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BY COURIER

March 17, 2009

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
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Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Welland Hydro Electric System Corp. EB-2008-0247

Please find enclosed a copy of the Submissions of the School Energy Coalition in respect of the above-captioned matter. An electronic copy has already been sent to the parties.

Yours very truly,
SHIBLEY RIGHTON LLP

John De Vellis
jd/tw
Encl.

EB-2008-0247

IN THE MATTER of the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Welland Hydro Electric System Corp. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective May 1, 2009.

SUBMISSIONS

OF THE

SCHOOL ENERGY COALITION

Overview

1. These are the submissions of the School Energy Coalition ("SEC") in the application by Welland Hydro Electric System Corp. ("WHESC") for an order fixing just and reasonable rates for the distribution of electricity effective May 1, 2009.

Cost of Capital

2. In the pre-filed evidence, filed August 15, 2008, WHESC states that it is seeking a return on long-term debt of 6.25%, which is the amount currently paid on the long-term loan with its shareholder, the City of Welland. The rationale was that the debt is embedded debt, and that the Board policy is that the cost rate for such debt "shall be maintained for the life of each active

instrucment, unless a new rate is negotiated, in which case it will be treated as new debt." [Ex. 6-1-1, p. 1]

3. In its response to Board Staff's supplementary interrogatories, WHESC states it is now seeking the Board-determined deemed long-term debt rate for 2009. WHESC provided no explanation for why it is suddenly seeking the deemed long-term rate as opposed to the rate set out on the note, 6.25%.

4. SEC believes there is no justification for using the deemed debt rate instead of the nominal rate and the proposal should be denied.

5. In addition, SEC wishes to comment on a feature of the Promissory Note that appears to be unfair to the utility and therefore to ratepayers. The note sets out the interest rate, 6.25%, and also states as follows:

> The interest rate may be changed by the City by providing the Borrower with three (3) months prior written notice of the revised interest rate.
>
> [Amended and Restatd Promissory Note dated October 16, 2005, Energy Probe IRR's, Exhibit M]

6. In SEC's submission, this provision is unfair to ratepayers. While the City has the right to increase the interest rate on three months' notice, the utility cannot pay back any principal without the prior consent of the City of Welland [see Board Staff IR#41(d)] So while the City can raise the interest rate, WHESC could not, for example, take advantage of the lower interest rate, from a commercial lender, of 5.25% that available to it in December 31, 2007.

7. Therefore, in the future if the interest rate on the note is increased the Board should be cognizant of the fact that the terms of the Note are asymmetrical and gives the shareholder the right to increase the rate but does not allow the utility the option of paying off the loan in the event it is able to procure a lower interest rate in the competitive market.

OM&A

8. WHESC's controllable OM&A expenses for 2009, after the adjustments made by WHESC, represent a 39% increase over 2006 actual.

9. Despite the increase in OM&A, WHESC's OM&A per customer remains among the lowest in the province:

WHESC OM&A per Customer

	2006 Board approved	**2006 actual**	**2007**	**2008**	**2009**	**2009 Revised**
Controllable OM&A	$4,054,059	$3,521,084	$4,510,311	$4,726,832	$5,113,936	$4,920,087
# of Customers, excluding Connections	21,003	21,279	21,389	21,541	21,695	21,707
OM&A/customer	$193.02	$165.47	$210.87	$219.43	$235.72	$226.66

10. As stated, WHESC has adjusted its original controllable OM&A from $5,113,936 to $4,920,087, a reduction of $193,849. Absent the proposed reductions in controllable OM&A, WHESC's 2009 OM&A per customer would have been $236, a significant increase over past

years. SEC therefore believes that the reductions are appropriate and believes that WHESC has acted responsibly in seeking ways to minimize its OM&A in view of the decreases in revenue it is facing.

11. SEC agrees with Board Staff, however, that 2009 OM&A should be further reduced by amortizing non-recurring regulatory expenses over four years instead of three.

PILS

12. SEC agrees with Board Staff that the starting point for the PILS calculation should be the net income using the recently updated ROE of 8.01%.

Cost Allocation

13. The applicant has proposed increasing the revenue to cost ratios for the GS<50kW and GS>50kW rate classes from approximately 65% to 85 [Ex. 8-1-2, p.3]. The result is an extremely large rate impact on these rate classes:

- a typical GS<50kW customer faces a distribution bill impact of 37% and a total bill impact of 4.82%;
- a GS>50kW customer with a 62kW demand faces a 79% increase on the distribution portion of the bill and 15% increase on a total bill basis [SEC IR#17(a)]

14. Given these bill impacts, SEC asked WHESC why it had not proposed a rate mitigation initiative. WHESC simply said, with respect to the GS>50kW rate class, that not all customers within the class will experience the same rate impacts and that it had reduced the fixed component of the distribution bill from the current 55.55% to 51.16%. [see SEC IR#17(b)]

15. While reducing the fixed component has reduced the impact on smaller volume users within the GS>50kW class, the rate impacts quoted above are for the smallest users within the class: they would, therefore, already take the change in the fixed component into account.[1]

16. In SEC's submission, these bill impacts for the GS<50kW and GS>50kW rate classes, in particular for the smaller users within the GS>50kW class, are unacceptable and rate mitigation is necessary. In a number of 2008 rate proceedings, the Board established an methodology whereby rate classes that are below the minimum level under the Board guidelines are adjusted using a phased-in approach.

17. An example is the Board's decision in Oshawa Hydro's 2008 distribution rates. There the Board considered whether the revenue to cost ratios of various general service rate classes, some as high as 257%, should be reduced to the maximum range for each class as set out in the Board's guidelines. The Board, following the practice set out in previous proceedings in which it was found that doing so could cause rate impacts on other users that were unacceptable, decided on a phased approach:

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1 The fixed charge for this class, $192.09 will remain constant at the 2008 level. However, due to the increase in revenue collected from this class the proportion of revenue derived from the fixed charge is decreasing.

> With respect to OPUCN's application, *the Board is prepared to adopt the general principle* that, where the proposed ratio for a given class (Column B) is above the Board's target range (Column D), there should be a move of 50% toward the top of the range from what was reported in the Informational Filing 2 (Column A).
>
> ...
>
> Although the ratios for the GS > 1,000 and Large Use classes would continue to be high, the Board has concluded that an immediate move to the target ranges would result in unacceptable impacts for customers in some of the remaining classes, and some mitigation is warranted. Therefore, the rates for the two classes shall be set so that a move of 50% to the top of the Board's target ranges will be achieved for 2008. The Board expects the Company to achieve the remaining 50% by equal increments in years 2009 and 2010 when it makes applications for rate adjustments.
>
> EB-2007-0710, Decision dated March 19, 2008, p. 13 [emphasis added]

18. SEC believes, therefore, that a phased approach would be more consistent with recent regulatory practice.

19. In fact, WHESC is following the phased approach with respect to the Streelighting class, which it proposed to move to 70% (the minimum level for this class) over two years.

20. In SEC's submission, particularly in view of current economic conditions, the rate impacts on GS<50kW and GS>50kW customers is unreasonable and may be counter-productive for the utility if it drives businesses that are already teetering on the edge out of business. Even for institutional customers such as schools such sudden, unbudgeted, increases may result in cutbacks in other areas that are crucial to student success. SEC strongly urges the applicant and

the Board to consider the potentially serious effects that these rate increases may have on the general service rate classes.

Rate Design

21. SEC believes both the proposed fixed charges for the GS>50kW rate class is too high.

22. The following table shows the minimum and maximum range for the fixed charge from 2006 Cost Allocation Informational Filing for the Residential, GS<50kW and GS>50kW rate classes:

Summary	**Residential**	**GS <50**	**GS>50-Regular**
Customer Unit Cost per month - Avoided Cost	$3.17	$13.04	$59.65
Customer Unit Cost per month - Directly Related	$4.66	$19.02	$86.32
Customer Unit Cost per month - Minimum System with PLCC Adjustment	$7.98	$22.06	**$97.77**
Fixed Charge per approved 2006 EDR	$12.40	$18.28	**$180.85**
Existing (and proposed[2]) fixed charge	$13.15	$19.40	**$192.09**

Source: WHESC Cost Allocation Model, sheet O2.

2 WHESC is proposing that the 2009 fixed charge for all three rate classes remain fixed at the 2008 level. The increase in the revenue requirement will therefore be recovered via increase in the volumetric charge only.

23. As can be seen from the above table, unlike the fixed charge for Residential and GS<50kW rate classes, the fixed charge for the GS>50kW rate class is far above the maximum range.

24. The result is that smaller users within this class are absorbing a greater proportion of the costs than is justified given the identified fixed costs of serving the class. The result is significant intra-class subsidization.

25. In a number of recent cost of service applications in which similar intra-class subsidization was identified, the parties agreed via settlement to reduce the fixed charge for the GS>50kW rate class. This has occurred in Enwin and Bluewater Power for the 2009 rate proceeding and Hydro Ottawa for the 2008 rate year. For example, in the Bluewater Power settlement proposal, which has been accepted by the Board, the parties agreed to lower the fixed charge for the GS>50kW rate class "to the Board established ceiling, which is 20% above the Customer Unit Cost per month – Minimum system with PLCC Adjustment."[3]

26. For WHESC, that ceiling amount would be $117.32. SEC submits that that should be the fixed charge for the GS>50kW rate class.

27. SEC notes that reducing the fixed charge as suggested above will also help to alleviate some (but not all) of the very large total bill impacts of the application on small users in the GS>50kW rate class.

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3 Settlement Agreement in EB-2008-0221, p. 34.

Costs

28. SEC participated responsibly in this proceeding and sought to minimize its costs by cooperating with other ratepayer groups. SEC respectfully requests that it be awarded 100% of its reasonably incurred costs.

All of which is respectfully submitted this 16th day of March, 2009.

John De Vellis
Counsel to the School Energy Coalition