



## **Westario Power Inc.**

24 Eastridge Road, R.R. # 2  
Walkerton, ON N0G 2V0  
Tel (519) 507-6937 Fax (519) 507-6787

Mr. Storck,

I am hopeful that given the short time frame the following will satisfactorily address your inquiry with respect to a simplified explanation for the reasons that Westario Power Inc. is requesting an increase in its distribution charges.

I have included a slide that summarizes the principles of the cost of service for your reference. The two biggest factors that are supported by Westario Power's distribution revenues are our Operating, Maintenance and Administrative expenses (OM&A) and the value of our fixed assets and related capital expenditures. Both of these areas of expenditure are required to support the short and long term sustainability of the distribution system, e.g. poles, transformers, wires, substations etc. As well, an appropriate level of customer service and administrative support is required to maintain an operation that meets expectations as expressed by our customer base. The good news with respect to this is that Westario's last approved cost of service application for rates effective May 2014 included OM&A expenses of about \$6.2M, the current application includes a request for revenues to support OM&A expenses of only \$6.0M. Not a large reduction but given the time frame fairly significant.

On the other hand Westario Power has spent on average about \$4.9M per year since 2013 on fixed assets or capital expenditures that were essential to sustain, maintain and develop a safe and reliable infrastructure that supports an efficient and consistent delivery of electricity to our customers. For example we have had to spend about \$6.8M on substation upgrades and it is expected that this planned programme will continue for several years. As a result of these expenditures our rate base and average net fixed assets have increased by about \$10M since our 2013 application. Westario must have a return on these investments in order to pay for them either directly or through alternative financing methods such as long term debt. The rate of return is prescribed by the regulatory body i.e. the OEB and our calculated regulated return has not changed significantly since 2013. However, as a result of the capital expenditures Westario's annual depreciation expense has increased significantly since 2013. This is the primary factor currently contributing to the increased revenue required and therefore the increase in distribution charges. It is important to note that due to the method of depreciating these costs they are recovered over a significant period of time.

I would like to suggest that you refer to exhibit 2 of the application for a more detailed explanation of the capital expenditures that have occurred recently and those that are planned for the future. As well Table 7 in Exhibit 6 details Westario's figures that populate the Principles of the Cost of Service attachment and support our request for increased revenue.

As the OEB has pointed out they have just begun reviewing our rate application and one of the first steps in the process is the open forum where customers can obtain information about the application and the process. If you would like further clarification on the on the

information that I have provided please let me know at your convenience. I will also be in attendance at the meeting tomorrow evening.

Regards,

Malcolm McCallum  
VP Finance and CFO  
Westario Power Inc.

---