Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0247

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Welland Hydro-Electric System Corp. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity to be effective May 1, 2009.

BEFORE: Cynthia Chaplin
Presiding Member

Paul Sommerville
Member

DECISION AND ORDER
July 7, 2009

BACKGROUND

Welland Hydro-Electric System Corp. ("Welland") filed an application with the Ontario Energy Board on August 15, 2008, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that it charges for electricity distribution to be effective May 1, 2009. Welland is the licensed electricity distributor serving the City of Welland.

Welland is one of about 80 electricity distributors in Ontario that are regulated by the Board. In 2006, the Board announced the establishment of a multi-year electricity distribution rate-setting plan for the years 2007-2010. In an effort to assist distributors in preparing their applications, the Board issued the *Filing Requirements for Transmission and Distribution Applications* on November 14, 2006. Chapter 2 of that document outlines the filing requirements for cost of service rate applications, based on a forward test year, by electricity distributors.

On January 30, 2008, as part of the plan, the Board indicated that Welland would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, Welland filed a cost of service application based on 2009 as the forward test year.

The Board assigned the application file number EB-2008-0247 and issued a Notice of Application and Hearing dated September 12, 2008. The Board approved four interventions; The Association of Major Power Consumers in Ontario ("AMPCO"), the School Energy Coalition ("SEC"), Energy Probe Research Foundation ("Energy Probe") and the Vulnerable Energy Consumers Coalition ("VECC"). The Board determined that this application would be decided by way of a written hearing. The hearing closed with the filing by Welland of its reply argument on March 30, 2009.

The full record is available at the Board's offices.

In its original application, Welland requested a revenue requirement of $9,357,747 to be recovered in new rates effective May 1, 2009. The resulting requested rate increase was estimated at 9.3% over 2008 on the delivery component of the bill for a residential customer consuming 1,000 kWh per month. Welland filed an update to its Application on January 20, 2009 (the "Revised Application") and requested a revenue requirement of $9,145,865. In its final submission, Welland agreed with a number of adjustments to its application and revised its revenue requirement to $9,152,461.

THE ISSUES

The following issues were raised in the submissions filed by Board Staff, Energy Probe, SEC or VECC and are addressed in this decision:

- Load Forecast
- Other Distribution Revenue
- Operating, Maintenance & Administrative Expenses
- Taxes
- Capital Expenditures and Rate Base
- Smart Meters
- Cost of Capital and Capital Structure
- Cost Allocation and Rate Design
- Deferral and Variance Accounts

LOAD FORECAST

The following issues are addressed in this section:

- Forecast Methodology
- Customer Forecast
- Loss of Two Large Use Customers

Forecast Methodology

In its original application, Welland stated that it developed its weather normalized load forecast for the Residential rate class using normalized average use per customer ("NAC") as calculated by Hydro One Networks Inc. ("HONI"). Welland contracted HONI to prepare weather normalized data as part of its Cost Allocation filing in 2007. The HONI model takes into consideration thirty years of weather related data and translates this into current year normalized data as annual consumption per customer. The HONI model normalized Welland's actual wholesale data for 2004.

In the Revised Application, Welland reduced the load forecast from 8,427 kWh per customer to 8,383 kWh per customer which represents the actual average usage from 2002 to 2007. In its response to Energy Probe Interrogatory No. 35(a), Welland justified calculating the Residential load forecast using historical (non-weather normalized) average usage for the 2002 to 2007 period instead of the weather normalized value calculated by HONI on the basis of the current recession, an increased focus on conservation and the fact that historical (non-weather normalized) use has typically been lower.

Energy Probe submitted that Welland's January 2009 adjustment to the Residential load forecast should be denied for the following reasons:

1) Welland's load forecast volumes should be calculated on a weather normalized basis as Welland has a component of its return on equity that reflects forecast risk (including the risk associated with weather). Welland's approach for calculating average residential use reduces this risk without a corresponding reduction in return.

2) Welland failed to provide adequate justification for its January 2009 adjustment to the Residential load forecast. Welland stated that the reduced average residential use figures reflect the impact of the economic recession and an increased focus on conservation. However, Welland presented no evidence providing quantification of the impact of conservation measures and no evidence discussing the link between the recession and a reduction of average residential use.

VECC agreed with Energy Probe's submission that Welland failed to provide adequate justification for its January 2009 adjustment to the Residential load forecast. VECC and Energy Probe submitted that the Board should direct Welland to use HONI's NAC value for the Residential load forecast as was proposed in Welland's original application.

In its final submission, Welland stated that the normalized residential usage of 8,427 kWh had only been realized in one year over the six year period from 2002 to 2007. At the time Welland filed its Revised Application, the 2008 Residential actual average usage per customer of 8,093 kWh was available for comparative purposes. Welland stated that it was not in a position at the time it filed its final submission to comprehensively analyze the significant reduction in 2008 Residential average usage. However, Welland speculated that some of the reduction is weather-related and the balance is related to the energy conservation efforts of Welland and the Ontario Power Authority ("OPA").

Welland submitted that the forecast average usage of 8,383 kWh for the Residential customer class is more realistic than the forecast normalized average usage of 8,427 kWh. Welland stated that although it believes that the revised forecast of 8,383 kWh is too high, it should be accepted by the Board.

Furthermore, Welland stated that any forecasting model would have difficulty handling the current economic downturn. Welland submitted that it agrees with the Board's decision in Toronto Hydro, which stated that the OPA, the Independent Electricity Systems Operator ("IESO"), and all other interested parties need to better understand the differences in forecasting methodologies.

The average per customer/connection usage for the Unmetered Scattered Load ("USL"), Street Lighting and Sentinel Lighting rate classes was calculated using 2002-2007 actual data. The 2008 and 2009 load forecasts for the GS<50 kW, GS>50 kW and Large Use rate classes were calculated based on 2007 actual volumes, adjusted for known 2008 changes in customer classification.

Energy Probe stated that it is concerned that the GS<50 kW and GS>50 kW average use figures are based on 2007 actual usage (adjusted for customer movement) and not normalized average use. However, Energy Probe did not submit an alternative for forecasting load in these rate classes.

VECC submitted that apart from the adjustments it has proposed in the preceding sections, Welland's load forecast is reasonable for the purpose of setting 2009 rates. However, VECC emphasized that Welland's load forecasting methodology is quite simplistic and the Board should direct Welland to work with other distributors to develop a more comprehensive and integrated approach to load forecasting for the future. Energy Probe recommended that for future load forecasting the Board direct Welland to develop a forecasting methodology that generates a forecast of billed energy on a bottom-up basis by rate class. The forecast for each rate class would be based on a forecast of the number of customers in each rate class and a forecast of normalized average use for each rate class. The latter would be calculated based on an econometric estimation of average use which utilizes a number of explanatory variables that may differ by rate class.

Board Findings

The Board accepts Welland's original forecast of average use per residential customer. This forecast is based on HONI's NAC data, which has been accepted by the Board in other proceedings as an acceptable forecast methodology. If Welland wished to pursue an alternative forecast, it needed to demonstrate that the forecast methodology was superior to the NAC-based approach. A number of LDCs have developed more sophisticated forecast methodologies as part of the 2009 cost of service rebasing applications and the Board has accepted those methodologies in a number of cases. However, the Board finds that the methodology now proposed by Welland (a forecast based on the simple average of historical consumption) does not represent a significant improvement over the NAC-based approach. The Board does not accept the methodology.

The Board accepts the forecast methodology for the General Service and Large User classes as well as the remainder of the rate classes.

The Board expects Welland to refine its forecast methodology for all of its rate classes in a way that incorporates weather normalization, economic circumstances and other factors on a more rigorous basis. Welland may wish to review the forecast methodologies that the Board has accepted for some of the other LDCs which filed 2009 cost of service applications.

Customer Forecast

In its Revised Application, Welland reduced the number of Large Use customers by two reflecting the closing of one customer's facilities and the transfer of the second customer to the GS>50 kW rate class. Welland also adjusted the number of customers in the GS<50 kW and the GS>50 kW rate classes to reflect the actual number of customers as of September 2008. This adjustment increased the number of GS<50 kW customers in 2009 by 22 and reduced the number of GS>50 kW customers in 2009 by 8.

Energy Probe submitted that Welland's Revised Application update to the customer forecast for the GS<50 kW and the GS>50 kW rate classes is appropriate and should be accepted by the Board.

Board Findings

The Board accepts Welland's evidence regarding the forecast number of customers for 2009.

Loss of Two Large Use Customers

Welland forecast the loss of two of its three current Large Use customers. One of these customers is closing, while the other is downsizing and switching to the GS> 50 kW class. The net reduction in distribution revenue has been estimated at $258,189[1]. Furthermore, Welland forecasts that there will be no revenue in the Large Use class from these two customers as the operational changes are expected to occur at the end of April or beginning of May 2009 (which is the beginning of the rate year).

VECC submitted that Welland's exclusion of the entire load related to the Large Use customer that is closing down its facilities is inappropriate as any operation of the facility after May 1, 2009 is to the benefit of Welland's shareholders. VECC submitted that it would be reasonable to recognize a nominal level of operation for this customer in 2009 (i.e. 10% of historic consumption).

Energy Probe stated that Welland's forecast of $0 in Large Use revenue from these two customers is inappropriate as Welland has indicated, in its response to Energy Probe Interrogatory No. 34, that there is some uncertainty regarding the dates that the customers are closing/downsizing. Energy Probe submitted that it is inappropriate for ratepayers to be asked to cover the lost revenues from the two Large Use customers while the benefits, if any Large Use revenue is generated by these customers, accrues entirely to Welland. Energy Probe submitted that the Board should establish a variance account to record the Large

[1] Energy Probe, Argument, p. 15

Use revenues generated by the two customers, which would later be refunded to the customers who are bearing the burden of the lost revenues associated with the two customers.

In its final submission, Welland rejected VECC's proposal of recognizing a nominal level of operation for the Large Use customer that is closing down its facilities. Welland rejected this proposal on the basis that including any amount of load for this customer in the 2009 rate year would result in Welland under-collecting expected revenue for four years until the next rebasing period.

Welland stated that in regards to the Large Use customer that is downsizing, the exclusion of all forecast Large Use revenue from this customer is appropriate as this customer is switching rate classifications on May 1, 2009.

Welland submitted that should the Board adopt Energy Probe's proposed variance account it should be expanded to include four customers and cover the four years until the next rebasing period. The four customers would include the remaining Large Use customer, the Large Use customer that is shutting down operations, and the two large volume users in the 2009 GS>50 kW rate classification. Welland has made this proposal on the basis that all of the customers listed above have announced significant layoffs, extended periods of complete shutdown in early 2009 and there is significant uncertainty in forecasting load for these customers. Welland included a table in its final submission, which provides evidence for its proposal that the variance account should be expanded, which has been reproduced as Table 1 and compares 2009 test year load forecast with 2009 actual (year-to-date) load for the three remaining customers.

Table 1

Customer	2009 Revised Application	2009 Actual Year to Date	Percentage Change
Remaining Large Use Customer	14,129 kW	13,145 kW	(7%)
GS>50 kW Large Volume Customer #1	4,400 kW	3,249 kW	(26%)
GS >50 kW Large Volume Customer #2	4,756 KW	3,886 kW	(18%)

Board Findings

The Board accepts Welland's forecast of $0 Large User class revenues from the two customers that have been identified. While some residual activities may continue after May 1, 2009 for some period of time, the Board is content that these will be minimal. As the Board is setting base rates for an extended IRM period, the Board finds that the $0 is reasonable.

The Board will not establish the proposed variance account. Energy Probe proposed the account as a means of protecting other customers in the event there are residual operations. The Board is content that the likely magnitude of these volumes over the IRM period does not warrant the establishment of a variance account. Welland has responded that the scope of the variance account should be extended to cover additional customers for which it believes there is substantial load risk. This is a significant proposal, one which exceeds the intention of the original proposal by Energy Probe. Reply Argument is not the appropriate point at which to make proposals of this magnitude because there is no opportunity to test or investigate the associated evidence.

OTHER DISTRIBUTION REVENUE

Welland forecast a decrease of $71,708 in other distribution revenue from $589,546 in 2008 to $458,361 in 2009.[2]

Welland forecast a reduction to the interest income from $205,950 in 2008 to $74,855 in 2009. This reduction is partially related to a reduction in the average bank account balance, but is primarily the result of a reduction in interest rates. The reduction in interest income also includes $13,140 associated with regulatory asset deferral and variance accounts.

Energy Probe submitted that it accepts the majority of the reduction as reasonable given the current level of interest rates. However, the reduction to interest income associated with deferral and variance accounts should not be included in the calculation of revenue offsets as the interest income or cost will be cleared to customers at the time that the account is cleared. Energy Probe's proposal resulted in an interest income for Welland of $87,995.

[2] Exhibit 3 / Tab 3 / Schedule 1, revised February 3, 2009

In its final submission, Welland disagreed with Energy Probe's position that the interest income associated with deferral and variance accounts should not be included in the calculation of revenue offsets. Welland argued that it is in a liability position and therefore pays out interest as opposed to collecting it. Welland also argued that the revenue offset should reflect the interest income and interest expenses associated with regulatory assets as movements in the regulatory asset deferral accounts are reflected in the cash balances in the opposite direction. Welland submitted that the Board should accept the forecast interest income (including Regulatory Asset interest) of $74,855 as filed in the Revised Application. If the Board decides to exclude the interest expense related to regulatory asset deferral accounts, Welland should be offered the opportunity to revise the cash balance on which interest income is calculated.

Board Findings

The Board finds that any interest associated with deferral and variance accounts does not form part of the calculation of the revenue requirement as it remains in and forms part of those accounts until cleared. Although the amount is not large, as this is a matter of principle the Board directs Welland to remove the amount of ($13,140) from its revenue offset.

Energy Probe made a number of submissions regarding the revenues earned from the disposition of utility property, scrap metal sales and miscellaneous non-operating revenue. Energy Probe recommended adjustments to the forecasts which individually and collectively are small, and the resulting change in Welland's revenue requirement would be immaterial. As a result, the Board finds that it is unnecessary to address those matters.

OPERATING, MAINTENANCE and ADMINSTRATIVE EXPENSES ("OM&A")

Table 2 shows the five basic components of the proposed OM&A expenses for 2009 and compares them with previous years. Property and capital taxes are not included in this presentation.

Table 2
OM&A Expenses ($)

	2006 Board Approved	2007 Actual	2008 Forecast	2009 Forecast
Operations	1,105,257	1,213,581	1,377,671	1,497,036
Maintenance	667,983	926,058	1,135,835	1,231,214
Billing & Collecting	876,162	937,705	948,832	980,174
Community Relations	115,488	154,910	77,494	159,667
Administrative & General	1,289,011	1,278,057	1,187,000	1,245,845
TOTAL	**4,053,901**	**4,510,311**	**4,726,832**	**5,113,936**
REVISED 2009				**4,920,089**

The 2009 OM&A budget figure reflects Welland's original proposal filed in August 2008. Property and capital taxes were not included in the original presentation. Throughout the course of the proceeding, Welland proposed adjustments to its original 2009 OM&A to take account of the economic downturn in its service area and the resultant effects on its customers. Welland's revised 2009 OM&A budget was $4,920,089, a downward adjustment of $193,847. The budget revisions were mainly related to a deferred new hire (lineperson), reductions in retiree benefits, and reductions in overtime expenses.

The increase in total OM&A expenses (revised) over the 2008 forecast is 4.1%. The increase in OM&A since the 2006 Board-approved OM&A (the last set of base rates approved by the Board) is 21.4%.

The submissions from Board staff, Energy Probe, VECC and SEC were related to the areas of: OM&A increases in general, regulatory costs, and staff compensation costs.

All intervenors submitted that regulatory costs should be amortized over four years rather than three. Energy Probe also suggested a reduction to $23,750 (from $30,000 as proposed by Welland) to account for the fact that there was no oral component to the hearing.

Energy Probe also submitted that the level of OM&A costs for 2009 was too high when compared to 2008 figures (updated to include September 2008 actuals). Energy Probe calculated a $126,000 reduction in 2009 OM&A as being an appropriate disallowance when the numbers are put into context with 2008 actual spending levels.

VECC noted that the amount charged out to the OPA for the costs of the Conservation and Demand Analyst should be clearly shown in Welland's revised submission.

Welland disputed Energy Probe's argument that OM&A costs should be reduced any further than what Welland had already proposed. Welland did, however, agree that regulatory costs should be amortized over four years rather than three. Welland calculated that it should reduce the amount for 2009 regulatory expenses by $6,250 to account for the 4 year (versus three year) amortization of the 2009 rate application costs.

With respect to Energy Probe's suggestion of eliminating the Conservation and Demand Analyst position in 2009, Welland replied that the position is needed to meet the requirements of the Green Energy Act.

Board Findings

The Board accepts Welland's forecast as revised for the four year amortization of regulatory costs. Welland has made material reductions to its OM&A budget for 2009 and the resulting increase over the historical period is modest. The Board finds that the further reductions proposed by Energy Probe are not warranted.

TAXES

Payment in Lieu of Taxes ("PILs")

In response to Board staff supplemental Interrogatory No. 3, Welland clarified that it was seeking a PILs expense of $556,372 for the 2009 Test Year.

Board staff submitted that Welland's PILs expense was not calculated using the established methodology and guidelines as indicated in the Board's 2006 Electricity Distribution Rate Handbook, Chapter 7, and in the accompanying PILs model for the 2006 applications. This resulted in Welland claiming a much higher PILs expense than the amount calculated by Board staff.

Board staff maintained that the difference in the two PILs amounts (as calculated by Board staff and Welland) exists due to the fact that Welland's starting point to calculate PILs expense is utility income before taxes of $1,565,224. This amount was derived from a revenue deficiency exhibit.[3] When this deficiency was added to the 2009 test year revenue, it increased taxable income, and resulted in a higher income tax rate than the Board's guidelines would indicate.

Board staff submitted that Welland should calculate the PILs expense using the appropriate starting point, and gross-up methodology, as found in the Board's 2006 application model and Handbook. This view was echoed by SEC and VECC in their submissions. SEC indicated that the revised amount for regulatory net income should be based on the Board's revised ROE of 8.01%. VECC further added that the Board approved methodology should be used absent a compelling and tested rationale for diverging from the Board approved methodology. VECC submitted that the calculation should not result in a higher effective tax rate than that which the utility is entitled to.

In Reply, Welland submitted that its "Top Down" approach is consistent with the Board's long standing methodology termed the "Regulatory Gross-up" method. The Top Down approach assumes revenues and costs are known and that taxable income can be determined to calculate income taxes in a manner similar to the process used to submit a tax return to the Ministry of Finance. The

[3] Exhibit A, Revised Application - Revenue Deficiency Determination

“Regulatory Gross-up” method assumes ROE is adjusted for items such as depreciation and capital cost allowance. The tax rate is then applied to the adjusted ROE and the result is grossed up with the tax rate to determine PILs. Welland submitted that the gross up method becomes more difficult assuming the effect of the small business income threshold and clawback which creates more than one tax bracket or rate to be factored into the methodology.

Welland provided calculations that show that the top down and bottom up approach with return on equity higher than $1.5 million produces the same grossed up PILs amount as the PILs payable. Welland submitted that the same results cannot be obtained if it is forced to use the bottom up approach. Welland submitted that the method that produces the correct amount of PILs is the method that should be used. The shareholder should expect to receive an after tax rate of return on equity at the rate approved by the Board. Welland submitted that this would not be the case for Welland’s shareholder should it be required to use the current gross-up methodology.

Welland further argued that the Board should not impose a PILs methodology which does not treat all distributors the same and puts smaller distributors at a disadvantage. Welland submitted that the difference between the Board methodology and the “Top Down” approach is $39,376 which is significant ($556,372 versus $516,966). Accordingly, Welland requested the Board to approve a total PILs amount of $556,372.

Board Findings

The established Board methodology to calculate PILs was most recently confirmed in 2006 EDR through the use of the PILs model. Welland filed a 2006 EDR application, used the PILs model, and did not file evidence that the model produced an incorrect result.

While Welland has provided different types of calculations to explain its PILs request, it has not provided evidence to show that its estimate is more reasonable than that produced by the Board’s methodology. A comparison of actual taxes paid over the years with amounts generated by the Board’s methodology might have supported Welland’s claim that $556,372 is a more appropriate number.

The Board directs Welland to calculate the PILs expense using the appropriate starting point, and gross-up methodology, as found in the Board's 2006 application model and Handbook when it prepares its 2009 Draft Rate Order.

Other Tax Issues

Energy Probe submitted that Welland had not made adjustments to its income tax payable related to the apprenticeship tax credit associated with apprentice linepersons hired in 2007. Welland hired two apprentice linespersons in 2007 and included the costs associated with two more positions, one in 2008 and one in 2009. However, in its Revised Application Welland proposed to defer one of the additional apprentice lineperson to a later date.

In Reply, Welland submitted that since the credit is available for three years of which two years (2007 and 2008) had already passed only the average deduction for the next four years should be used.

Energy Probe further submitted that Welland should calculate its income and capital taxes using the most recent information available including any changes announced in the recent federal and provincial budgets. Specifically, Energy Probe submitted that as a result of changes announced in the 2009 federal budget, the Capital Cost Allowance ("CCA") deduction for computers and system software in Class 50 acquired after January 27, 2009 and before February, 2011 has increased from 55% to 100%. In addition, the half-year rule has also been eliminated. In other words, businesses will be able to fully deduct the cost of computers and systems software in 2009.

In Reply, Welland agreed to calculate its income and capital taxes using the most recent information available including any changes announced in the recent federal and provincial budgets. Welland submitted that it had provided an updated CCA schedule for 2009 in Response to Board staff Supplemental Interrogatory No. 12, to reflect the proposed federal changes for computer hardware and system software purchased between January 27, 2009 and before February, 2011. Welland added that the schedule had also been revised to reflect the reduction in CCA from the reduced capital expenditures of $280,000 in 2009.

Board Findings

The Board finds that Welland has made the necessary adjustments to its income tax payable related to the apprenticeship tax credit. The Board also orders Welland to use the most recent information available to calculate its income and capital taxes in its Draft Rate Order including any changes announced in the recent federal and provincial budgets.

CAPITAL EXPENDITURES AND RATE BASE

Welland requested approval of a rate base of $27,186,822 for the 2009 Test Year. This is an increase of 5.9% ($1,506,090) over the 2007 actual and an increase of 8.3% ($2,072,284) over the 2006 actual.

The following issues are addressed in this section:

- Capital Expenditures
- Working Capital Allowance

Capital Expenditures

As noted in Table 3 below, Welland forecast capital expenditures of $2,278,000 in 2009. This is a decrease of 0.7% compared to 2007 actual capital expenditures and an increase of 2.4% over 2008 capital expenditures.

Table 3
Summary of Capital Expenditures 2007-2009

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	$2,293,025	$2,223,970	$2,278,000
% change as compared to the prior year		-3.0%	2.4%

A majority of Welland's capital spending for 2009 is focused on replacement or upgrade of infrastructure. In response to Board staff Interrogatory No. 3, Welland reduced the estimated expenditure of one of its upgrade projects (Crowland Transformer Station Meter Point Upgrade) from $560,000 to $280,000 by exploring less expensive alternatives. Accordingly, it made a downward revision to its 2009 capital spending from $2,558,000 to $2,278,800.

All parties found Welland's revised 2009 capital expenditures to be reasonable. SEC did not provide any comments on Welland's capital spending plans in its submission.

Board Findings

The Board accepts the 2009 capital expenditure forecast, as revised by Welland.

Working Capital

Energy Probe submitted that the cost of power component used to calculate working capital allowance should be updated to reflect the most recent forecast available. Energy Probe further submitted that working capital allowances should also reflect the forecast of network and connection transmission services provided by Hydro One Networks.

In Reply, Welland agreed that it had not revised the amount of working capital totaling $6,343,168[4] from the Original Application. However, it added that the cost of power should also be updated for the reduced customer and load forecast in the Revised Application and for the Rural Rate Protection Plan rates submitted to the Board. Welland submitted that it had already provided an update to the Cost of Power reflecting the above changes. Accordingly, the Cost of Power had been reduced from $37,173,850 to $35,121,518. Welland submitted that additional adjustments must be limited to the cost of power set by the Board for 2009 rate rebasing applications and any changes that the Board may make to Welland's revised customer and load forecasts.

Energy Probe also expressed concerns over the methodology used to calculate the commodity component of the cost of power. It submitted that Welland had used a single rate of $0.0593 per kWh regardless of whether the customer is an RPP or non-RPP customer. Energy Probe argued that Welland should estimate the kilowatt hours that are associated with RPP and non-RPP consumers and then apply the appropriate prices to these two different set of volumes to calculate the cost of power component of working capital allowance. It further added that as of May 2009, the MUSH (Municipalities, Schools, Universities and Hospitals) sector will no longer be eligible for the RPP. In other words,

[4] Exhibit F Revised Application

approximately 50% of the volumes consumed by Welland customers will be non-RPP volumes. Given the potential difference between RPP and non-RPP prices, Energy Probe submitted that this could have a significant impact on the cost of power component of rate base.

In Reply, Welland indicated that in order for it to estimate RPP and non-RPP volumes, it would require the Board to set the three rates to be used in the calculation of cost of power. Assuming that these rates were available, an estimate of the usage in each category would be required including an adjustment for the fact that the MUSH sector (Municipalities, Universities, Schools, and Hospitals) would no longer be eligible for the RPP rates effective May, 2009. Welland submitted that the use of a single rate for cost of power was consistent with the methodology approved by the Board for the 2008 Cost of Service applications. Consequently, no changes were required to the methodology.

Board staff and Energy Probe submitted that adjustments to the controllable OM&A expenses as a result of the Board decision should be reflected in the working capital component of rate base. Welland indicated that it has already reduced controllable expenses by $193,849 resulting in a reduction to the amount related to controllable expenses in the determination of working capital allowance from $5,113,936 in the Original Application to $4,920,087. It submitted that it would make further adjustments to the working capital component if required following the Board's decision on this application.

Lastly, Energy Probe and VECC submitted that the use of a 15% level to determine working capital allowance may not accurately reflect a utility's need for working capital and it was possible that the current level may be overstating the required allowance. Both parties recommended that Welland should be directed to undertake a lead-lag study and file it with their next rebasing application. In Reply, Welland argued that conducting a lead-lag study could be expensive but supported the possibility of a generic study through a consultative process led by the Board.

Board Findings

The Board finds that Welland, in preparing the Draft Rate Order consequential to this Decision, shall use the price of $0.06072/kWh contained in the April 2009 RPP price report, and the latest Board approved Hydro One charges to calculate the Transmission Network and Connection charges.

The Board understands that the IESO does not bill distributors solely on the basis of RPP; however, the Board is satisfied that RPP is a reasonable proxy for purposes of determining the working capital allowance.

The Board also notes Energy Probe’s argument that Welland should estimate kilowatt hours for RPP and non-RPP customers and then apply the appropriate prices to these two different set of volumes in order to calculate the cost of power component of working capital allowance. The Board views this matter as a generic policy issue outside the scope of this Decision. With respect to the MUSH sector, the Board notes that RPP eligibility for this sector has been extended to November 2009. The Board will therefore not require the adjustment advocated by Energy Probe.

The Board will also not require Welland to conduct a lead lag study for its next rebasing application. The Board concludes that it would not be cost effective for utilities such as Welland to undertake individual lead lag studies.

SMART METERS

In its supplemental filing of January 20, 2009, Welland increased the requested smart meter funding adder from the current $0.27 per month to $1.00 per month. Welland expects to begin installation of smart meters in March 2009 and complete installation of all 21,535 meters by the end of 2009. The total cost of the program is estimated to be $3.5 million.

In Reply, Welland provided estimated costs of $90.79 per meter excluding installation, AMI system costs and software requirements. Welland also confirmed that its Smart Meter Plan does not include costs to support functionality that exceeds the minimum functionality adopted in Ontario Regulation 425/06 and it has not incurred nor expects to incur any costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

VECC supported Welland's request for the $1.00 per customer smart meter funding adder.

In an addendum to its Reply Submission, Welland proposed to defer the increase in the smart meter funding adder until the associated variance accounts are cleared as part of the 2010 IRM rate setting process. This would result in the smart meter funding adder remaining at the current $0.27 per month. Welland requested this change as a rate mitigation proposal in order to reduce the impact of the 2009 rate increase on the Residential and General Service < 50 kW customer class.

Board Findings

The Board accepts Welland's proposal to retain the smart meter funding adder at $0.27 per month.

COST OF CAPITAL and CAPITAL STRUCTURE

The Board's policies with respect to capital structure and cost of capital are set out in its *Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006. Welland submitted that its proposals are consistent with Board policy and appropriately reflect the Board's Cost of Capital Parameter Updates for 2009 Cost of Service Applications issued on February 24, 2009. Welland's proposed capital structure and cost of capital are set out in Table 4.

Table 4

Capital Component	Total Capital Structure (%)	Cost rate (%)
Long-Term Debt	52.7	7.62
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Total	**100.0**	**7.54**

With the exception of Welland's request on its long-term debt, none of the parties expressed concerns with Welland's proposed capital structure and associated cost of capital.

In its original and revised Applications Welland proposed a rate of 6.25% for its long-term debt for 2009. This was the rate currently being paid on an existing long-term loan of $13.5 million to the City of Welland, its shareholder. In response to Board staff Supplemental Interrogatory No. 2, Welland confirmed that it was seeking to recover through rates the Board determined deemed long-term debt rate for the 2009 Test Year.

Board staff in its submission noted that there was no term length associated with the Promissory Note, but that the City could demand payment twelve months after written notice had been provided. In addition, the terms of the Note permitted the City to adjust the interest rate by providing the borrower with three months prior written notice of the revised interest rate. These observations were echoed by VECC in its submission. VECC submitted that the lender had the option to keep the Note as a perpetuity and only the lender had the option to call the Note.

Board staff noted that Welland's 2007 financial statements indicated that in order to test the marketplace it sought a quote on a ten year note with no principal repayment and received a quote between 5.00% and 5.25% from a large Canadian financial institution. However, in response to Board staff Interrogatory No. 41, Welland indicated that since it does not have the option to pay off the principal on the Note payable to the City, it had no plans to refinance.

Board staff submitted that the Promissory Note and its amended versions were reviewed by the Board in Welland's prior rate proceeding (EB-2005-0428) and as noted in Exhibit J of Welland's Response to Interrogatories, Welland submitted that a debt rate of 6.25% should be used for the purposes of cost of capital. Accordingly, the City passed a resolution on November 1, 2005 to amend the Note and fix the rate at 6.25%. Welland provided the Amended and Restated Promissory Note filed as Exhibit M (page 3) in Response to Interrogatories. The Note states:

> FOR VALUE RECEIVED, the Borrower hereby promises to pay to or to the order of the City of Welland, the principal sum of Thirteen Million, Four Hundred and Ninety-nine Thousand, Nine Hundred and Fifty-three dollars ($13,499,953), with interest thereon from May 1, 2006 at the rate of six and one-quarter (6.25%) percent per annum, on a date which is no later than twelve (12) months from the date of demand in writing by the City.

Board staff submitted that since this Note had been reviewed and approved in a prior proceeding and is now in the form of embedded debt, Welland should be allowed to recover the actual cost of debt (6.25%) in 2009 rates. Board staff quoted the Cost of Capital Report which states (pp.13):

> The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

This view was supported by VECC, Energy Probe and SEC.

SEC further submitted that it found a specific feature of the Note to be unfair to the utility and its ratepayers. This feature related to the City's ability to change the interest rate by providing three months prior written notice. SEC found it unfair that while the City had the right to increase the interest rate, the utility could not pay back any principal without the prior consent of the City. In other words, Welland could not take advantage of the lower interest rate from a commercial lender of 5.25% that was available to it in December 31, 2007. SEC submitted that the Board in its decision should be cognizant of the fact that the terms of the Note are asymmetrical in favour of the City.

Energy Probe further added that Welland could replace its affiliate debt with a loan from Infrastructure Ontario. Energy Probe quoted two rates as of March 10, 2009: 5.67% for a 25 year loan and 3.19% for a 5 year term. Energy Probe submitted that if Welland did not consider the current affiliate debt to be embedded debt, then it would be unreasonable for Welland to continue borrowing from an affiliate at a deemed interest rate that was higher than an actual rate available from a third party. Energy Probe further submitted that if the Board were to determine that the debt was not embedded debt, then the Board should allow Welland to recover the 25-year rate available from Infrastructure Ontario.

In Reply, Welland indicated that based on reviewing several 2008 cost of service decisions, it came to the conclusion that it would be subject to the Board's approved rates for long-term debt. Welland referred to several 2008 cost of service decisions where the Board ruled that affiliated and callable debt should be at the deemed rate despite the fixed rate of the debt instrument.

Welland quoted the Guelph decision (EB-2007-0742) in which the Board ruled that debt with no specific maturity date is a demand note and that even an 18-month notice period does not make it a long-term debt instrument. Welland noted that in its case the notice required by the City of Welland was one year. Welland also referred to the Horizon Utilities Decision (EB-2007-0697) that maintained that it was best to follow guidelines even though a rate may be above the market rate that was available to the applicant at the time the Note was entered into. Similarly, the Board concluded in the Erie Thames proceeding (EB-2007-0928) that Section 2.2.1 of the Board Report was designed to ensure that interest cost for variable rate debt is deemed at a rate that is reasonable, and not subject to strategic adjustments according to the circumstances of the parties, especially where the interest rate applied is high. Welland indicated that the reasonable rate in this case was the Board's deemed debt rate.

Welland argued that the above decisions appear to contradict Board staff's submission that since the Note was reviewed and approved in a prior proceeding Welland should be allowed to recover the actual cost of debt. Welland also noted that the similar view of intervenors seem to imply that Welland changed its decision on the long-term debt rate issue as a result of the increase in the deemed rate set by the Board on February 24, 2009. Welland submitted that it requested the deemed rate well before the 2009 deemed long term rate was known. Welland further highlighted the fact that the deemed rate at the time when Welland changed its decision was 6.1% which was below its original request of 6.25% and could have been set even lower when the Board announced its new deemed rate.

Welland further argued that the quoted rate of 5.25% noted in its financial statements was provided solely in relation to Financial Instrument Disclosures required under current Canadian Generally Accepted Accounting Principles to provide a basis on the market value of the long-term Note with the City of Welland.

Referring to Energy Probe's submission that Welland could replace its affiliate debt with a loan from Infrastructure Ontario, Welland noted that Infrastructure Ontario loans were for new capital spending only and could not be used to replace existing debt. In addition, the decision to retire the existing debt was not the decision of Welland but that of the Note holder. Welland further noted that the rates referred to by Energy Probe included principal repayments and a long-term debt without principal repayments would include a premium to the interest rate.

Citing the above noted arguments, Welland submitted that the Board should approve its request for the current deemed long-term debt rate of 7.62% for the 2009 Test Year.

Board Findings

The Board's Report on 2nd Generation IRM explicitly determined that callable or demand notes held by an affiliate (or a shareholder) were to be subject to a deemed rate, which could change from time to time depending on factors in the financial markets at the relevant time.

In Reply, Welland referred to recent Board Decisions that supported its request for the use of the Board's deemed debt rate. The Board accepts Welland's proposal to use the Board's current deemed long-term debt rate of 7.62%. The proposal is consistent with Board policy and reflects the updated rates developed by the Board pursuant to it.

The Board acknowledges that this finding results in a modest current disadvantage to ratepayers. But it is the principle that is important here - a principle that has been applied virtually universally in the Board's consideration of rebasing applications within the Incentive Regulation regime.

The Board accepts all other aspects of the utility's proposal with respect to capital structure and cost of capital.

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Line Losses
- Revenue to Cost Ratios
- Rate Design
- Retail Transmission Rates

Line Losses

Welland is directly connected to the Hydro One transmission system and purchases power directly from the IESO. Welland proposed to decrease its distribution loss factor ("DLF") from 1.0552 to 1.0485. Welland applied the approved supply facilities loss factor ("SFLF") of 1.0045 to the DLF value to determine a total loss factor ("TLF") of 1.0532. The proposed TLF is a reduction from the current factor of 1.0599. Welland based its proposal on a three-year average of loss factors from 2005-2007. Welland's proposed loss factors for 2009 are consistent with other non-embedded distributors of similar size and profile.

Board staff, Energy Probe, and VECC agreed with Welland's proposed loss factors. SEC made no submissions. In its reply, Welland requested that its DLF of 1.0485 and TLF of 1.0532 be approved as filed.

Board Findings

The Board accepts Welland's proposed loss factors.

Revenue to Cost Ratios

Table 5 sets out Welland's current and proposed revenue to cost ratios. The Board's target ranges, as established in the Board Report, *Application of Cost Allocation for Electricity Distributors,* EB-2007-0667, are set out in column 2. Welland adjusted its Informational Filing in two ways, incorporating an increase in PILs cost, and adjusting for the loss of two customers from its Large Use class. Welland, in its original Application, proposed the revenue to cost ratios in column 4.

In its Revised Application, Welland filed supplementary evidence on the loss of two of its three large use customers, and detailed the impact on its original application. Welland noted that due to the lost revenue associated with the loss of two of its three large use customers the remaining single large use customer should not be expected to absorb the total cost allocated to this class in the 2007 revised Cost Allocation filing.[5] The results of Welland's 2007 revised Cost Allocation were re-iterated in Table 12 of Welland's Reply Submission and are set out in column 3 of Table 5.

In its Revised Application Welland proposed to re-balance its rates, and the new ratios that would result have been provided in column 5 of Table 5. Welland did not file an updated cost allocation study to support its proposed 2009 cost allocation. Welland submitted that preparing a revised cost allocation study is onerous and time consuming and that it would be best to file an updated cost allocation study when it files its next cost of service application.

Board staff noted that the revised Application proposed ratios which are within the Board's range for all classes except Residential, Street Lighting, and Sentinel Lighting. As well, the changes proposed are in accordance with the Board's policy, insofar as they move the ratios closer to unity in all instances except the Large Use rate class. Welland indicated that cost allocation ratios for all rate classes will be within the Board's range in 2010.[6]

In an addendum to its final submission, Welland proposed an alternative re-balancing which would have a lower impact in 2009 on the two General Service classes, and would delay some of the Residential class's benefit from re-balancing. The resulting 2009 ratios are presented in column 6 of Table 5. The addendum also shows in its Exhibit J proposed ratios for 2010, in which all ratios move to within the respective ranges.

[5] The two Large Use costumers lost were responsible for $331,897 in revenues. Welland determined that the customers had been allocated costs totalling $329,719, and it re-allocated the costs among various classes.
[6] See Welland's Final Submission Addendum, filed March 30, 2009.

Table 5
Revenue to Cost Ratios

1 Customer Class	2 CA Report[7] Range	3 CA Info. Filing	4 2009 Rate Application, August 15, 2008	5 2009 Rate Application, updated, January 20, 2009	6 2009 Final Submission Addendum, March 30, 2009	7 VECC Alternate Ratios for CA Info Filing	8 VECC Proposed Cost allocation ratio
Residential	85-115	127.28	114.46	115.61	120.43	135.42	115.61
GS < 50	80-120	75.23	86.00	85.00	80.05	77.81	84.70
GS > 50 kW – regular	80-120	65.24	85.64	85.00	72.62	57.17	84.54
Large Use	85-115	100.73	99.99	95.56	100.73	71.62	95.56
Street Lighting	70-120	12.17	40.96	40.35	40.14	12.16	40.35
Sentinel Lighting	70-120	18.71	55.10	52.97	52.69	18.73	52.97
USL	80-120	114.93	100.58	100.58	101.44	120.79	100.16

Determination of Cost Responsibility and Allocation of PILs Expense and Transformer Ownership Allowance

VECC expressed concern with three aspects of how Welland's cost allocation ratios were derived: determination of cost responsibility, allocation of PILs expense and transformer ownership allowance.

VECC argued that Welland used class revenue requirement distribution from the Cost Allocation Informational filing to determine cost responsibility for 2009. VECC argued that billing parameters have changed since that study was performed. VECC submitted that the reference shares for cost responsibility derived on the basis of 2008 billing parameters, and presented in Appendix A of

[7] Report of the Board, *Application of Cost Allocation for Electricity Distributors,* November 28, 2007

VECC's submission, should be used as a starting point for determination of changes to cost allocation.

Subsequent to the preparation of Welland's initial Cost Allocation Informational filing, Welland's 2006 rates were revised to provide for an additional PILs expense. To account for this change, Welland adjusted the results of its Cost Allocation Informational Filing by pro-rating the additional costs to the various customer classes based on revenues. In response to VECC Interrogatory No. 4(b), Welland provided the results for its Cost Allocation Informational filing that allocates the additional PILs expense in accordance with the Board's cost allocation methodology.

VECC submitted that the Cost Allocation values submitted in response to VECC Interrogatory No. 4(b) are a more appropriate reference point, which the Board may wish to consider when setting cost allocation ratios for 2009. Welland disagreed with VECC's contention that the original cost allocation filing should see substantial changes. Welland stated that any adjustment made to the original cost allocation filing should keep the revenue to cost ratios as close as possible to the original filing.

Welland proposed to allocate the cost of the transformer ownership allowance solely to the GS>50kW and the Large Use rate classes. As a result, Welland did not include the cost of the transformer ownership allowance in the basic distribution revenues it allocated to customers using its proposed revenue to cost ratios. VECC agreed with this approach as the treatment of transformer ownership allowance in the Board's 2006 Cost Allocation Model results in an over allocation of costs to those classes where customers generally do not own their own transformers, resulting in an intra-class subsidy.

In order to capture the impact of the loss of two Large Use customers, Welland adjusted the results of the 2007 revised Cost Allocation informational filing by reducing both the revenues and costs associated with the Large Use class and reassigning them to the other customer classes. To accommodate this change and to be consistent with its proposal to allocate the cost of the transformer ownership allowance solely to the GS>50kW and Large Use classes, Welland has removed the cost of transformer ownership allowance from the revised allocation of the revenue requirement to customer classes.

VECC submitted that the adjustment made by Welland was incorrect. Welland removed all of the costs related to the transformer ownership allowance from the GS>50 and Large Use customer classes. VECC submitted that the appropriate reference point for revenue to cost ratios are those filed by Welland in response to VECC Interrogatory No. 22 (which includes both the PILs and transformer ownership allowance adjustments) and presented in Column 7 of Table 5 above.

Welland noted that the ratios proposed by VECC differ significantly from Welland's Cost Allocation Informational Filing and the difference is caused by the methodology VECC used to handle transformer allowances. Welland submitted that it would be more appropriate at this time for LDCs to apply a consistent methodology until an alternative has been developed, tested, and approved by the Board. Therefore, the Board should approve the methodology used by Welland, which preserved the revenue to cost ratios as close as possible to the original Cost Allocation Informational Filing.

Board Findings

The Board understands VECC's desire to continue to refine and improve cost allocation. The Board has adopted VECC's approach to dealing with the transformer ownership allowance in a number of cases. However the Board is not convinced that the ratios provided in the response to VECC's interrogatories in this case provide a better starting point from which to re-balance Welland's distribution rates.

Welland made a supplementary filing to account for lost customers in the Large Use and GS>50 classes, to more accurately reflect the revenues that should be collected from, and to provide mitigation to, these classes. In the particular circumstances of this case, the loss of large customers has created a special need to allocate costs and revenues in a way that mitigates effects.

Residential

The current revenue to cost ratio for the residential rate class is 127.28%, which is above the Board target range of 85%-115%. In its Revised Application Welland proposed to reduce the ratio to 115.61% in 2009 and to 112.90% in 2010. Energy Probe submitted that the proposed revenue to cost ratios is acceptable.

VECC submitted that the balance of the revenues obtained by increasing the revenue to cost ratios in all other customer classes with the exception of Unmetered Scattered Load (as discussed below) should be applied to reducing the revenue to cost ratio for the Residential rate class.

In its Reply submission Welland proposed a revenue to cost ratio for the Residential Class of 120.43% for 2009, and 114.55% in 2010.

Board Findings

The Board finds that the revenue to cost ratio of 120.43% as proposed by Welland for 2009 is appropriate. The Board notes that this revenue to cost ratio is out of the Board's policy range, but also recognizes the difficult circumstances currently faced by Welland. The Board notes that the cost ratio for the residential class will move to a point within the Board's recommended range in the 2010 rate year.

GS<50kW and GS>50kW

SEC submitted that the proposed increased revenue to cost ratios for the GS<50kW and GS>50kW rate classes result in extremely large rate impacts for customers in these two rate classes and are unacceptable. SEC suggested that a phased-in approach, similar to the approach used for the Street Lighting and Sentinel Lighting rate classes, is appropriate in order to mitigate rate impacts in the GS<50kW and GS>50kW rate classes.

Energy Probe submitted that the proposed revenue to cost ratios for the GS<50kW and GS>50kW are appropriate.

VECC submitted that Welland should be directed to increase the ratios in the GS<50kW and GS>50kW to 80% (the minimum of the Board's prescribed range) instead of the 85% proposed by Welland. VECC is not opposed to implementing the adjustment over a two-year period for the GS>50kW rate class. In regards to the GS<50kW rate class, VECC submitted that the adjustment should occur in one year.

Welland's reply submission stated that there is merit in limiting the revenue to cost ratio increase in the GS<50kW and GS>50kW to 80%, which is the bottom end of the Board's prescribed range, for rate mitigation purposes. Welland notes that this adjustment would result in the revenue to cost ratio for the Residential customer class being set above the maximum of the Board's prescribed range.

Board Findings

The Board accepts Welland's proposed revenue to cost ratio for the GS>50 class in 2009, namely 72.62%. The Board expects Welland to phase-in the increase to 80%, the bottom of the Board's policy target range, in equal increments over the next two years.

The Board accepts Welland's proposed revenue to cost ratio of 80% for the GS<50 class in 2009.

Large Use

Welland lost two of its three Large Use customers, and Welland contended that this created a problem with the use of the 2007 revised Cost Allocation filing. Welland submitted that the last remaining Large Use customer should not be expected to absorb the total cost allocated to this class in the revised 2007 Cost Allocation filing.[8]

Welland, prior to its final submission addendum, proposed to reduce the revenue to cost ratio for the Large Use customer class from 100.73% to 95.56% in 2009. Energy Probe opposed the revenue to cost ratio reduction to this class of customers on the basis that the ratio is currently within the Board approved range and it is nearly at unity.

VECC submitted that the ratio submitted in response to its interrogatory No. 22 should be regarded as the valid starting point. The ratio in that version of the

[8] Revised Application, filed January 20, 2009.

cost allocation study is 71.62%, already well below the Board's range. Rather than moving further out of the Board's policy target range, VECC argued, it should be increased to 85% over a period of up to two years.

In its final submission, Welland proposed an alternative methodology, which would maintain the revenue to cost ratio for the Large Use customer class at 100.73% (as submitted in the original cost allocation filing). In order to maintain parity in the Large Use customer class, Welland increased the transformer ownership allowance to $0.70/kW, which is in accordance with the Line Transformation Unit Cost of $0.6862/kW as presented in the original cost allocation filing. Welland stated that this method was approved by the Board in its decision on Horizon Utilities (EB-2007-0697). Welland requested that the Board approve this alternative methodology.

Board Findings

The Board will accept Welland's proposal to increase the rates to the Large Use class at the overall average percentage, effectively maintaining the revenue to cost ratio at 100.73%. The Board does not accept the alternative scenario (Option 2 in the Reply Submission) in which the revenue to cost ratio for the Large Use customer would decrease in 2010.

The Board accepts Welland's proposed increase to the transformer ownership allowance to $0.70 per kW.

Street Lighting and Sentinel Lighting

Board staff submitted that Welland's proposal for Street Lighting and Sentinel Lighting is consistent with many recent decisions where distributors have been required to use a phased-in approach and meet the lower boundary of the policy range in the year subsequent to the approved rate year.

Energy Probe agreed with the phased-in approach used by Welland for the Street Lighting and Sentinel Lighting rate classes. However, for both the Street Lighting and Sentinel Lighting rate classes, Energy Probe submitted that Welland should be targeting the bottom end of Board range, namely 70%. Therefore, the ratio should be set at 41.09% in 2009 and 70% in 2010 for the Street Lighting rate class and 44.36% in 2009 and 70% in 2010 for the Sentinel Lighting rate class.

VECC agreed with the phased-in approach used by Welland for the Street Lighting and Sentinel Lighting rate classes. The ratios in Welland's response to VECC Interrogatory No. 22 are nearly the same as in the cost allocation submitted with the application

Welland originally submitted that it agreed with the proposal by Energy Probe to set the revenue to cost ratio for the Street Lighting rate class at 41.09%. In regards to the proposal by Energy Probe to reduce the 2010 target for the Sentinel Lighting rate class to 70%, which results in a 44.36% revenue to cost ratio in 2009, Welland submitted that, "it will look to the Board for guidance on this issue." In Welland's final submission addendum, the cost allocation ratio for the Street Lighting rate class is 40.14% and the ratio for the Sentinel Lighting rate class 52.69%

Board Findings

The Board accepts Welland's proposal to move the Street and Sentinel Lighting classes. The 2009 ratios are approximately half-way to the bottom of the Board's target range. The Board will require that the ratios for these classes be moved to at least 70%, the lower boundary of the range, with Welland's 2010 IRM application. The Board recognizes that there are significant bill impacts for members of these classes, but moving these ratios within the Board's respective recommended ranges over two years is consistent with a number of other Board decisions in this area.

Unmetered Scattered Load

Welland, in its Revised Application, proposed to reduce the revenue to cost ratio for the Unmetered Scattered Load rate class from 114.93% to 100.58% in both 2009 and 2010. Energy Probe submitted that there is no need to change the current ratio as it already is within the Board approved range for this rate class.

VECC submitted that the ratio for the Unmetered Scattered Load rate class of 120.79% (per VECC Interrogatory No. 22) should be reduced slightly to 120% in order to fall within the Board's approved range for this rate class.

Welland explained that the reduction in revenue to cost ratio for the Unmetered Scattered Load rate class was done to move this rate class to unity. Welland submitted that it will look to the Board for guidance on this issue.

In the Addendum to its Reply submission, Welland has proposed rates that would yield a ratio of 101.44%.

Board Findings

The Board finds that the ratio contained in Welland's Reply Submission is acceptable.

As the Board has accepted Welland's ratios for each class as found in the Addendum to the Reply Submission, it assumes that the ratios are compatible as a group. However, if the cumulative result of the changes in the foregoing findings is such that additional revenue must be recovered, then the Board finds that such revenue should be sourced from the GS>50kW class, whose ratio falls the furthest below unity and directs Welland to do so.

Rate Design

Welland's current approved fixed charge for the GS>50kW rate class is above the maximum range, and its proposal is to continue this situation. This has implications particularly for smaller volume customers within the GS>50kW rate class. Such customers are absorbing a greater proportion of the costs than can be extrapolated from the identified fixed costs associated with providing service to this rate class. This is a species of intra-class subsidization, where these low volume customers attract a disproportionate burden, compared to their high volume class members.

SEC submitted that the fixed charge for the GS>50kW rate class should be no higher then 20% above the Customer Unit Cost per month (Minimum system with PLCC Adjustment).[9] For Welland, this amount would be $117.32 (120% of $97.77).

[9] In a number of recent Cost of Service applications, where similar intra-class subsidization was identified, parties agreed via settlement to reduce the fixed charge. For example, in Bluewater Power's settlement proposal (EB-2008-0221), the parties agreed to lower the fixed charge for the GS>50kW rate class to a level which is 20% above the Customer Unit Cost per month (Minimum System with PLCC Adjustment).

Welland submitted that the Board should approve the fixed charge for the GS>50kW rate class as filed. Welland cites the Board decision on Norfolk Power's 2008 Rate Application (EB-2007-0753), which states in part, "The Board has convened a consultation with the industry and stakeholders respecting many aspects of rate design, including the fixed/variable split. In light of the consultation by the Board on these subjects it would be inappropriate to attempt to predict its outcome and impose a new structure on the Applicant."

Board Findings

The Board accepts Welland's proposal as filed. The Board notes that Welland has made an effort to reduce the fixed-to-variable cost ratio for the GS>50kW class, so as to limit the impact on the low-volume consumers in the class. In the particular circumstances of this case, the Board finds that its approach, while not desirable in the best of all worlds, strikes an appropriate balance between the interests of the various members of the Class and the Utility. Limiting the Monthly Service Charge to reflect the recommendations in the Board's Report[10] would have the effect of shifting the burden to the higher volume customers within the Class. This raises a concern that if volumes decrease overall, a prospect not unlikely in the current economic and conservation environment, there is a risk that the Utility may not meet its revenue requirement.

This is not an approach that should be regarded as having any particular precedential value. The Board has decided as it has in light of the particularly challenging circumstances facing this utility and its customers at this time.

Retail Transmission Service Rates

In its original Application, Welland indicated it had not prepared updated retail transmission costs, and would await a Board order directing it to update these rates. On November 3, 2008, Welland filed supplemental evidence on retail transmission service rates ("RTS" rates), to reflect the changes in the Board Guideline, *Electricity Distribution Retail transmission Service Rates [G-2008-0001],* issued on October 22, 2008.

Welland's proposed RTS rates take into account changes to Hydro One's Uniform Transmission Rates (wholesale) that came into effect January 1, 2009.

[10] Application of Cost Allocation for Electricity Distributors", EB-2007-0667, p. 12

Welland also indicated that the proposed RTS rates would mitigate growing balances in account 1584 and account 1586.

Board staff submitted that the RTS rates developed by Welland are designed to collect the associated revenues appropriately.

Welland requested that the Board approved the revised RTS rates as filed.

Board Findings

The Board accepts Welland’s proposal.

DEFERRAL AND VARIANCE ACCOUNTS

In the original Application, Welland requested disposition over a three year period of specific non-RSVA/RCVA deferral accounts (and the associated interest to May 1, 2009) totaling $416,929. Welland later revised its application to request a two year disposition period. Welland changed this position in the Revised Application to include the disposition of both RSVA/RCVA and non-RSVA/RCVA accounts and the associated interest to May 1, 2009. This would allow Welland to refund $721,566. In its reply submission, Welland Hydro updated the balances requested for disposition to reflect changes to applicable interest rates.[11] This resulted in Welland’s revised proposal to refund $798,772 in deferral and variance account balances to customers over a two year period.

Table 7 sets out the account balances (as of December 31, 2007, with interest forecast to April 30, 2009) that Welland proposed to clear for disposition, based on its reply submission. Welland also proposes to dispose of account 1574 and noted that no parties objected to this proposal despite unusual circumstances that prevented the balance from being included in the 2007 audited financial statements. Welland has provided a continuity schedule necessary to confirm the balances for disposition.

[11] Energy Probe indicated in its submission that the interest rates applied to the deferral and variance account balances should be updated to reflect the Board’s prescribed interest rates for Q3 2008, Q4 2008, Q1 2009, and April 2009.

Table 7
Deferral and Variance Accounts requested for disposition by Welland Updated for change in interest rates[12]

ACCOUNT #	ACCOUNT DESCRIPTION	BALANCE - $
1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	35,338
1508	Other Regulatory Assets – Sub-Account – Pension Contributions	234,933
1525	Miscellaneous Deferred Debits	13,147
1574	Deferred Rate Impact Amounts	130,086
1580	RSVA – Wholesale Market Service Charge	(926,168)
1582	One-time Wholesale Market Service Charge	42,681
1584	RSVA – Retail Transmission Network Charge	443,033
1586	RSVA – Retail Transmission Connection Charge	193,922
1588	RSVA – Power (excluding Global Adjustment)	(965,743)
	Total	(798,772)

Board staff submitted that the Board should consider allowing Welland's request to clear these accounts, including account 1574, but with the exception of forecast transactions in account 1588 beyond December 31, 2007. Board staff also stated that it would be helpful if Welland provided a revised continuity schedule excluding the forecast principal balances (and associated interest) in account 1588, and a revised rate rider schedule (reconciled to the continuity schedule). Welland provided these files in its reply submission. VECC submitted that it had no concerns with this revised proposal, and Energy Probe submitted that it agreed with Board staff's submission. Welland agreed with Board staff's submissions regarding the treatment of accounts 1574 and 1588.

Board Findings

The Board finds that all of the accounts identified in the preceding table should be disposed of at this time. The Board notes that Welland agrees with this approach. In keeping with Welland's revised proposal as set out in its reply

[12] In its March 30, 2009 reply submission, Welland updated the interest rate applied to balances for disposition in this proceeding.

submission of March 30, 2009, the Board finds that this net credit balance of $798,772 should be returned to customers over two years.

Allocation Factors

Energy Probe submitted that using the 2007 allocation factors would assign too high a proportion of the rebate to the single remaining Large Use customer, but using the 2009 allocation factors would assign a proportion that may be too low. Energy Probe submitted that the fairest way to deal with this issue would be to use the historical 2007 allocation factors, adjusted for the removal of the two Large Use customers that are excluded from the 2009 forecast.

In its reply submission, Welland pointed out that using 2009 forecast volumes for allocation factors does not have as large an impact on the one remaining Large Use customer as Energy Probe assumes; using the 2009 forecast would distribute the funds to be disposed of in the most balanced way. Welland requested approval from the Board to dispose of the above deferral and variance accounts totalling $798,772 using the 2009 forecast volumes. The resulting rate riders were submitted in the Final Submission as Exhibit B.

Board Findings

The Board finds that Welland's proposal is acceptable.

IMPLEMENTATION

The Board has made findings in this decision which will change Welland's revenue requirement, and therefore the proposed 2009 distribution rates.

The Board issued an Interim Order on April 29, 2009 making Welland's current rates interim effective May 1, 2009, which allows for an effective date for Welland's new rates as early as May 1, 2009. The Board has determined that an effective date as of May 1, 2009 for Welland's new 2009 rates is appropriate, but given that there would be some time required for the Rate Order to be finalized, the Board finds that the implementation date will be August 1, 2009.
The Board's findings outlined in this decision are to be reflected in material, commonly referred to as a Draft Rate Order. The Board expects Welland to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Welland's proposed revenue requirement, the

allocation of the approved revenue requirement to the classes and the determination of the final rates, including bill impacts. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet, which can be found on the Board's website. Welland should also show detailed calculations of the revised low voltage rate adders, retail transmission service rates and variance account rate riders reflecting this Decision. As the 2009 rates will be implemented as of August 1, 2009, for the rate riders to dispose of the deferral and variance account balances, Welland is directed to calculate the rate riders on the basis of them continuing until April 30, 2011.

In developing its Draft Rate Order, Welland is directed to establish the 2009 rates assuming a 12 month recovery period. As the implementation date of the rates will be August 1, 2009, Welland is directed to calculate rate riders that would recover the foregone distribution revenue from May 1, 2009 until July 31, 2009 and should propose an appropriate time period for recovery giving due consideration to bill impacts. Welland must include supporting materials to satisfy the Board that the revenues received would recover only the foregone revenues.

RATE ORDER

A Rate Order decision will be issued after the processes set out below are completed.

COST AWARDS

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's Practice Direction on Cost Awards. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.
All filings with the Board must quote the file number EB-2008-0247**,** and be made through the Board's web portal at www.errr.oeb.gov.on.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Please

use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available you may e-mail your documents to the attention of the Board Secretary at BoardSec@oeb.gov.on.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's Practice Directions on Cost Awards.

THE BOARD DIRECTS THAT:

1. Welland shall file with the Board, and shall also forward to intervenors, a Draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 14 days of the date of this Decision. The Draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates.

2. Intervenors and Board staff shall file any comments on the Draft Rate Order with the Board and forward to Welland within 7 days of the filing of the Draft Rate Order.

3. Intervenors shall file with the Board and forward their respective cost claims within 26 days from the date of this Decision.

4. Welland shall file with the Board and forward to Intervenors responses to any comments on its Draft Rate Order within 7 days of the receipt of any submissions.

5. Welland shall file with the Board and forward to the relevant intervenor any objections to the claimed costs within 40 days from the date of this Decision.

6. The relevant intervenor shall file with the Board and forward to Welland any responses to any objections for cost claims within 47 days of the date of this Decision.

7. Welland shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, July 7, 2009
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary