



WELLAND HYDRO-ELECTRIC SYSTEM CORP.

P.O. Box 280 950 East Main Street, Welland, Ontario L3B 5P6 Telephone 905-732-1381 Fax 905-732-0266

File 4

January 08, 2009

RECEIVED

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JAN 07 2009

Ms. Kirsten Walli *28/1/09*
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

ONTARIO ENERGY BD

Dear Ms. Walli:

Re: Welland Hydro-Electric System Corp.
2009 Distribution Rates Application
Board File No. EB-2008-0247

In accordance with Procedural Order No.1, please find enclosed paper copies (2) and one electronic copy of a supplemental response (41f) to interrogatories filed by Ontario Energy Board technical staff.

In addition, please be advised that Welland Hydro-Electric System Corp. will attend the technical conference currently scheduled for January 29, 2009.

An electronic copy has been filed using the OEB's E-filing services.

Yours very truly,

Wayne Armstrong
Director of Finance
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Welland Hydro-Electric System Corp.

**Response To:
Interrogatories of
Board Staff**

Supplemental

41 f)

In Note 17 to Welland's financial statements of December 31, 2007, the Company indicates that if it were to refinance at current market rates, the interest expense would be reduced by \$135,000 annually. Please calculate the revised revenue requirement assuming that the Company was to refinance at the quoted market rate of 5.25%.

Response:

As requested by Board Staff attached is the revenue requirement assuming the Long Term Debt portion of the Deemed Capital Structure was set at 5.25%.

Note 17 in the 2007 financial statements deals with Financial Instruments. This note was simply advising the reader that the market interest rate for similar Long Term debt was 5.25% (current actual 6.25%) which would result in a \$135,000 reduction in interest (1% reduction on actual long term debt of \$13,500,000). However, Welland Hydro-Electric System Corp. made no entries in 2007 as a result of accounting for Financial Instruments.

In the original 2009 rate application submission, Welland Hydro-Electric System Corp. based the interest rate for Deemed Long Term Debt on the current actual rate of 6.25%. Based on the terms of the Long Term Note with the City of Welland, it is Welland Hydro-Electric System Corp.'s understanding that interest rate for Deemed Long Term Debt used to calculate 2009 Revenue Requirements will have to be adjusted to the lower of actual or the deemed rate for Long Term Debt set by the OEB in early 2009.

Welland Hydro-Electric System Corp.

Table 1

Calculation of Revenue Deficiency or Surplus

Long Term Debt @ 5.25%

	2009 Test Existing Rates	2009 Test Proposed Rates
Revenue		
Suff/ Def From Below.		\$1,502,373
Distribution Revenue	\$7,093,092	\$7,093,092
Other Operating Revenue (Net)	\$656,350	\$656,350
Total Revenue	\$7,749,442	\$9,251,815
Distribution Costs		
Operation, Maintenance, and Administration	\$5,113,936	\$5,113,936
Depreciation & Amortization	\$1,721,827	\$1,721,827
Property & Capital Taxes	\$27,730	\$27,730
Interest- Deemed Interest	\$804,857	\$804,857
Total Costs and Expenses	\$7,668,350	\$7,668,350
Less OCT Included Above	\$27,730	\$27,730
Total Costs and Expenses Net of OCT	\$7,640,620	\$7,640,620
Utility Income Before Income Taxes	\$108,822	\$1,611,195
Income Taxes		
Corporate Taxes	\$73,722	\$569,505
Ontario Capital Tax	\$27,730	\$27,730
Total Income Taxes	\$101,452	\$597,235
Utilitiy Net Income	\$7,370	\$1,013,960
Rate Base		
	\$27,324,488	\$27,324,488
Return on Equity		
	8.57%	8.57%
Equity Rate Base%		
	43.30%	43.30%
Expected Return on Equity		
	1,013,960	1,013,960
Revenue Deficiency After Tax		
	1,006,590	
Revenue Deficiency Before Tax		
	1,502,373	

Capital Structure for 2009- Long Term Debt Interest @ 6.25%

Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	14,400,005	52.70%	6.25%	900,000.34
Unfunded Short Term Debt	1,092,980	4.00%	4.47%	48,856.19
Total Debt	15,492,985	56.70%		948,856.52
Common Share Equity	11,831,503	43.30%	8.57%	1,013,959.85
Total equity	11,831,503	43.30%		1,013,959.85
Total Rate Base	27,324,488	100%	7.18%	1,962,816.37

Capital Structure for 2009- Long Term Debt Interest @ 5.25%

Description	\$	% of Rate Base	Rate of Return	Return
Long Term Debt	14,400,005	52.70%	5.25%	756,000.28
Unfunded Short Term Debt	1,092,980	4.00%	4.47%	48,856.19
Total Debt	15,492,985	56.70%		804,856.47
Common Share Equity	11,831,503	43.30%	8.57%	1,013,959.85
Total equity	11,831,503	43.30%		1,013,959.85
Total Rate Base	27,324,488	100%	6.66%	1,818,816.31