

IRM 2009 EB Number: EB-2008-0192
Licence No. ED-2002-0573

**Application for Approval of
2009 Electricity Distribution and Retail Transmission Rates**

Manager's Summary

Kitchener-Wilmot Hydro Inc. (License No. ED-2002-0573) distributes electricity to approximately 83,950 customers within the City of Kitchener (primarily urban) and the Township of Wilmot which is primarily rural containing seven (7) small communities.

On October 3, 2008, the Ontario Energy Board ("OEB" or the "Board") issued a letter to all electricity distributors outlining the filing requirements for incentive regulation distribution rate adjustments. Accordingly, Kitchener-Wilmot Hydro Inc. (the "Applicant" or "KWHI") submits its 2009 Distribution Rate Application consistent with the filing guidelines issued by the Board under the 2nd generation incentive regulation mechanism.

Details of the Applicant's Electricity Distribution Rate Application are noted below:

Embedded Distributor Rate Class

- KWHI has only one (1) Embedded Distributor rate classification. The Applicant's Embedded Distributor rate class is not charged a monthly service charge but is subject to two different volumetric rates (a specific LV line rate and a shared LV line rate). Limitations in the OEB IRM model did not allow for entry of more than one volumetric rate per rate class and thus, subsequent adjustment of the two rates. Following discussion with Board staff at the time of filing its 2007 rate model, the Applicant was directed to enter the Embedded Distributor rate class twice, separating the two volumetric rates; thus allowing the model to make the required adjustments to both rates. This submitted IRM rate model has been prepared consistent with those instructions. This single rate class shows as two separate rate classes throughout the rate application.

2007 Board-Approved Tariff of Rates and Charges

- The Applicant's 2008 Board-Approved Tariff of Rates and Charges, as issued April 18, 2008 was copied directly into worksheets "C3.1 CurrRates & Chg General" and "C6.1 Curr Rates & Chgs Unique" of the rate model, except for the following exceptions on worksheet "C6.1 Curr Rates & Chgs Unique":
 - For the rate class Standby Power – INTERIM APPROVAL, a monthly rate of \$0.0001 has been entered. This rate class does not have a monthly service charge but is charged "Monthly Rate – Applicable Customer Class

Distribution Volumetric Rate - \$/kW of contracted amount” as per the Applicant’s current approved Tariff of Rates and Charges. Following discussions with Board Staff, it was discovered that a value had to be entered at cell F34 in order to correctly generate a Tariff of Rates and Charges that included the Standby Power rate class. A value of \$.0001 has therefore been entered there but a monthly charge is not being requested for this rate classification.

- o Embedded Distributor rate class has been entered twice, as noted above.

Smart Meter Rate Adder

- The existing Smart Meter rate adder of \$0.27 per month charged by the Applicant to specific rate classes, in accordance with the Board’s Decision RP-2005-0020 / EB-2005-0529 was entered on worksheet “C1.1 Smart Meters Rate Adder” of the model.
- The Applicant has been authorized by regulation (O. Reg 427/06) to conduct smart meter activities, conditional on its meters being acquired pursuant to and in compliance with a Request for Proposal issued by London Hydro Inc. and intends to install smart meters in the 2009 rate year. In accordance with the G-2008-0002 Guideline for Smart Meter Funding and Cost Recovery issued by the Board on October 22, 2008, the Applicant is requesting the standard \$1.00 Smart Meter Funding adder and has thus entered a Uniform Service Charge Amount of \$1.00 for specific classes on worksheet “J1.1 Smart Meters Rate Adder” of the 2009 rate model. Attached to this rate application as Appendix A (signed by KWHI’s President and CEO, Jerry Van Ooteghem) is the evidence required in support of this request detailed as follows:
 - o The estimated number of meters to be installed in the 2009 year
 - o The estimate cost per installed meter and in total
 - o A statement as to whether the Applicant expects to purchase smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06
 - o A statement as to whether the Applicant expects to incur costs associated with functions for which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07 and an estimate of those costs.

K-Factor Derivation

- Green cells in worksheet “D1.1 K-factor Adjustment Wrksht” have been populated using the data directly from the Applicant’s Board-approved 2006 EDR model.

- The Applicant is considered to be a medium-small distributor.
- The following changes are included in the model stemming from the IRM report:

	2008	2009	Change
Debt to Equity	57.5 / 42.5	60 / 40	2.5 / (2.5)
Weighted Average Cost of Capital	7.28%	7.20%	-0.08%
Return on Rate Base	10,747,061	10,636,266	(110,794)
Revenue Requirement (Before PILS)	29,488,457	29,377,662	(110,794)
Target Net Income (EBIT)	5,650,517	5,318,133	(332,383)
Interest Expense	5,096,544	5,318,133	221,589
Revenue Requirement after PILS & Transformer allowance credit	32,218,474	32,039,795	(178,679)

- The resulting K-factor to be applied to the Applicant's revenue requirement is a decrease of (0.6%).

2009 Federal Tax Adjustment (PILS)

- Due to the reduced PILS requirement stemming from lower corporate income tax rates, the effect to the Applicant's revenue requirement for PILS is a reduction of (\$70,702) for the 2009 rate year or a (0.2%) decrease in the revenue requirement.

Price Cap Adjustment

- No inputs were required to be entered on "F1.1 Price Cap Adjustmnt Wrksht".
- Following the publication of the 2008 annual data for the national GDP-IPI around the end of February 2009 by Statistics Canada, Board Staff will adjust the inflation index in the Applicant's rate model and submit back to the Applicant for confirmation, as per the "2009 Electricity Distribution Rates FAQs for LDCs under 2nd and 3rd Generation Incentive Regulation Mechanisms" issued October 20, 2008.
- The current values (prior to Board Staff adjustments) are as follows:

- o Price Escalator (GDP-IPI) of 2.1%.
- o Average annual expected productivity gain of 1%.
- The unadjusted resulting total Price Cap Adjustment to be applied to the Applicant's revenue requirement is currently 1.1%.

Retail Transmission Rates

On August 28, 2008, the Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new Uniform Transmission Rates (UTRs) for Ontario transmitters, effective January 1, 2009. Based on this Decision, the new UTR's are:

- o Network Service Rate of \$2.57 per kW per month (an 11.3% increase)
- o Line Connection Service Rate of \$0.70 per kW per month (an 18.6% increase)
- o Transformation Connection Service Rate of \$1.62 per kW per month (a 0.6% increase)

The Applicant passes on these UTR charges through two (2) retail transmission service rates (RTSRs). These retail transmission rates are as follows:

- o Retail Transmission Rate – Network Service Rate
- o Retail Transmission Rate – Line and Transformation Connection Service Rate

In accordance with the G-2008-0001 Guideline for Electricity Distribution Retail Transmission Service Rate issued by the Board on October 22, 2008, the Applicant has adjusted its RTSR in the same manner as the UTRs have changed. Following an analysis of the changes in the RTSRs, the increases requested are as follows:

- o Increase in the Retail Transmission Rate – Network Service Rate of 11.3%
- o Increase in the Retail Transmission Rate – Line and Transformation Connection Service Rate of 15.24%

Retail Transmission Rate – Network Service Rate

The Network Service Rate charged by electricity transmitters in Ontario applies to the Applicant's total load in kW and thus, the Applicant proposes to increase the Retail Transmission Rate – Network Service Rate charged to its customers by the same percentage amount of 11.3%.

Retail Transmission Rate – Line and Transformation Connection Service Rate

The Transformation Connection Service Rate charged by electricity transmitters in Ontario applies to only one delivery point within the Applicant's service territory or 8.5% of its total load. Line Connection Service and Transformation Connection Services rates have been analyzed using billing data provided by the IESO since the last decrease in November 2007. To calculate the required increase in the Line and Transformation Connection Service Rate, the cost at current rates using KWHI's actual consumption is calculated. The cost at the new rates is then calculated to arrive at the requested increase of 15.24% as follows:

Usage Month	Line Connection Charge Base (kW)	Transformation Connection Charge Base (kW)	Total kW
November 2007	314,696	27,036	341,732
December 2007	335,873	28,616	364,489
January 2008	332,631	31,583	364,214
February 2008	333,810	28,362	362,172
March 2008	312,853	27,520	340,373
April 2008	279,306	26,141	305,447
May 2008	275,809	24,244	300,053
June 2008	367,299	28,330	395,629
July 2008	361,570	29,068	390,638
August 2008	331,420	26,374	357,794
Total kW *	3,245,267	277,274	3,522,541
(A) Cost per kW @ Current Rates **	\$ 0.59	\$ 1.61	\$ 2,361,118.67
(B) Cost per kW @ New Rates ***	\$ 0.70	\$ 1.62	\$ 2,720,870.78
% Increase = (B / A) - 1			15.24%

* Total kW billed by the IESO for each component which make up the costs passed through to the Applicant's customers through the Retail Transmission Rate - Line and Transformation Connection Service Rate.

** Total cost to the Applicant using the rates currently charged by electricity transmitters in Ontario, effective November 1, 2007.

** Total cost to the Applicant using the rates charged by electricity transmitters in Ontario, effective January 1, 2009.

Respectfully submitted,

Original Signed By

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Kitchener-Wilmot Hydro Inc.