider the specific circumstances of the applicant in setting rates for RSL. In setting just and reasonable rates, the Board is legally obligated to ensure that those rates allow for recovery of a reasonable return on invested capital and recovery of reasonably incurred costs to provide distribution service.

RSL has retained earnings in recent years to improve the equity in the company. RSL currently has an actual capital structure of about 29% debt and 71% equity. RSL is well aware of the Provincial initiative relating to Smart Metering Implementation. This project is expected to be the largest capital project ever undertaken by the distribution company. The carrying charges and cost of capital will be needed to be financed by the LDC in the interim. RSL has managed its finances prudently in order to make the smart metering implementation financing costs manageable. RSL felt it was prudent to keep a portion of the earnings in the company as opposed to declaring all earnings out

as dividends. The magnitude of this project alone – if debt financed as RSL has proposed would bring the debt:equity ratio close to the Board guidelines. In planning for the Smart Meter implementation, our shareholders have foregone incremental returns on the increased equity.

RSL has also been on a plan to retain earnings to allow/provide some flexibility in the event that a distribution company acquisition could be made. A transaction such as an acquisition of another small distributor would quickly and significantly change the capital structure of RSL. While the Smart metering financing is a more planned event – other events can influence large swings in capital structure.

Retained earnings have been required in the past to offset the large balances that accumulated during the transition to the deregulated electricity market. Recovery of those costs began in 2004 and are expected to be fully collected by April of 2008. Some of the costs incurred for the transition to the deregulated market had been incurred in 2001. The recovery of the capital invested in the Smart Metering program is an issue that the Board is most likely to deal with after the implementation, similar to the method used for transition cost recovery from the market opening.

Board staff, in their Submission have made mention of other distributors that have capital structures similar to those of RSL that have 2008 Cost of Service Applications before the Board. RSL is not in a position to comment on the appropriateness of the capital structures of other LDCs as RSL has no knowledge of their structure or circumstances, what they applied for or the situations that face those distributors. The Board is obligated to consider RSL's circumstances in the context of RSL's application.

RSL is not opposed to transitioning to the Boards guidelines of 60% debt to 40% equity. In fact, RSL's proposal represents a prudent approach by RSL to manage the transition to the 60:40 capital structure.

RSL, in the Application proposed to revisit this issue in its next rebasing application. RSL believes that a managed progression toward those levels consistent with their actual structure is a prudent direction to proceed in.

RSL is proposing to maintain a 50:50 deemed capital structure for ratemaking purposes for now and will move its actual capital structure in that direction by debt financing subsequent investments, the major component of which will be smart meters. With this approach, RSL's actual capital structure will move significantly closer to the 50:50 deemed capital structure. This approach yields just and reasonable rates and represents a fair outcome for both RSL and its ratepayers. This is a measured approach that is consistent with the overall objective set out in the Board Report. RSL will be moving its capital structure in the direction the Board wishes to see happen, while taking into account that in RSL's case, RSL has significant distance to go in order to meet the Board's target of 60% debt to 40% equity.

4.3 Conclusion

RSL is proposing to maintain a 50:50 deemed capital structure for ratemaking purposes for the 2008 Rate Application and to move its actual capital structure to a 50:50 capital structure. RSL also proposes to address further movement toward the Board's target of 60% debt to 40% equity in its next rebasing application.

5. Load Forecasting:

5.1 Overview

As set out in the application and discussed further in the interrogatory responses, RSL has relied upon a load forecast that uses the 2004 load data gathered and weather normalized by Hydro One in the Costs Allocation Informational Filings as the basis for load forecasting.

5.2 Issues:

Board staff provided comments during the interrogatory process and their concern that the methodology that was used by RSL, utilizes only a single year of weather normalized historical load to determine future load. This method could lead to an error in the estimate of the weather sensitive load and understate the required rates because the method does not include CDM improvements. In response to Board Staff Interrogatory #28 RSL developed an alternate forecast that took into weather normalization fully into account for each years 2002 to 2006 account

VECC, in its Submission commented on the methodologies used by RSL , both using the 2004 Hydro One load data and using the IESO province- wide weather correction factors. VECC believes that the RSL original approach is preferable to the one presented in response to Board Staff #28. VECC does make comment that it has concerns, which it has already expressed in submissions made regarding other electricity distributors' 2008 rates, regarding the RSL approach. VECC states that "However, in the short term, it is not clear to VECC that a better alternative exists." VECC does not have any submissions with respect to RSL's customer count forecast.

SEC submits that the most recent 2004 weather normalized data appears to be the most reasonable basis upon which to forecast.

5.3 Discussion and Submission

Rideau St. Lawrence Distribution used the 2004 weather normalized load data developed by Hydro One to establish a weather normalized average customer use for each customer class. RSL then developed its load forecast by multiplying the average per customer (by class) by the 2008 customer forecast count. The Hydro One methodology used RSL specific load data, results of an appliance saturation survey. It is our understanding that the NAC approach to weather normalization has been used by the gas companies regulated by the Board for many years and has been approved by the Board for those companies. We derived the NAC based on weather normal estimates for consumption in 2004 calculated by Hydro One for Rideau St. Lawrence for cost allocation purposes. We do agree there is a slight possibility that Conservation and Demand Management ("CDM") may have had some effect on consumption patterns. However, we believe this risk is minimal and the effect of CDM is far outweighed by other factors, such as population decline and loss of industrial customers.

In response to Board staff Interrogatory 28, RSL prepared an alternate load forecast using a weather normalized usage value for each customer class using IESO province wide weather correction factors. The conversion factors are simply the ratio of the annual sum of weather corrected energy demand to actual energy demand. It should be noted that this correction does not differentiate between consumption classes that are weather sensitive versus those that are not, it does not account for the different penetration rates of weather sensitive uses such as electric heat and air-conditioning in different areas. It also does not take into account the differing weather and use patterns from one LDC to another (our LDC is very different from Toronto or Mississauga). The Hydro One weather normalization process we relied upon to calculate our NAC does take into account all of these factors and is, therefore, a more accurate approach.

5.4 Conclusion

RSL believes that the weather normalized data submitted in the Application is statistically more accurate than the use of the IESO province wide weather

correction factors. Current trends in CDM improvements are not taken into account using this method. Updated weather –normalized load data analysis and actual billed volumes would be available to the Applicant which could be used for the application of an adjustment mechanism such as the LRAM for the effects of CD & M improvements.

6. Line Losses

6.1 Overview:

RSL has requested a Distribution Loss Factor of 1.0725 % based on the average of our four most recent years of distribution loss results.

6.2 Issues:

Board Staff note that the line losses have been on a downward trend. Board staff note that the proposed DLF is based on a four year average.

VECC submits that RSL should use a three year average as established in the 2006 EDR to calculate loss factors.

SEC, in its Submission has no comments related to this issue.

6.3 Discussion and Submission

RSL used the four year average in calculating the proposed line losses to give a more complete and robust calculation by using an expanded time frame. RSL does also agree that the trend has been downward for the last three years.

6.4 Conclusion:

Rideau St. Lawrence would have no objection to revising the line loss calculation to reflect the average of the last three years the same as the 2006 EDR process required. We would calculate the Distribution Loss Factor to be 1.0716 based on the 2004-2006 results.

7. Low Voltage Costs

7.1 Overview

RSL has proposed the recovery of \$168,161 in Low Voltage charges.

7.2 Issues:

Board staff note that the LV forecast is a small escalation from the previously approved amount. Staff note that the amount is significantly higher than 2006 actual costs and considerably lower than the 2007 costs. RSL responded during the interrogatory process by expressing that its forecast may be too low. Board staff note that Hydro One currently has an application with the Board that includes lower rates for its LV service, which would reduce effects of a low forecast.

VECC, in its Submission has no comments related to this issue.

SEC, in its Submission has no comments related to this issue.

7.3 Discussion and Submission

RSL's initial rate application, used the 2006 EDR cost for Low voltage of \$166,396, and adjusted it for the small increase approved by the Ontario Energy Board for 2007 (from \$0.63 per kW to \$0.633 per kW), and the latest forecast

received from Hydro One for 2008. Our resulting Low Voltage cost (calculated early in the process) was forecast to be \$168,161.

RSL's response to Board staff interrogatory 32, confirmed that actual LV charges, for 2006, were \$148,199 (eight months only – beginning May 1, 2006), and the actual LV charges for 2007 were \$224,303.

We understand that Hydro One's application before the Board has included a proposed rate reduction as shown below:

<u>Rate</u>	<u>Existing Rate</u>	<u>Proposed</u>
Shared Line charge	\$0.633/kW	\$0.58 per kW
Shared LVDS charge	\$2.12/kW	\$1.24 /kW.

Of particular note in relation to charges billed by Hydro One to RSL for Low Voltage and Transmission charges is that a change in supply feed to one of our communities due to either a planned outage or unplanned outage results in RSL being billed twice the monthly peak in that billing period, as the alternate feed is from a different TS. When calculating impacts based on billed volumes the number of events like this materially affect the amounts billed to RSL. Each occurrence of this type generates additional Low Voltage charges of approximately \$6,000 for the shared line charge. In 2007, there were three of these events, and that is representative of a normal year.

RSL's total Shared LV costs for 2007 was 277,109 kW, and that included 28,564 kW from an alternate feed for the three occurrences mentioned above. RSL's shared LVDS costs for 2007 were based on 25,816 kW. The alternate supply feed has no impact on our shared LVDS cost. Our 2007 variance for Low Voltage in 2007 will be a shortfall of \$80,000.

7.4 Conclusion

To avoid large future variances, we would propose to use an updated forecast of LV charges billed to RSL by Hydro One based on the 2007 actual loads and the proposed Hydro One LV Rate contained in the current hydro One Rate application before the Board. This calculation has been adjusted upwards by one-third of the 2007 variance.

RSL requests recovery of \$219,402 in Low Voltage charges for it's 2008 Rate Application.

8. Customer Reclassification

8.1 Overview

RSL is proposing to remove the Westport Sewage Treatment Plant Rate Class and move this customer into the GS > 50kW class.

8.2 Issues

Board staff sought further customer impacts through the interrogatory process. Board staff note that some considerable impact on this customer would be expected even without reclassification due to the result of the cost allocation results and general increase in distribution rates. Board staff submit that the impact of reclassification is greater than 10% and no rate mitigation mechanism has been proposed.

VECC, in its Submission has no comments related to this issue.

SEC agrees with RSL's proposal to eliminate the single-customer rate class for Westport Sewage Treatment Plant and move this customer into the GS>50kW rate class.

8.3 Discussion and Submission:

The Westport Sewage Plant class originated as a time-of-use class when electricity rates were integrated to include generation and transmission costs along with distribution. The customer has an unusual consumption pattern, in that the majority of the consumption occurs during off- peak hours for three months in the winter.

The customer has a rather low load factor, compared to other GS > 50kW class customers. The transfer of this customer to the GS > 50 kW class will have an unfavourable impact on the customer.

Historical Consumption Information – Westport Sewage Treatment Plant

<u>Year</u>	<u>Average Monthly Demand in kW</u>
2006	199.18
2005	244.66
2004	274.95
2003	254.47

<u>Year</u>	<u>Total Annual kWh Consumption</u>
2006	235,104
2005	303,402
2004	338,802
2003	360,644

The three impact calculations provided to Board staff during the interrogatory process, emulate a high bill in the winter time when they are in full production, a low bill in the summer time, and an average bill from the 2006 billing/consumption history. If the commodity is all priced at \$57.04 as submitted in our 2008 rate application, the impact is a 43% increase to the customer.

In a typical year energy consumption would be 326,000 kWh. Approximately 80% of the kWh consumption over the last three years occurs in the three winter months. The commodity price of 4.6 cents per kWh, used for comparison of customer bill impacts was developed as follows:

Description:	kWh	Price/kWh	Cost \$
On Peak	3,000 x 12	10.5 cents	\$3,780
Mid Peak	2,000 x 12	7.5 cents	\$1,800
Off Peak	266,000 (Jan-Mar)	3.5 cents	\$9,310

The assumption in this model was that there is a base loading that occurs throughout the year, both during off-peak and mid-peak. The balance of energy can be consumed during the of-peak period, as controlled by the owner.

The adjusted cost of power was an attempt at estimating the customers cost of power, to reflect a change in operating habits at the plant. The customer informed us that they can schedule the operation of the plant at various times – only dependent upon the seasonality of the weather. The limiting factor is that they require weather that is below freezing to operate the snowfluent part of their process- which is the energy intensive part.

RSL has viewed this customer in a similar way to other general service customers. If a General Service customers' consumption history changes, or if more information becomes available, such that it is apparent that they are no longer qualified to remain in their current rate class, (GS > 50kW or GS < 50 kW), the customer is required to be re-classified. Reclassifications are based on a twelve month history of consumption. Existing General Service customer have been reclassified to the GS > 50 kW because of expansions and or business growth, while several other manufacturing facilities that were turned into a warehouse, were changed to the GS < 50 kW.

RSL felt it had the duty to bring this to the attention of the Board.

As noted in our 2008 rate application in Exhibit 8/Tab 1/Schedule2/ page 5, on Runs 1 and 2 of the Informational filing this customer had a revenue to cost ratio of 16.43%. As the customer had not been classified - it is not clear where they would fit in the "Board Policy Range". We believe that in the absence of that determination there would be a very significant adjustment required to attempt to bring them into the Board Policy Range.

RSL understands that there will be a significant impact on this customer as a result of the Cost to Revenue ratios and or customer reclassification. As part of the mitigation process – based on our understanding of the loads of this customer – we are in the process of installing an interval meter for this customer. We further understand that the customer can opt to be billed at the spot market price for the commodity. According to discussion with the owner and operator of the plant, the major loads at this facility are caused by the equipment that must run during the cold weather months – but the actual timing is under control of the operator of the facility. We believe that the original assumptions that were used in developing the rate for this customer – being a customer that used power primarily off-peak to the utility at that time – are consistent to this day. The understanding of its own load/usage patterns and the timing with market considerations would allow this customer to mitigate the customer reclassification.

Early in the process RSL consulted with the customer. RSL needed to better understand the loading and operation of the facility. The bill scenarios that were provided to the Board staff in IRR 33, had been previously provided as samples to the customer. One of the main factors driving impacts is the off-season exercising of the system which creates large demand factors during on- peak periods. As the customer has not been billed based on the demand factor – the operation of the plant did not take demand driven impacts into account. RSL also proposed an interval meter to measure usage and if there was a benefit – the customer could have control over its use of power at times when market prices were less, by moving onto spot pricing.

RSL received the following correspondence on November 29, 2007 from the customer in letter format.

“Thank you for reviewing the projected 2008 electricity rates for the Westport Sewage Treatment Facility and anticipated cost impacts with me recently. It is the Village’s intention to review with Rideau St. Lawrence staff demand and consumption options and the possible use of time of use metering to moderate or mitigate possible electricity cost increases. I look forward in the near future to commencing this process as your time permits.”

Yours truly

Scott Bryce

Clerk/Treasurer November 29,2007

8.4 Conclusion:

RSL believes we have attempted to mitigate the customer impact, while treating the customer, who is also a shareholder of RSL, the same as we would treat any other customer whose consumption history would require them to be reclassified.

9. Revenue to Cost Ratios

9.1 Overview

Rideau St. Lawrence has proposed to implement cost allocation in the rate design as set forth in the 2008 Rate Application, that allows just and reasonable rates to be calculated.

9.2 Issues:

Board staff provided comments on the Cost Allocation provided by RSL. In the final Board staff submission a table was provided with ratios that included the Board Policy range. Board staff have noted as a result of that table that four classes have ratios outside the Board's policy range.

VECC provided comments on the methodologies used by RSL, the Cost Allocation model in general and how the model used in the Cost Allocation Informational Filings, handled transformer ownership allowance. VECC proposed, in their view what would be a more accurate method in determining Revenue to Cost ratios, but concluded that "for the purposes of setting 2008 rates, VECC considers RSL's proposal to be reasonable provided the allocation to the Street Lights class is increased."

SEC submits that the street lighting class rates should be set at 100% of cost.

9.3 Discussion and Submission:

For clarification, Rideau St. Lawrence Distribution Inc. proposed the revenue to cost ratios in the Application Exhibit 9/ Tab 1/ Schedule 1/ Page 2. In response to VECC interrogatory 21, RSL prepared the following table. RSL is not proposing to revise their Application in reference to the Ratios illustrated in the following table as the "Revised Proposal".

The following table was presented in the Board Staff Submission,

%	Information al Filing Run 3	Application: Exhibit 9 / Tab 1 / Schedule 1 / p. 2	Revised Proposal: Response to Staff Interrogatory # 21(g)	Board Policy Range
Customer Class				
Residential	105.24	103.00	104.07	85 – 115
GS < 50 kW	65.09	91.36	64.76	80 – 120
GS > 50 kW	148.27	118.89	153.48	80 – 180
Street Lights	41.61	49.84	42.24	70 – 120
Sentinel Lights	49.08	79.47	48.68	70 – 120
USL	152.26	106.93	130.45	80 -- 120

RSL in the Application has proposed fairly significant shifts in the Revenue to Cost Ratios to move closer to the Board Policy Ranges. The shifts proposed in the Application would bring all classes except the Street Lighting class within and closer to the Board Policy ratios. The Street Light class would remain the only customer class that would fall outside the Board Policy ratios. RSL has proposed to move this class closer to the policy ratios in this application. The limiting factor for RSL has been the 10% bill impact threshold that has been historically used as a threshold for rate mitigation impact measures. The proposed increase to this

class is 10% as a result of the shift of costs to this class. RSL would propose to include in its next Cost of Service Application to move the Street Light class closer towards the Board Policy Ranges.

9.4 Conclusion:

Rideau St. Lawrence is confident that the costs allocation modifications included in the rate design as presented in the Application provides ratepayers with just and reasonable rates with out adversely affecting any one class.

10. Rate Design

10.1 Overview

Rideau St. Lawrence has proposed to implement the rate design as set forth in the 2008 Rate Application, that allows just and reasonable rates to be calculated.

10.2 Issues:

Board staff, VECC and SEC have all provided comments on Rate Design. Staff have commented that the 2006 charge was outside the ceiling/floor range for only one class, GS > 50kW. The proposed charge is lower than the existing approved charge for that class. For each class, the proposed increase in the monthly service charge is lower in percentage terms that the corresponding volumetric charge.

VECC 's interrogatory #24 questioned RSL's proposal to maintain the current fixed/variable portions for the residential customer class. VECC notes that the RSL response to its interrogatory did not quite achieve this objective due to issues with the model used by RSL. VECC notes that the inadvertent inclusion of the Smart Meter rate adder tends to offset (to some extent) the directional bias

arising from the inclusion of LV charges and the transformation allowance in the variable rate.

SEC submits that the monthly service charge for the GS>50kW class should be lowered as it is well above the upper bound for monthly service charges.

10.3 Discussion and Submission:

The proposed monthly service charges were the product of a decision made by RSL in the rate design process in an effort to retain the fixed/variable split for the 2008 rates the same as the existing rates. Through the interrogatory process VECC #24 questioned the calculations and through further investigation, RSL determined that the model used by RSL had not exactly calculated the rates in this manner. It was our intention to maintain the existing fixed/variable splits in rate design. We are now aware that the model did not in fact do this. The model used the 2007 rates as a total. That is - the rates in the 2007 model included the distribution revenue requirement + low voltage charges + transformation allowance. In the 2008 Test year the rates were derived by using the fixed/variable allocators from 2007 (as mentioned above) then adding the low voltage costs and the transformation allowance to the variable rate. This resulted in a lower fixed charge and higher variable charge than if the model had correctly calculated the exact same fixed/ variable split as existed in 2007.

RSL submitted that even though the results that we have presented in the application are not what we had preferred, they are within the realm of reasonableness and they do not materially impact the customer one way or another and therefore we would propose to continue with rates as submitted.

VECC working the available data has determined that the revenue to costs ratios quoted by RSL are, in each case within a few percentage points of the values it would consider as being consistent with the proposed allocation of revenue requirement to customer classes. VECC further submits that "as a result, for

purposes of setting 2008 rates, VECC considers RSL proposal to be reasonable provided the allocation to the Street Light is increased.

10.4 Conclusion:

Rideau St. Lawrence Distribution Inc. is confident that the rate design will result in rates that are just and reasonable for ratepayers.

11. Retail Transmission Service Rates

11.1 Overview

RSL in its application for rates for 2008 did not originally propose revised Transmission Service Rates but stated they would propose rates when further information was available.

11.2 Issues:

Board Staff submit that are unsure why RSL did not assume that rates proposed by Hydro One would not prevail and that RSL should estimate its forecast transmission costs accordingly and propose Retail Transmission Service Rates to recover those forecast costs.

VECC agrees with Board staff and submits that RSL should assume that lower transmission rates would be in effect for at least part of 2008. The reason is the expected approval of Hydro One retail transmission rates in its current application and the fact that the decrease in RTR's will help to offset the totals

rates for customers of RSL given that part of the reason for the Hydro One reduction in RTR's is the shifting of costs to RSL and increasing OM & A. VECC's view is that "since the Application includes these increased distribution costs it should also reflect the (offsetting) reduction in retail transmission service rates."

SEC, in its Submission has no comments related to this issue.

11.3 Discussion and Submission:

RSL provided in its pre-filed evidence that they would propose revised Transmission Rates when further information was available.

At the time of RSL's 2008 Rate application, there was not sufficient information available upon which to calculate accurate revised Transmission Service Rates.

In response to Board staff interrogatories, RSL indicated that they would propose revised Transmission Rates when further information was available. Wholesale Transmission rates had been approved, but Retail Transmission rates had not been. RSL is an embedded distributor and receives its power through Retail Transmission points, and is billed by Hydro One based on Retail Transmission Service Rates.

Of particular note in relation to charges billed by Hydro One to RSL for Transmission Service Rates is that a change in supply feed to one of our communities due to either a planned outage or unplanned outage results in RSL being billed two times the monthly peak in that billing period. RSL has no control over the supply feed switch, and the alternate supply feed triggers an additional charge to RSL, as the supply feed is from a different TS. When calculating impacts based on billed volumes the number of events like this materially affect the amounts billed to RSL. Each occurrence of this type generates additional charges of \$40,000 to \$60,000. In 2007, there were three of these events, and that is representative of a normal year. The switch to the alternate feed is normally very short – from a few hours to a day or two. Since we are billed on the peak kW in a 30 day period from each TS, this results in RSL paying for an

increased Network and connection fee. The three occurrences in 2007 happened on Jan. 26 (11:45 to 15:15) Feb. 21 (11:00 to 16:00), and on July 25, 2007 for about one week. The total kW for the three occurrences was 29,536 kW, and it increased RSL's cost by \$136,160.96 (\$2.09 per kW for Connection, and \$2.52 per kW for Network).

In proposing rates RSL needed to clarify its understanding of the newly approved rates charged by the IESO to transmission customers and the effect those rates would have on the Hydro One Retail Transmission Service Rates that would be charged to Rideau St. Lawrence Distribution Inc. which in turn RSL would have to recover from its' ratepayers.

Based on the Application made by Hydro One RSL has calculated new rates for RTSR's that reflect the over/under recovery in 2007, and the implementation of the Hydro One rates proposed in their Application. The resulting changes are a decrease in Network rates of 11.4% and a decrease in Connection rates of 7.6%

Network

Class	Test Year kWh	RSL Current Rate	Network Revenue at Current Rates	RSL Proposed Rates	Network Revenue at Proposed Rates
Residential	45,379,623	0.0054	245,050	0.0048	217,822
GS <50 kW	24,085,319	0.0049	118,018	0.0043	103,567
Scattered Load	304,493	0.0049	1,492	0.0043	1,309
	Test Year kW				
GS 50 to 4999 kW	132,103	2.0169	266,438	1.7872	236,094
Sentinel Lighting	279	1.5288	426	1.3547	378
Street Lighting	3,875	1.5211	<u>5,895</u>	<u>1.3479</u>	<u>5,224</u>
Required Revenue			637,319		564,394

Connection

Class	Test Year kWh	RSL Current Rate	Connection Revenue at Current Rates	RSL Proposed Rates	Connection Revenue at Proposed Rates
Residential	45,379,623	0.0049	222,360	0.0045	204,208
GS <50 kW	24,085,319	0.0044	105,975	0.0041	98,750
Scattered Load	304,493	0.0044	1,340	0.0041	1,248
	Test Year kW				
GS 50 to 4999 kW	132,103	1.7588	232,342	1.6272	214,958
Sentinel Lighting	279	1.3881	387	1.2842	358
Street Lighting	3,875	1.3597	<u>5,269</u>	<u>1.2579</u>	<u>4,875</u>
Required Revenue			567,673		524,397

11.4 Conclusion:

RSL is proposing to have the rates presented included as part of the Rate Application.

12 PILs

12.1 Overview and Issues:

Board Staff, VECC and SEC each provided comments on the PILs calculation carried out by RSL. Board Staff has observed that RSL has not included a recent change in federal income tax regulations in the calculation of its PILs allowance.

VECC concurs with the submissions made by Board staff regarding PILs calculations. VECC also submits that the Board should make it clear to RSL and all distributors that they are expected to adopt the appropriate CCA classes for tax purposes so as to minimize current tax expense.

SEC Submits that the change in federal corporate income tax should be reflected in RSL's PILs allowance.

12.2 Discussion, Submission and Conclusion:

The change in PILS tax legislation was enacted Dec. 13, 2007, after RSL had submitted their 2008 Rate Application.

RSL will make the adjustment to reflect the most recent tax legislation in regard to tax rates and new CCA classes.

13. Deferral and Variance Accounts

13.1 Overview:

RSL has requested rate riders for all customer classes to dispose of its Deferral and Variance account balances from December 31, 2006. RSL has also requested a new Deferral Account for Future Capital Expenditures.

13.2 Issues:

Board Staff comments question how a new deferral capital account would be used and that the request to establish this deferral account is analogous to including a capital investment factor in an IRM year. Staff also note that the mechanistic calculation for Third Generation IRM has not been finalized, and may include a capital component. Board staff commented on accounts 1562 the treatment of RCVAs and RSVAs and made observations on account 1508 as well seeking further information.

VECC's view is that it is pre-mature to approve a new deferral account at this time. VECC requests further information regarding the Smart Meter Capital and Offset Variance account.. VECC also states that "the account balances as of December 31, 2006 should be cleared. Now, during a cost of service filing, is the most efficient time to deal with this matter."

SEC, in regard to the new deferral account for future capital projects, submits that RSL's application is premature as it preempts the Third Generation Incentive Regulation Mechanism process.

13.3 Discussion and Submission:

A new deferral account was applied for to capture capital expenditures incurred in non-rebasing years. RSL sees this as an issue as do many distributors as evidenced by ongoing discussions currently before the Board for the Third Generation IRM. RSL has an example of the type of situation that can arise for distributors in this Application. RSL has experienced a delay with two capital projects identified in Section 3 Rate Base and Capital Expenditures. The current rules, which RSL proposes to follow, will allow RSL to claim one half years depreciation expense and include one half of the capital expenditure in this rebasing. For 2009 and the following year, and until rates are rebased again, the half year rule becomes embedded in RSL's rates. RSL does not question or take issue with the 2008 adjustments for the delay in capital spending – but does have an issue with the 2009 and future years prior to the next rebasing. Currently there is no mechanism available to distributors in this situation to make corrections for non-rebasing years. This is the primary reason for the request to establish a Future Capital Project Deferral account.

RSL is proposing to include the annual costs of service of Capital projects only where the costs are incremental to the cost of service in non rebasing years. Depreciation would also be calculated, and would provide a Net Capital balance to be included in reserves for future settlement. Such an account allows the distributor to recover costs incurred with a new capital expenditure in a reasonable manner. At the time of rebasing, costs are moved into rate base. As Board staff have noted, "A reasonable level of capital investments can be characterized as both prudent and outside management's ability to control". We would agree with this statement. RSL's proposal

to establish this deferral account attempts to allow the LDC the ability to recover those costs – if or when they should occur.

RSL accounts for Deferral and Variance accounts in a diligent and professional manner.

Treatment of Account 1562

In the Board Staff Submission, page 25, they comment that they discovered an error made by RSL in accounting for 1562 during the interrogatory phase.

In fact, RSL discovered the error after our 2006 Year End Audited Financial Statements had been completed and accepted. RSL made adjusting entries in 2007 effective January 1, 2007, to remove any changes to account 1562 after April 2006, except for interest improvement on the account balance. RSL included this credit adjustment of \$3,282 in our 2008 Rate Application on Exhibit 5, Tab 1, Schedule 2, page 8. RSL further explained the adjustment to account 1562 in Exhibit 5, Tab 1, Schedule 3, page 10 in paragraph two.

In response to Board staff interrogatory 43, RSL further explained our handling of account 1562.

“This was an error that was found after the year end close out and corrected as to not affect the amounts requested for disposal, while still completing our 2006 Trial Balance to tie into our Audited Financial Statements. We felt this was the most transparent way to handle the adjustment. “

The balance in account 1562 accurately reflects the Board’s directions, and the only transactions in account 1562 after April 2006 are for interest improvement.

Treatment of RCVA and RSVA

As part of our application process RSL reviewed the status of the RSVA and RCVA. It seemed efficient to review these and dispose of the balances – which in effect updates our Recovery of Regulatory assets rate rider. We believe that for distributors involved in this rebasing process and who have applied for disposition, this remains an efficient method of dealing with this issue.

A streamlined process would be welcomed by RSL in the future to deal with these accounts.

Treatment of Account 1508

RSL did not cease accruals in this account as of April 30, 2006. RSL has included a principal balance of \$19,831 as of Dec. 31, 2006. RSL will make adjusting entries in 2007 to cancel principal changes to the balance in 1508 after April 2006. The corrected balances at Dec. 31, 2006 would be \$12,361.80, plus interest improvement of \$657.31. RSL will revise the balance in 1508 to reflect this amount to be included in the proposed disposition.

RSL confirms that it did compare the OEB cost assessments for the 2004/05 and 2005/06 invoices to the OEB cost assessment for 1999/2000. Amounts over the 1999/2000 costs assessments were recorded in this 1508 account.

RSL confirms that the Board prescribed rate was used from May 1, 2006 for this account.

In regard to the disposition of certain deferral and variance accounts - RSL has proposed to dispose of the December 31, 2006 balances included in the audited financial statements. RSL has not proposed any forward forecasting charges to the deferral/variance accounts.

13.4 Conclusion:

Rideau St. Lawrence understands that capital spending in non-rebasing years is an ongoing issue and in the absence of a Board approved mechanism, viewed the establishment of a variance/deferral account to address this issue or in the alternative another mechanism that would address this issue.

RSL submits that the rebasing process is an efficient time for distributors who are rebasing to dispose of the deferral and variance balances as presented in the Application.

14. Smart Meters

14.1 Overview

RSL is not a distribution company named in the ED-2007-0063 proceeding. In this Rate Application, RSL has not included any costs related to Smart Metering. RSL currently has an amount of \$0.26 per month per metered customer included in its approved rates. At the present time it is unclear how Smart Metering costs will be recovered and therefore RSL has not proposed a specific smart meter rate adder in this application.

14.2 Issues

Board staff and SEC, in their Submissions have no comments related to this issue.

VECC has proposed that it would be prudent for the Board to direct RSL to maintain its current Smart Meter rate adder of \$0.26/meter/month.

14.3 Discussion and Submission

RSL is not identified as an active distributor for smart meters. RSL has not been named in government regulations to proceed with the Smart Metering Initiative. RSL in cooperation with the CHEC group has been working with Utili-Assist in preparation for the Smart Metering Initiative and will record costs in USoA account 1555. The 2008 Rate Application does not include any smart meter costs for OM & A or Capital. In the Application RSL submitted that "it is unclear how Smart metering costs will be recovered and therefore we request to be included in any provincial mandate of Smart Metering costs recovery." RSL is also aware of the rapidly approaching deadline for the full roll out of smart meters

14.4 Conclusion

RSL realizes the importance of a comprehensive plan for the smart meter implementation. RSL is also aware that this is an issue which affects a great number of distributors in the Province. RSL would request that it be included in any cost recovery related to the Smart Meter Initiative.

15. Summary of Submission

RSL's 2008 Rate Application proposes rates that would recover a revenue requirement sufficient to recover its reasonably incurred costs and a return on capital. The application is supported by a substantial record that includes pre-filed evidence and responses to interrogatories. Submissions were received from Board Staff and two interveners, SEC and VECC.

RSL has focused its submission primarily on those issues identified by Board Staff and those interveners, on the assumption that all other aspects of the Application that were not addressed in their Submissions are acceptable for the purposes of setting rates. RSL has been responsive to all of the issues raised by the parties and Board staff, and has provided additional information where requested to all parties.

Rideau St. Lawrence asks that the Board approve the rates as applied for, subject to the changes that Rideau St. Lawrence has proposed or agreed to in this submission.

All of which is respectfully submitted,

Rideau St. Lawrence Distribution Inc.