EB-2008-0250

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 Westario Power Inc. 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

April 24, 2009

BACKGROUND

Westario Power Inc. ("Westario" or "the Company") filed an application with the Ontario Energy Board (the "Board") on August 22, 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. Westario is the licensed electricity distributor serving approximately 21,300 customers in eight municipalities encompassing fifteen communities in the counties of Bruce, Grey and Wellington.

Westario is one of over 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.

Westario informed the Board by letter dated April 11, 2008 that it would be one of the electricity distributors to have its rates rebased in 2009. Accordingly, Westario filed a cost of service application based on 2009 as the forward test year.

Westario requested a revenue requirement of $10,326,383 to be recovered in new rates effective May 1, 2009. The application indicated that the existing rates would produce a revenue deficiency of $1,462,069 for 2009. The resulting requested rate increase was estimated as 21.5% on the distribution component of the bill for a residential customer consuming 1,000 kWh per month.

The Board assigned the application file number EB-2008-0250 and issued a Notice of Application and Hearing dated September 22, 2008. The Board approved three interventions: The Vulnerable Energy Consumers' Coalition ("VECC"); the School Energy Coalition ("SEC"); and the Association of Major Power Consumers in Ontario ("AMPCO"). The Board also received four letters of comment expressing concerns over the magnitude of the increase sought by Westario.

Procedural Order No.1 was issued on November 3, 2008. The Board made provision for written interrogatories and a transcribed technical conference. On January 14, 2009 the Board issued Procedural Order No.2 converting the technical conference to a supplemental round of interrogatories and providing dates for submissions. VECC and SEC filed interrogatories and made submissions. Board staff also posed interrogatories and made submissions. Westario's reply argument was filed on March 19, 2009.

During the proceeding, Westario proposed certain changes to its revenue requirement resulting in a revised proposal of $9,811,263. Westario submitted revised bill impacts including an impact of 18.7% on the distribution component of the bill for a residential customer consuming 1,000 kWh per month. The full record is available at the Board's offices.

THE ISSUES

The following issues were raised in the submissions filed by Board staff, VECC and/or SEC and are addressed in this Decision:

- Load Forecast
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Rate Base and Capital Expenditures
- Assessment of Asset Conditions and Asset Management Plan
- Cost of Capital and Capital Structure
- Cost Allocation and Rate Design
- Deferral and Variance Accounts
- Smart Meters

LOAD FORECAST

Westario's load forecast was developed in three steps. First, Westario developed a multi-factor regression analysis of monthly wholesale purchases for the distribution system from 2003 to 2007. These volumes represent the bulk electricity system deliveries to the distribution utility. Second, the class specific forecasts were derived by allocating each rate class' share in wholesale kWh, exclusive of distribution losses. Average weather conditions over the period 1998-2007 were used to determine the weather normalized forecast. Of the non-weather sensitive classes, Sentinel Lighting and USL sales were assumed to remain at the 2007 levels and Street Lighting was projected to grow at the same rate as wholesale consumption. Third, a customer count forecast was developed for each class based on historical trends.

Customer Count

Westario's test year customer forecast is 27,644 customers (including Street Lighting connections). The test year forecast is approximately 3% higher (or 788 customers) than the 2006 Actual. The forecast was derived by applying the class specific average annual growth rate from 2004 to 2007 as the growth rate for the bridge and test years. Westario confirmed that the test year forecast is based entirely on historical growth and that it did not rely on additional external sources when developing the forecast.

Board staff noted that, since 2004, the Residential, GS<50 kW and GS 50 to 4999 kW classes have experienced an average annual increase of approximately 241 customers per year. Accordingly, Westario forecasted an annual increase of 250 customers, in each of 2008 and 2009. In Board staff's view the forecast is in line with observed historical trends.

Weather Normalization

Westario's load forecast was based on normal weather. The forecast is based on 10-years of average heating degree days ("HDD") and cooling degree days ("CDD") as reported at Wiarton airport in Bruce County. Westario stated that the 10-year normal forecast "is a reasonable compromise that likely reflects the average weather experienced in recent years."

Board staff noted that, with the exception of the 2006 year when the variance between actual HDD and forecast HDD was high (approximately 12%), the proposed methodology performed well when tested on previous years (in 2007 and 2008 the variance was 2%). VECC expressed concern regarding the use of 2007 non-weather normalized class shares to establish each class' share of the weather normalized total sales forecast. VECC noted that this approach assumed, potentially incorrectly, that the weather adjustment factor would be the same for all classes. VECC concluded that, given the limited data Westario had to work with, there may not have been a better approach.

Load Forecast

Westario is seeking Board approval for a test year KWh forecast of 453,203,301. This represents a 1.1% increase from 2006 Actual. The load for the three major classes is projected to increase by approximately 1.6% compared to 2006 Actual.

The class specific forecasts are:

Load Forecast

Rate Class	(kWh)
Residential	197,649,413
GS<50 kW	70,476,543
GS 50 to 4999 kW	161,192,485
Street Light	4,144,560
Sentinel Lights	16,635
USL	501,647
Total	**453,203,301**

Westario's load forecast is based on a linear relationship between total actual wholesale volumes, HDD and CDD, peak days and regional employment. As noted above, class specific forecasts are derived based on each class' share in 2007 exclusive of distribution losses. Board staff noted that this method of forecasting total wholesale purchases, based on a single regression equation, does not take into account the effect of class specific drivers of demand that could impact the class specific forecasts. Board staff submitted that, while these assumptions may be the result of practical considerations given the poor quality of the consumption data, both of these assumptions are simplistic and do not take into account the effect of class specific drivers.

Board staff, VECC and SEC expressed concern that the proposed regression equation does not include number of customers as an explanatory variable. Westario indicated that one of the reasons for this exclusion is the lack of monthly class specific customer data prior to 2004. Board staff noted that, when the available numbers of customers were included as a variable in the regression equation, the proposed forecast increased by 4.9% (or 22,065,232 kWh).

VECC added that Westario's projections for the average use per customer for the Residential and GS< 50 kW classes are lower than either the historical averages for 2004-2007 or the 2004 weather normal use calculated by Hydro One Networks for Westario's cost allocation filing. VECC provided the following comparisons:

	2004-2007 Actual	HONI CA Values	2009 Forecast
Residential	10,962	11,388	10,472
GS<50 kW	30,004	30,804	29,800
GS 50 to 4999 kW	606,920	580,389	639,653

VECC noted that the use per customer value for the GS 50 to 4999 kW class appeared considerably higher than both comparators but that the actual customer use for this class in 2006 and 2007 was approximately 650,000 kWh per year. VECC submitted that a regression equation model that also included customer count would yield slightly higher values and is therefore more in line with the comparators above. VECC concluded that these results should be the basis for Westario's 2009 load forecast. SEC agreed.

Both VECC and Board staff submitted that Westario should endeavour to refine its load forecasting as it accumulates more data.

In its reply submission, Westario submitted that, since no intervenor expressed concern over Westario's customer count forecast and since Board staff concluded that the Company's forecast seems reasonable, the Board should approve the forecast as proposed. Westario made a similar submission on its 10-year average method for weather normalization.

In terms of the overall load forecast, Westario responded to three issues raised by intervenors and Board staff:

- Use of a single equation forecast for wholesale purchases;
- Including number of customers as an explanatory variable; and
- VECC's "check of reasonableness" of Westario's projection for weather sensitive classes.

As to the first point, Westario submitted that the small sample of available data (i.e. three years) was only part of the reason why wholesale data was used rather than class specific data. Billing data could not be used to determine weather normalized consumption by customer class because the monthly class-specific consumption data that was available did not correlate with the observed weather. Westario stated that it chose to use monthly wholesale consumption and degree days to normalize consumption and allocate it to the classes and noted that the Board has approved this approach in the past for Toronto Hydro's forecasts.[1] Westario also stated that this approach would incorporate the historical and most current consumption, weather, and economic conditions, and the relationships between them. Since no other parties raised a specific concern with this issue and no alternative was proposed, Westario submitted that the Board should approve Westario's methodology for the purposes of setting 2009 rates.

Regarding the use of customer counts as an explanatory variable, Westario submitted that economic variables such as employment (which were included in Westario's methodology) will reflect changes in customer counts as well as behavioral and economic reasons for changes in energy consumption. Westario again cited the two Toronto Hydro cases where the Board approved a similar approach.

Finally, on VECC's reasonableness test, Westario submitted that VECC's analysis compares customer use at different time periods without taking into consideration the changing level of consumption over time. Westario noted that this can result in misleading results. Westario provided an alternative comparison using the weather normal average use per customer generated using its consultant's (Elenchus Research Associates) model provided in response to VECC interrogatory #9 e) to calculate the Hydro One cost allocation values for 2004. Westario submitted that the results show consistency between the values:

	2004-2007 Actual	**HONI CA Values**	**ERA Model (2004)**
Residential	11,189	11,388	11,349
GS<50 kW	30,306	30,804	30,684
GS 50 to 4999 kW	598,996	580,389	583,501

Westario submitted that the Board should approve the load forecast as proposed by Westario as it is the best approach to use in this case.

Board Findings

The Board accepts Westario's customer count forecast, weather normalization method and load forecast. The Board notes that no significant dispute arose in relation to the customer count forecast or the weather normalization method. With respect to the load

[1] Toronto Hydro, 2006 rates, EB-2005-0421 and 2008 rates, EB-2007-0680

forecast, Board staff and the intervenors have raised some concerns regarding technical aspects of the forecasting methodology. The Board accepts Westario's explanations regarding the approach it took for the regression analysis, and the Board concludes that the results are sufficiently reliable for purposes of setting rates at this time. The Board expects that Westario will continue to work to refine and develop its forecasting methodology and will be in a position to present an improved approach at the time of its next rebasing.

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

The table below shows the components of the proposed OM&A expense for 2009 and compares them with previous years. The table also reflects two adjustments (identified by Board staff) to 2007 actual to remove two significant non-recurring items.

Summary of OM&A	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Operation	$97,077	$406,210	$319,525	$332,475	$480,400
Maintenance	$945,725	$1,184,709	$535,748	$1,505,770	$1,164,675
Billing and Collection	$1,207,662	$1,139,082	$1,286,330	$1,146,035	$1,242,900
Community Relations	$6,300	$18,791	$485,353	$23,470	$35,500
Administrative and General Expenses	$2,549,321	$1,478,869	$1,907,783	$1,850,765	$1,888,350
Total (as filed)	**$4,806,085**	**$4,227,661**	**$4,534,739**	**$4,858,515**	**$4,811,825**
CDM 3rd Tranche adjustment			($467,450)		
Meter exit fee credit adjustment			$263,400		
TOTAL OM&A (adjusted)	**$4,806,085**	**$4,227,661**	**$4,330,689**	**$4,858,515**	**$4,811,825**

The submissions of Board staff, VECC and SEC raised a number of issues, each of which is summarized below:

- Inflation
- Field Asset Program
- Maintenance of Overhead and Underground Services
- Tree Trimming and Line Clearing Operations
- 2009 Regulatory Costs
- Efficiency and Amalgamation Savings and Building Rent.

Inflation

VECC questioned Westario's 3% inflation forecast for 2009, noting that more recent estimates are lower. While not recommending a specific reduction, VECC suggested that inflation in 2009 will be materially less than Westario has estimated. In response, Westario referred to Board staff's submission which noted that where detailed data was not available, the assumption of a 3% inflation rate is not unreasonable, despite more recent forecasts of a lower inflation rate. In this regard, Westario clarified that the dollar amount in 2009 equating to the 3% was $5,000 and not $160,000 as indicated in the response to VECC interrogatory #34.

Westario also disputed VECC's analysis on the grounds that: (i) it is not reasonable to selectively update cost inputs; (ii) VECC would oppose such adjustments if they reflected increased inflation; (iii) changes in inflation are partially reflected in the updated rates of return; and (iv) under the Board's Incentive Regulation framework reducing a cost, based on a short term variation, would not be reasonable if the inflation rate were expected to rise by the same amount or more during the four year incentive program. Westario also took issue with what it saw as VECC's assertion that operating costs should be set using inflation, without regard to particular circumstances.

Board Findings

The Board notes that the inflation factor accounts for only about $5,000 of Westario's forecast 2009 budget. Although inflation is now lower than the 3% estimate used by Westario, the Board will make no adjustment to the budget as the change is not material.

Field Asset Program

Board staff submitted that Westario's Field Asset Program appears to account for a significant portion of the OM&A increase since 2007, but that it was difficult from the available evidence to ascertain the specifics of the program.[2] For Board staff, the absence of a consistent expenditure explanation put into question the amount included in 2009 OM&A for the Field Asset Program. Board staff requested Westario confirm in

[2] In its pre-filed evidence Westario explained that $140,000 of the increase in account 5040 (Underground Distribution Lines and Feeders) from 2008 to 2009 is due to the ongoing Field Asset Program while in the response to VECC (supplementary) interrogatory #28, Westario stated that in 2009, Field Asset Program costs of $356,000 are allocated to account 5040 while in 2008 no costs were allocated in account 5040 for the Field Asset collection.

its reply submission what it has spent or plans to spend (by four digit account) on the Field Asset Program in 2007, 2008 and 2009.

Westario responded that there is no discrepancy in its Field Asset Program amounts and confirmed that it is planning to spend $382,000 in 2008 (recorded in account 5160) and $356,000 in 2009 (recorded in account 5040).

Board Findings

The Board is concerned with the apparently inconsistent and unclear evidence provided by Westario in its original filing and interrogatory responses in this area. The Company has the onus to demonstrate that any material spending proposals are appropriately supported by evidence. This evidence should form part of the original filing; related interrogatory responses should be consistent with the original filing, and with each other. This standard has only marginally been met in this case.

At this time, and with reference to this specific area of proposed spending, the Board is prepared to accept the Company's explanation and will make no specific adjustment for this item. The Board expects Westario's filings in subsequent proceedings to meet a higher standard.

Maintenance of Overhead and Underground Services

VECC questioned the $150,000 increase for Overhead and Underground Services (accounts 5125, 5130 and 5155) from the $200,000 budgeted in 2008 to the $350,000 forecast for 2009. VECC submitted that the amount for 2009 should be reduced by $100,000. As calculated by VECC, a 2009 budget that reflects 3% for inflation, a 10% workload increase and a corresponding increase in Engineering Burden would total no more than $230,000.

Westario disagreed with VECC's analysis. Westario, in response to VECC's analysis, submitted a table that included additional accounts (accounts 5175- Maintenance of Meters and 5630 – Outside Services Employed) and covered the whole incentive period 2006 to 2009. Westario pointed out that inter-year variances of more than 3% or 4% are to be expected given that the environment in which Westario operates is not static. Using data from the table, Westario suggested that there is an inherent unreliability to an analysis based upon any approach that selects which years and which accounts to compare. Westario pointed out that for the five accounts, the total of $273,500 for 2009 is only slightly higher than the 2006 actual of $246,872.

With respect to VECC's assumption that increases in the amount of Engineering Burden allocated to an account should vary in the same proportion as the direct charges to the account, Westario acknowledged that the evidence VECC relied on may have been less than clear.[3] Westario clarified that the allocated Engineering Burden is roughly the same as the direct labour costs. With this correction in mind, Westario submitted that VECC's call for a $100,000 reduction should be disregarded.

Board Findings

The Board accepts Westario's position that it is appropriate to look at the trends in these expenditures in the context of all the related areas. On that basis, the increases over the historical period are reasonable. The Board will make no specific adjustment for this item. Once again, the Board is concerned at the admitted lack of clarity in the interrogatory responses offered by Westario. The Board is dependent upon the information filed by applicants; that information must be accurate and complete.

Tree Trimming and Line Clearing Operations

Board staff questioned Westario's 2009 Tree Trimming and Line Clearing Operations ("Tree Trimming") budget of $270,000, which represented a $40,000 increase over 2008 and a $113,000 increase over 2007 actual. Board staff noted that, after allowing for 6% inflation and 10% for variables, the 2009 forecast was still about $85,000 over 2007. On this basis Board staff submitted that the 2009 budget should be no more than $200,000, which is approximately the average of 2007 and 2008 plus inflation. In a similar vein, but allowing a base of $200,000, VECC submitted that the appropriate 2009 budget would be $233,400. VECC also questioned why the rate of escalation of Engineering Burden costs allocated to Tree Trimming should exceed the growth in direct costs. VECC submitted that the Board should reduce the 2009 proposed budget by $35,000.

Westario responded that Board staff had used a "worse case" scenario in selecting 2007 as the basis of its calculation, disregarding the $193,000 spent in 2006 and the $230,000 budgeted for 2008. Westario pointed out that Board staff did not ask for further details or explanations for the increase and has no basis to suggest an arbitrary reduction. Westario submitted that the Board should accept the 2009 budget as filed, in that it represents management's best estimates of the amount of Tree Trimming required to prevent outages and accidents from happening. With respect to VECC's

[3] Response to Board Staff interrogatory # 7

concern regarding the rate of escalation in Engineering Burden, Westario provided the same explanation noted above regarding Maintenance of Overhead and Underground Services. Westario concluded that VECC's call for a $35,000 reduction should be disregarded.

Board Findings

Board staff suggests that an appropriate budget can be based on the level of spending in 2007. Westario argues that the spending should be examined in a broader historical context, including 2006 when the expenditures in this area were substantially higher than in 2007.

The Board agrees that it is appropriate to look at a number of years for comparison purposes. The Board can examine trends as well as explanations for significant incremental increases in expenditures. In this area, the budget for 2009 is substantially higher than 2007, but it is also about 40% higher than in 2006. Westario has offered no particular explanation for the magnitude of this increase, but it argues that it was not asked to do so. The Board reminds Westario that the onus is on the applicant to prove its case, which means all expenditures (such as increases) must be justified through evidence and explanation. The Board concludes that on any reasonable comparison the increases in this area are excessive and that a modest adjustment to the overall OM&A is warranted in light of this. The Board will reduce the total OM&A by $30,000.

2009 Regulatory Costs

VECC submitted that the provision in the 2009 test year budget for regulatory costs should be reduced from $80,000 to $55,000 on the basis that, absent an oral component and limited intervenor activity, the overall cost for this proceeding will be less than the projected $240,000. VECC also argued that the overall costs should be amortized over a four year period, rather than the proposed three year period. While not questioning the overall regulatory cost forecast, Board staff indicated that amortizing these costs over four years rather than three would reduce 2009 OM&A by $20,000.

Westario agreed that its 2009 OM&A should be reduced by $20,000 to reflect a four year amortization period for regulatory costs related to the 2009 proceeding. Westario characterised the further decrease proposed by VECC as flawed because it ignores the fact that the oral component was replaced with supplemental interrogatories and a teleconference, that the level of intervenor participation was normal for a utility of

Westario's size, and that Westario's regulatory costs in a non-re-basing year averages approximately $60,000.

Board Findings

The Board will reduce 2009 OM&A by $20,000 to reflect a four year amortization period for one-time regulatory expenses. The Board concludes that a reduction to the overall cost is not warranted. Although there was no oral hearing, the Board accepts that Westario would incur analogous costs related to the teleconference and the supplemental interrogatories.

Efficiency and Amalgamation Savings and Overall OM&A

In 2007 Westario began operating from a new operations center and administration office in Walkerton. Prior to that, Westario had its staff and operations located in leased premises in various communities. The premises were leased from some of the municipalities which are shareholders of Westario and the associated expense was approximately $221,000. Westario stated that "the need for the [new center] was identified … when it became obvious that serving 15 communities out of eight offices across a large service area would be inefficient and would create operational challenges."[4] Westario explained that concentration of its staff and resources (e.g. inventory) in one location, central to all of the communities that Westario serves, will contribute to operational savings and better service to Westario's ratepayers.

Board staff submitted that Westario "should have better documented the cost justification and the benefits related to the $2.4 million investment in the Walkerton centre." SEC noted Board staff's concerns, but agreed with Westario that the net present value calculation provided by Westario demonstrated adequately the benefit of owning one facility in comparison to the leasing of eight facilities. Both SEC and Board staff noted that the rental savings would be offset in Westario's revenue requirement by the capital related costs (e.g., cost of capital and amortization expense) associated with the new building.

[4] March 19, 2009 reply submission, Section 4.1, p. 38. See also Exhibit 2/Tab 3/Schedule 4/ pp. 5-9.

Westario responded that it had documented its decision to invest in the centralized Walkerton centre, including:

> *the financial, operational and resource savings … which included annual lease savings of $221, 000, improved customer service, faster response times, shorter outages, tighter inventory control, reduced travel costs and improved employee communications.*[5]

Westario submitted that ratepayers will benefit because the consolidation has a net present value of $2.6 million. Westario reiterated that the cost savings of $267,000 associated with the amalgamation and the facility centralization are both reflected in the 2008 and 2009 forecast. Westario explained that it is unable to provide a detailed listing of the individual cost savings because it viewed the incurring of costs to track and calculate the savings as an inappropriate use of its resources.

SEC submitted that Westario's 2009 OM&A should be reduced from the requested level of $4,811,825. SEC based its recommendation on a number of factors. First, SEC submitted that for comparison purposes and in addition to the adjustments for the CDM 3rd tranche and the Meter exit fee credit, the 2007 actual should also be adjusted to remove the lease costs because those costs have now been replaced by the new Westario building and so associated costs will flow through rate base (and depreciation). With that adjustment, SEC submitted that the 2007 starting point would be the adjusted number taking into account the three adjustments above. On this basis, the increase between 2007 and 2009 would be over 17%. Second, SEC submitted that, because Westario has acknowledged that operating efficiencies will arise because of its centralization to one location but has been unable to quantify the efficiencies, the efficiencies have not been factored into the 2009 budget. For these reasons, SEC proposed that 2009 should be calculated by starting with the adjusted 2007, indexing by 4% for each of 2008 and 2009 and adding $60,000 for the first year of a four year amortization of the projected regulatory costs for this proceeding.

Westario disagreed with SEC's assertion that the savings associated with moving to a single facility have not been factored in to 2009 OM&A. Westario pointed to the declining growth of OM&A as proof that it has factored in efficiencies and submitted that SEC's conclusion lacked an evidentiary basis.

[5] March 19, 2009 reply submission, sec. 4.1, p. 39 / ll. 10-13.

Board staff noted that, over the 2003 to 2007 period, Westario's actual OM&A expense increased by approximately 0.3% annually and that over the 2007 to 2009 period the average annual increase was 5.7%. Board staff also pointed out that the 5.7% annual increase was significantly higher than the 1.1% average annual increase in the number of residential and general service customers over the same period.

Westario responded that, by selecting 2007 and adjusting for non-recurring items, Board staff presented the worst case scenario, that being the highest per annum increase possible in the 2006 to 2009 period. Westario argued that if a comparison to a prior period is required, then it should be the 2006 Board approved level since it is the starting point for the previous incentive period. On this basis there is virtually no increase in costs.

Board Findings

The Board finds that the evidence Westario has provided on the benefits and savings arising from the amalgamation and consolidation of facilities is satisfactory. The Board cautions that, while it may be self-evident that such initiatives provide net benefits to ratepayers, it is important for utilities to assess those benefits and to present them in the context of their applications.

Shifting from rented premises to an owned facility shifts costs from OM&A to rate base (cost of capital and amortization). In such circumstances, the Board would expect to see material and ongoing OM&A savings, other than just rent reduction, to offset these capital related costs. Westario has documented savings beyond just rent reduction and the Board accepts that Westario has incorporated these efficiencies in its OM&A forecast.

However, the Board must take account of this reduction in ongoing OM&A costs when it is assessing the overall level of OM&A and the trend over time. When these rent-related costs are removed from OM&A, the increase over the period is in the order of 17% between 2007 and 2009, which is quite significant. Westario suggests that the Board should use the 2006 Board approved level for comparison purposes, and also notes that there is a decrease between 2008 and 2009. The Board accepts that these are other relevant comparisons, but concludes that Westario's actual performance in 2006 and 2007 (net of lease costs and net of the adjustments for CDM and Hydro One meter exit credit) is an important comparison. On this basis, the growth in OM&A over the period borders on excessive. The Board concludes that for rate setting purposes a further $50,000 should be removed from 2009 OM&A.

This brings the total OM&A reduction to $100,000, for an approved level of approximately $4.7 million. This is approximately the same level as the 2006 Board approved level and is still a significant increase over 2007, in the order of 14.7% from the adjusted 2007 level of $4.1million.

PAYMENTS IN LIEU OF TAXES

In the original application, Westario proposed a 2009 PILs allowance of $897,156, composed of $855,475 for combined federal and provincial income taxes and $41,681 in capital taxes; this allowance was confirmed in Westario's reply submission.

Staff submitted that Westario should update its PILs allowance to reflect the Board's decision and to reflect applicable tax changes in the recently-passed federal budget. The changes relate to the threshold for the federal small business tax rate and an acceleration of the capital cost allowance ("CCA") for Class 50 computer assets purchased after January 27, 2009 but prior to February 2011. VECC supported Board staff's proposal and also noted that Westario agreed to remove regulatory assets from its determination of taxable income, consistent with the findings of recent Board decisions.

Westario responded that the recent change in the small business tax threshold does not apply to Westario as its taxable capital exceeds $15 million. Westario also noted that the accelerated CCA for 2008 and 2009 capital additions does not apply, as Westario's assets are class 12 rather than class 50 or 50.1; this was a correction to the evidence on the record. Westario proposed a revised PILs allowance of $515,025. Westario also noted that it will update its PILs calculations as part of the Draft Rate Order process.

Board Findings

The Board approves Westario's methodology, as explained in the reply submission. The Board directs Westario to update its PILs allowance to reflect the findings in this Decision and to reflect any impacts of the recently-passed federal budget. In filing its Draft Rate Order, Westario should incorporate all other known income and capital tax changes into its PILs calculations for 2009 that have arisen since the application was filed.

Westario did not provide the specific calculations that showed how the revised PILs allowance of $515,025 was determined. The Board directs Westario to provide a summary table showing the calculation of the PILs allowance as part of its Draft Rate Order.

The Board also wishes to express its concern regarding the corrections which were reported in Westario's reply submission. While there is pressure on the applicant to proceed expeditiously with its application, it must do so with a view to filing complete, timely and accurate information. As the Board relies upon the information filed by the applicant, it must be confident that the applicant is providing accurate information. In this case, the Board is surprised that Westario identified this significant error so late in the process.

RATE BASE AND CAPITAL EXPENDITURES

Rate Base

Westario's rate base is summarized in the following table[6]:

Summary of Rate Base

	2006 EDR Board-approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Net Fixed Assets					
Opening Balance	$ 20,118,370	$ 21,121,135	$ 22,383,568	$ 25,725,285	$ 27,491,909
Closing Balance	$ 19,508,372	$ 22,383,568	$ 25,725,285	$ 27,491,909	$ 28,242,596
Average Balance	$ 19,813,371	$ 21,752,352	$ 24,054,427	$ 26,608,597	$ 27,867,253
Working Capital Allowance	$ 5,284,227	$ 5,308,729	$ 5,451,977	$ 5,689,824	$ 5,762,946
Total Rate Base	$ 25,097,598	$ 27,061,081	$ 29,506,404	$ 32,298,421	$ 33,630,199

The requested rate base of $33.63 million is a 14.0% increase ($4,123,795) from Westario's 2007 actual and a 24.3% increase ($6,569,118) from its 2006 actual.

Board staff noted that Westario's proposed rate base is increased by $6.6 million compared to 2006 actuals; of this, $2.4 million is due to the new operations centre in Walkerton and $1.0 million is due to assets transferred as part of Westario's amalgamation with its parent and service companies on January 1, 2008.

[6] Exhibit 1/Tab 1/Schedule 3

Submissions were directed at the following rate base related issues:

- Capital Expenditures; and
- Working Capital Allowance.

Submissions were also made with respect to Assessment of Asset Conditions and Asset Management.

Capital Expenditures

The table below sets out the level of capital expenditures and the year over changes from 2007 to 2009.

Changes in Capital Expenditures from 2007-2009[7]

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	$404,275	$615,215	$391,000
% change as compared to the prior year		52.2%	(36.4%)

Spending for smart meters is not included in the capital expenditures for any of these years.

Westario's capital additions in 2007 and 2008 are impacted by two factors:

- The new operations center was added in Walkerton, replacing rental properties in various communities ($2,443,787). This issue has been addressed in the OM&A section; and

- Assets previously in Westario Power Holdings Inc. and Westario Power Services Inc. were added to Westario's rate base upon the amalgamation with Westario on January 1, 2008, pursuant to Board approval of a merger application in 2007. These assets had a gross book value of approximately $2.97 million and a net book value of $1.0 million.[8] Previously, recovery of the costs of the assets of Westario Power Services Inc. was through expenses for services provided by it and charged to Westario pursuant to a Master Services Agreement.

[7] Based on Exhibit 2/Tab 3/Schedule 1
[8] Exhibit 2/ Tab 2 / Schedule 3/pp. 9-10

Board staff noted that, if these factors were removed, Westario's 2009 proposed capital expenditure of $2,570,400 is consistent with historical spending. VECC and SEC also noted the consistency of spending and concurred that Westario has appropriately explained, screened and prioritized its proposed capital projects. No party objected to Westario's proposed 2009 capital expenditures.

Board Findings

The Board finds that Westario's proposed capital expenditures for 2009 are reasonable. The Board also finds that Westario has appropriately included in its rate base the assets transferred as a result of the amalgamation.

Assessment of Asset Conditions and Asset Management Plan

Westario filed a copy of its Asset Management Plan in its application.[9] In response to a Board staff interrogatory[10], Westario filed two associated documents referenced in the Asset Management Plan. These documents, taken together, guide Westario's management and staff in determining and prioritizing operational and capital projects.

Intervenors did not make submissions directly on Westario's Asset Management approach, but did comment that Westario's proposed capital projects were appropriately screened and prioritized in accordance with the Company's Asset Management policies.

Board staff noted that Westario's Asset Management Plan is the first such plan for the Company and submitted that Westario's asset management is more complicated due to the legacy systems in the several communities served which have different engineering designs. Staff observed that, while Westario has provided explanations on the nature, need and prioritization of major capital projects in recent years, the Company does not appear to have a significantly integrated or harmonized approach for managing the assets in the various communities. Staff submitted that Westario should undertake such a study to allow for better network design, assessment management and operational efficiency and to ensure better reliability and increased cost savings for the utility and its ratepayers.

[9] Exhibit 2/ Tab 2/ Schedule 1
[10] Board staff interrogatory #20

In its reply, Westario acknowledged the comments of staff, and stated its commitment to improving its policy.

Board Findings

The Board finds that Westario has adequately supported the need for and prioritization of its capital projects in recent years and those proposed for 2009. The Board is satisfied that Westario's approach to this issue is appropriate in the circumstances, and is also assured by Westario's commitment to improving its efforts, as necessary and appropriate. The Board considers it reasonable that benefits, in terms of operational efficiencies and cost savings to Westario and its ratepayers, will result from improvements to its asset management policies and practices given the different legacy systems that Westario operates.

Working Capital

Westario forecasted a working capital allowance ("WCA") for 2009 of $5,762,946.[11]

VECC submitted that Westario should update its WCA to reflect the most current estimate of the cost of power, and also to reflect the most current estimates of the costs of Hydro One Networks' transmission and Low Voltage ("LV") costs. VECC also recommended that the Board should work with the IESO and distributors to determine what commodity price should be factored into the determination of the cost of power for calculating the WCA.

In its reply submission, Westario concurred with VECC's proposal to update the WCA to reflect the most current cost of power as well as the most recent estimates of Hydro One Networks' transmission and LV costs.

[11] Exhibit 2 / Tab 4 / Schedule 1 and 2. See also Exhibit 2 / Tab 1/ Schedule 2. Variance analysis of year over year changes in rate base, including changes in the Working Capital Allowance, are provided in Exhibit 2/Tab 1/Schedule 3/ Attachment 1.

Board Findings

The Board concludes that the most accurate data should be used in the calculation of working capital and notes that Westario agrees with this approach. The Board directs Westario to update the cost of power to reflect the price contained in the April 2009 RPP price report, $0.06072/kWh. With respect to the level of retail transmission service rates and LV rates to be used in the calculation, the Board will address these matters later in this Decision under Retail Transmission Service Rates and Low Voltage Costs.

VECC has proposed that the cost of power element be more precisely derived. Given the limited magnitude of this item, the Board has determined that on balance the current use of the RPP is a reasonable proxy for purposes of determining the WCA.

COST OF CAPITAL and CAPITAL STRUCTURE

On December 20, 2006, the Board issued the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"). The Board Report provides the Board's policy guidelines for determining the capitalization and cost of capital to be used for electricity rate-setting.

The following table summarizes Westario's proposed capital structure and cost of capital:

Cost of Capital Parameter	Westario's Proposal
Capital Structure	56.7% debt (composed of 52.7% long-term debt and 4.0% short-term debt) and 43.3% equity
Short-Term Debt	4.47%, but to be updated in accordance with section 2.2.2 of the Board Report, as confirmed in response to Board staff IR #24.
Long-Term Debt	5.82%, as a weighted average of several affiliated and third-party debt instruments. (References: E6/T1/D2/Attachment and response to Board staff IR #25)
Return on Equity	8.57%, but to be updated in accordance with the methodology in Appendix B of the Board Report. This was further clarified by Westario in its reply to VECC's submission.
Return on Preference Shares	Not applicable
Weighted Average Cost of Capital	6.96% as proposed, but subject to change as the short-term debt rate and ROE are updated per the Board Report at the time of the Board's Decision.

As noted, Westario has agreed that the return on equity, deemed short-term debt rate and deemed long-term debt rate would be updated based on Bank of Canada *Consensus Forecasts* and TSX data for January 2009 in accordance with the methodologies documented in the Board Report.

On February 24, 2009, the Board issued a letter setting out the updated cost of capital parameters to be used in determining distribution rates for 2009 cost of service applications. These parameters are set out below:

Cost of Capital Parameter	Updated Value for 2009 Cost of Service Applications
Return on Equity	8.01%
Deemed Long-term Debt Rate	7.62%
Deemed Short-term Debt Rate	1.33%

VECC submitted that Westario should confirm that the ROE, like the short-term debt rate, should be updated in accordance with the guidelines in the Board Report. Westario reaffirmed this in its reply submission.

Board Findings

The Board finds that Westario's proposed capitalization and cost of capital complies with the guidelines established in the Board Report. Accordingly, the Board finds that Westario's 2009 distribution rates will be based on a deemed capital structure of 56.7% debt (52.7% long-term; 4% short-term) and 43.3% equity, in accordance with the Board's established transition process. The Board will allow Westario's embedded cost of debt at 5.82% as documented in the application.

The table below sets out the Board's findings for Westario's deemed capital structure and cost of capital:

Board-approved 2009 Capital Structure and Cost of Capital

Capital Component	% of Total Capital Structure	Cost rate (%)
Long-Term Debt	52.7	5.82
Short-Term Debt	4.0	1.33
Equity	43.3	8.01
Weighted Average Cost of Capital		**6.59**

COST ALLOCATION AND RATE DESIGN

The following issues are addressed in this section:

- Line Losses
- Low Voltage Costs
- Customer Reclassification
- Revenue to Cost Ratios
- Monthly Service Charges
- Retail Transmission Rates

Line Losses

Westario proposed a total loss factor (“TLF”) of 1.0788 for 2009 for secondary metered customers less than 5000 kW. This number is based on a supply facilities loss factor (“SFLF”) of 1.024 and a distribution loss factor (“DLF”) of 1.0535. The latter is based on average actual DLFs over four years (2004-2007). Westario did not apply for a TLF for customers larger than 5000 kW, and does not have an approved TLF currently for this class.

Board staff and VECC submitted that the TLF in the application is reasonable.

Board Findings

The Board finds that Westario’s TLFs as set out in its reply submission are appropriate. The total loss factors are:

Secondary metered < 5000 kW	1.0788
Primary metered < 5000 kW	1.0680

Low Voltage Costs

Westario originally forecasted LV charges for 2009 at $733,477 and has revised the forecast to $601,861. In response to concerns expressed by Board staff regarding the consistency of Westario’s updated forecast with the current Hydro One application (EB-2008-0187), Westario indicated it will update its forecast to be consistent with Hydro One’s application for Sub-transmission rates to be effective May 1, 2009.

Westario proposed to allocate the LV cost in proportion to revenue from its Retail Transmission Service – Connection rates, and to recover the cost by means of rate adders on the volumetric rates.

VECC submitted that the working capital allowance should reflect the most current estimate of the costs of Hydro One's transmission services and LV costs for 2009.

Board Findings

The Board directs Westario to update its LV cost forecast based on the Hydro One rates as approved by the Board on January 28, 2009, and to submit supporting documentation with its Draft Rate Order. The Board also notes that Hydro One will include a substantial rate rider credit for two years, whereas the LV rate adder being established in this proceeding will likely be in place for the four years of the 3rd Generation IRM process. Therefore, in its Draft Rate Order, Westario should provide an updated forecast based on the Hydro One LV rates approved in EB-2007-0681, including the effect of Rider # 4 at one-half of its annual value.

The Board approves Westario's proposal for the allocation and recovery of LV costs.

Customer Re-Classification

Westario has applied to discontinue its time-of-use rate class, and to include the single customer in this existing class in the GS 50-4999 kW class.

The customer that has been paying time-of-use distribution rates currently has a monthly service charge of $43.98 per month compared to $240.40 for the other customers in the same size range, and a volumetric distribution charge of $0.3328 per kW compared to $2.2180 for the other customers. Westario calculated a total bill impact for this customer of 15%, most of it due to the re-classification proposal.

Board staff submitted that this impact is high, and noted that the Board had approved a phase-in over two years in a similar situation in 2008, when Wellington North Power applied to re-classify certain General Service customers.[12] Westario submitted that the bill impact is reasonable in light of the benefit that this customer has received in past years, and submitted further that the customer's savings have not been related to any savings in Westario's distribution costs.

[12] EB-2007-0693, p. 33

Board Findings

The Board finds that Westario's proposal to discontinue the GS Time-of-Use rate classification is reasonable. The transfer of the single customer to the GS 50-4999 kW class will result in a total bill impact of about 15%. When bill impacts are greater than 10%, the Board generally considers whether some form of rate impact mitigation is appropriate. The Board concludes that a phased-in approach to this change is warranted.

The Board directs Westario to submit in its Draft Rate Order a monthly service charge and a volumetric rate to be charged to the GS time-of-use customer in 2009 that will limit the total bill impact to10% or less, and to submit a calculation demonstrating the impact. The Board expects that Westario's application for 2010 will not include a separate rate for the customer in question because it appears that the remaining impact will be less than 10%. The Board will allow Westario to recover the small revenue shortfall during this single transitional year from the remaining customers.

Revenue to Cost Ratios

The following table sets out Westario's current and proposed revenue to cost ratios. Columns 2 and 4 are representative of the existing ratios: column 2 uses the model distributed by the Board for the Informational Filing; column 3 uses a variation on the Informational Filing which excludes the $72,097 cost of the Transformer Ownership Allowance. VECC submitted that the resulting ratios are a more appropriate reference point than the initial Informational Filing. Westario agreed that the ratios in column 3 are more accurate than those in the Informational Filing (column 2).

The ratios proposed initially are in column 4, and a revised proposal is in column 5. 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 6.

Revenue to Cost Ratio [%]

1	2	3	4	5	6
Customer Class	**Informational Filing Run 2**	**Response to VECC IR 21c**	**Proposed ratios as per Application: Exhibit 8 / Tab 1 / Schedule 2**	**Proposed ratios as adjusted: Reply Submission**	**Board Policy Range**
Residential	94.75	95.48	94.93	95.55	85 – 115
GS < 50 kW	80.77	81.13	81.17	81.38	80 – 120
GS 50-4999 kW	168.03	163.46	166.28	163.18	80 – 180
USL	100.39	99.92	100.00	100.00	80 – 120
Street Lights	50.04	51.03	75.05	74.88	70 – 120
Sentinel Lights	99.35	101.06	100.00	71.03	70 – 120

Westario discovered a mistake in its Informational Filing with respect to the number of Sentinel Lights. The numbers of Sentinel Lighting customers used to derive revenues and to allocate costs were not consistent. In response to an interrogatory, Westario submitted revised cost allocation results and a revised estimate of existing revenue from the class. VECC submitted that Westario should design its rates to recover 0.003% of its revenue from Sentinel Lights, considerably less than proposed. Board staff submitted that the revised version of the cost allocation study did not provide support for a rate increase of the size that Westario was proposing. In its reply submission, Westario clarified that the ratio that reflects the existing rates and customer numbers should have been reduced by a factor of 6/16. Accordingly, it revised its proposal so that the increase will yield a revenue to cost ratio of 71.03%.

Board staff and VECC noted that the Informational Filing and the revised version of the cost allocation model (columns 2 and 3) omitted revenue from late payment penalties. Board staff submitted that the proposed ratios following re-balancing would be affected very little by a correction. VECC submitted that revised results were necessary, and submitted an alternative set of revenue to cost ratios with its own adjustment. In this version, VECC attributed the total revenue from late payment charges amongst the various classes on a pro-rata basis. Westario submitted that the matter is non-consequential.

VECC submitted that the proportions of class loads in the rate year will be different than they were in the year analyzed in the cost allocation study. In VECC's view, an alternative approach that reflects updated proportions would be preferable. VECC calculated the proportion of distribution cost that is allocated to each class in the Information Filing and submitted an alternative set of proportions that are based on its analysis of updated billing quantities of each class.[13] Westario responded that it had earlier decided against incurring the cost of a full update to the Informational Filing because of the stability of its service area, and it submitted that the small differences found in VECC's calculation confirm this decision.

With respect to re-balancing, Westario's goal was to change the revenue to cost ratio of any class only to the extent that is required to bring the ratio within the Board's guidelines. For the classes already within the range, Westario's proposal is to change the ratios (as corrected) as little as possible, and if changed within the range then to ensure that the ratio moves closer to 100%. This strategy underlies the ratios in column 4 and those now proposed in column 5 of the table above.

VECC did not agree with Westario's proposed ratios. The proposal would change the ratios for most classes even though they are already within the recommended range. VECC indicated that the proposal would increase the ratio for the Residential and GS < 50 kW classes. VECC also submitted that the GS > 50 kW class should be the only class to benefit from the additional revenue that arises from increasing the revenue to cost ratio of Street Lighting, because it has the highest revenue to cost ratio.

SEC submitted that the Board should direct Westario to submit lower rates for the GS > 50 kW class, such that the revenue to cost ratio would be 134% in 2009, which is halfway from the status quo to 100%. SEC submitted that it recognized that this would necessitate higher revenue to cost ratios for other classes, in particular the GS < 50 kW class (which also includes schools). SEC submitted that distributors should strive for the principle of eliminating cross-subsidization by moving all revenue to cost ratios to 100%.

Board Findings

The Board agrees that the cost allocation with the adjusted treatment for the Transformer Ownership Allowance represents a better point from which to consider the existing revenue to cost ratios.

[13] VECC submission, para. 9.13

VECC argued that an adjustment should be made to take account of the late payment penalties. The Board agrees with Westario that an adjustment for the late payment penalties is not warranted. This correction is applied on a pro-rata basis and therefore there is no material impact on the relative results.

VECC has also argued that the analysis should take account of changes in the relative proportions of class revenues between the time of the Informational Filing and the test year. The Board finds that, for Westario, the revenue responsibility proportions are similar enough that no adjustments for this factor are required. It is also the Board's view that an adjustment for the purposes of updating the revenue shares would not be appropriate in the absence of updating other cost allocation factors such as cost drivers.

The Board continues to be of the view that, if the revenue to cost ratios are in the Board policy range, changes are not required unless such changes arise as a consequence of ensuring that another class moves toward or into the target range. Westario has proposed to move the Street Lighting class to the bottom of the target range. The Board approves this proposal. The additional revenue should be allocated to the GS>50 kW class because that class is the highest above 100% (although it remains in the Board's target range).

The Board is also satisfied with Westario's proposal regarding the revenue to cost ratio for the Sentinel Lighting class, namely that it be 71%, given the corrections that have been made to customer number data.

Monthly Fixed Charges

For the Residential class Westario proposed to maintain its fixed/variable revenue proportions unchanged. The proportions in question are net of the rate adders, before the proposed Smart Meter adder which affects the Monthly Service Charge and the LV adder which affects the volumetric rate. In the application, Westario proposed that the Monthly Service Charge including the Smart Meter adder would increase by 27.3% and the volumetric rate including the LV adder would increase 21.1%. In the documentation accompanying the reply submission, these percentages were reduced to 22.3% and 15.8% respectively.

The following table was provided by Westario at Exhibit 9 / Tab 1 / Schedule 1 / page 3 of its application:

Table 3 – Current and Proposed Fixed/Variable Split

	Current		Proposed		Difference	
	Fixed	Variable	Fixed	Variable	Fixed	Variable
Residential	47.76%	52.24%	47.76%	52.24%	0.00%	0.00%
General Service Less Than 50 kW	47.68%	52.32%	47.68%	52.32%	0.00%	0.00%
General Service 50 to 4,999 kW	42.19%	57.81%	33.55%	66.45%	-8.64%	8.64%
Unmetered Scattered Load	13.82%	86.18%	27.98%	72.02%	14.16%	-14.16%
Sentinel Lighting	45.09%	54.91%	45.09%	54.91%	0.00%	0.00%
Street Lighting	88.64%	11.36%	88.64%	11.36%	0.00%	0.00%

VECC submitted that the Residential Monthly Service Charge is within the range produced by the Cost Allocation study and the fixed/variable split does not need to be altered to conform with the Board's policy. However, VECC submitted that the bill impact is greater on smaller customers than larger customers, in percentage terms, when the rate adders are included. VECC noted that over 20% of Westario's Residential customers use less than 500 kWh per month, 5% use less than 250 kWh per month, and that Westario has not submitted bill impact calculations for these smaller customers.

Westario proposed to increase the Monthly Service Charge for Unmetered Scattered Load ("USL") customers from $4.40 to $11.19 per month, on a "per connection" basis, together with a small increase in the volumetric rate. The proposed charge is equal to the floor amount in Westario's cost allocation study. Board staff submitted that the illustrative bill impacts showed a large bill impact on the smallest USL connections, due to the increase in the fixed charge, and submitted that the bill impact would be a matter of concern if there are actual customers that would be affected, as in the illustrative calculation. In its reply submission, Westario clarified that the customer experiencing the largest increase will have a total bill impact of 17.6% and that the increase will be $7.87 in the customer's monthly bill. Westario submitted that the impact is reasonable in absolute terms.

Board Findings

The Board notes VECC's concern that impacts on smaller Residential customers may be more than 10%, and directs Westario to include bill impact calculations for Residential customers using 250 kWh and 500 kWh per month in support of its Draft Rate Order. Further, if the initial estimate of the impact on customers using 250 kWh and 500 kWh per month is more than 10%, the Board directs Westario to decrease its fixed/variable split by proposing a lower Residential Monthly Service Charge (and higher volumetric rate) so that the total bill impact will be no more than 10%.

The Board notes that the Monthly Service Charge for USL has been less than 25% of the comparable charge to General Service customers, and that in Westario's proposal it is still less than 50% of the comparable charge. The existing fixed/variable split is 14/86, and would increase to 28/72, still the lowest of any class.[14] The Board finds the proposed increase in the fixed/variable split to be reasonable, and approves Westario's application to increase the Monthly Service Charge to the floor amount calculated in the Informational Filing. While the bill impact is significant in percentage terms, the Board finds that the absolute increase is not of a magnitude that requires mitigation.

Retail Transmission Service ("RTS") Rates

As an embedded distributor Westario's transmission costs are determined by the RTS rates of its host distributor, Hydro One. In its initial application, Westario applied to continue its current RTS rates which had been approved effective May 1, 2008. Those rates mirrored the change in Hydro One's interim rates that became effective at that time. Westario pointed out that Hydro One was expected to apply for further changes in the transmission service rates, and that Westario was applying for no change pending the Board's decision on Hydro One RTS rates that would be paid by Westario.

The Board issued a guideline, *Electricity Distribution Retail Transmission Service Rates [G-2008-0001]* on October 22, 2008, indicating the process to be used by distributors to adjust RTS rates to reflect changes in the Ontario Uniform Transmission ("UT") rates. The changes in the UT rates are shown in the following table.

Uniform Transmission Rates

	Current Rate ($/kW/month)	Effective rate on January 1, 2009 ($/kW/month)	Effective increase
Network Service Rate	2.31	2.57	11.3%
Line Connection Service Rate	0.59	0.70	18.6%
Transformation Connection Service Rate	1.61	1.62	0.6%

As anticipated by Westario in its application, Hydro One has an RTS rates application currently before the Board (EB-2008-0187). The RTS rates are proposed to be adjusted in these same proportions, to be effective May 1, 2009.

[14] Exhibit 9 / Tab 1 / Schedule 1 / p. 3

Westario provided an estimate of the shortfall that would occur if it did not increase its Retail Transmission Network rates, and of the surplus that it would expect if it did not decrease its Retail Transmission Connection rates in 2009[15].

VECC and Board staff submitted that Westario should adjust its RTS Rates to make the disparity between its wholesale cost and its retail revenues in the rate year as small as possible. Westario submitted that maintaining its existing rates rather than increasing them would serve to mitigate total bill impacts, as well as reversing the over-recovery of transmission costs that has occurred over a period of years.

Board Findings

The Board does not accept Westario's proposal to leave the RTS rates unchanged. The Board notes that Westario has surpluses in both of the variance accounts associated with the pass-through of transmission costs – nearly $400,000 in the Network account and nearly $2,000,000 in the Connection account. The Board recognizes that in Westario's proposal the anticipated shortfall in Network cost would have the desired effect of decreasing the accumulated surplus in account 1584. With respect to recovery of Connection cost, the record before the Board does not show whether there would be a shortfall nor how many years it would take to clear the variance account 1586 even if there is a shortfall.

The Board directs Westario to submit RTS rates that are designed to recover, as nearly as possible, its forecast 2009 transmission costs based on percentage changes made to the January 1, 2009 approved UT rates. This would involve addressing the wholesale adjustment and including a factor that addresses, going forward, the historical bias in the variance accounts arising from the disparity between the previous wholesale and retail rates. The Board notes that Westario provided a calculation of the projected difference between revenues and expenses for 2009 in response to Board staff interrogatory #43 d). Westario should adjust its RTS rates to reduce this difference to zero. The Board points out that there is a process for clearing deferral and variance accounts by means of regulatory rate riders, and addresses this subject below.

[15] Board staff interrogatory #43 d)

DEFERRAL AND VARIANCE ACCOUNTS

Westario applied for approval of Regulatory Asset Recovery Rate Riders that are designed to recover the balances in Account 1508 – Other Regulatory Assets, and Account 1550 – Low Voltage over two years. The total balance proposed for recovery is $1,120,875.

Parties did not express any concerns with the amounts in the accounts proposed for disposition. Board staff noted that the methodology proposed by Westario for the disposition of accounts 1508 and 1550 was consistent with the disposition of such costs in previous decisions. Board staff also submitted that the Board might wish to evaluate the reasonableness of rate riders that would dispose of other deferral and variance account balances in addition to those proposed by Westario.

The following table sets out the balances in Westario's deferral and variance accounts. The balances represent the December 31, 2007 year end plus interest to April 30, 2009. The rows shaded in grey are those accounts for which Westario is proposing disposition.

Deferral and Variance Accounts

Account Number	Account Description	Total ($)
1508	Other Regulatory Assets – Sub-Account – OEB Cost Assessments	50,826
1508	Other Regulatory Assets – Sub-Account – Pension Contributions	215,387
1518	Retail Cost Variance Account - Retail	(49,624)
1548	Retail Cost Variance Account - STR	86,157
1582	RSVA - One-time Wholesale Market Service	36,490
	Sub-Total	**$339,236**
1550	Low Voltage Variance Account	854,662
1580	RSVA – Wholesale Market Service Charge-	(621,239)
1584	RSVA – Retail Transmission Network Charge	(387,244)
1586	RSVA – Retail Transmission Connection Charges	(1,983,291)
1588	RSVA – Power (including Global Adjustment)	2,985,135
	Sub-Total	**$848,023**
1555	Smart Meter Capital and Recovery Offset	(134,277)
1556	Smart Meter OM&A	
1562	Deferred PILs	185,630
1563	Deferred PILs Contra Account	(129,820)
1565	CDM Expenditures and Recoveries	(52,580)
1566	CDM Contra Account	52,580
1590	Recovery of Regulatory Asset Balances	1,019,121
	Sub-Total	**$940,654**

In addition to its proposal, Westario provided hypothetical rate riders that would recover the balances of accounts in two scenarios, one in which the balances in Accounts 1518, 1548, and 1582 would be recovered in addition to those proposed by Westario, and the second in which the balances in accounts 1580, 1584, 1586, and 1588 would also be recovered. Board staff noted that the rate riders in both scenarios turned out to be almost equal to those proposed by Westario in the first place.

VECC supported Westario’s proposed rate riders, and suggested that, in light of the small aggregate balance of the other accounts, their disposition should await the completion of the Board’s separate initiative announced on February 19, 2008 on this subject.

Board Findings

Notwithstanding the announcement of the separate initiative, the Board notes that it will be some time before that process is completed. There are significant balances in the RSVA accounts. The Board concludes that these amounts should be disposed of at this time.

The Board also finds it appropriate to dispose of the remaining accounts, except the two PILS accounts (which are subject to a review in a separate proceeding), account 1590 (the Board has typically not disposed of this account until such time as the final balance can be verified) and the smart meter and CDM tracking accounts (which will be reviewed at a later date).

The Board notes that the total balance of the accounts to be disposed of is $1,187,259. This represents only a modest increase from Westario’s proposal to dispose of only accounts 1508 and 1550 ($1,120,875). Therefore, the Board finds that a two year recovery period, as originally proposed, remains appropriate.

The Board directs Westario to include documentation in its Draft Rate Order which shows the allocation of each account to each rate class.

SMART METERS

Westario proposed to increase the smart meter funding adder, currently $0.26 per month per metered customer, to $1.00 and stated that it was becoming authorized under the amended regulation pursuant to and in compliance with the London Hydro RFP process.

The basis for the increase to the funding adder was that on June 25, 2008, the Government of Ontario filed amendments to three smart metering regulations, namely O. Reg. 427/06 (*Smart Meters: Discretionary Metering and Procurement Principles*), O. Reg. 426/06 (*Smart Meters: Cost Recovery*), and O. Reg. 393/07 (*Designation of Smart Metering Entity*).

Westario stated that it qualified for the increased adder since amendments to O. Reg. 427/06 will authorize metering activities for distributors pursuant to and in compliance with the *Request for Proposal (RFP) for Advanced Metering Infrastructure (AMI) – Phase 1 Smart Meter Deployment* issued on August 14, 2007 by London Hydro Inc.

On October 22, 2008, the Board issued its Guideline G-2008-0002, *Smart Meter Funding and Cost Recovery*. Guideline G-2008-0002 outlines requirements for applicants wishing to request a $1.00 smart meter funding adder. The Board noted that the standard $1.00 funding adder would provide funding for distributors that are authorized and clearly intend to install smart meters in the test year. Guideline G-2008-0002 established informational requirements to be provided in support of a request for an increased smart meter funding adder of $1.00 per month per metered customer.

Westario stated that it intends to install approximately 19,125 meters during the test year at an estimated cost per meter of $216.65 and total cost of $4,143,612. Westario has not included any capital costs for smart meters in its rate base, nor is it including operating expenses related to smart meters in its revenue requirement. Smart meter funding adders and capital and operating costs related to smart meters will continue to be recorded in established deferral accounts 1555 and 1556, for review and disposition in a future application.

Board staff and SEC made no submission on Westario's proposal for smart meters, while VECC supported Westario's proposal.

Board Findings

The Board issued Guideline G-2008-0002 to provide guidance to distributors to assist in facilitating implementation of smart meters when a distributor becomes authorized, and aid in the review of smart meter funding and cost recovery.

The Board finds that Westario has complied with legislation and with the Board's Guideline G-2008-0002, and so approves an increased smart meter funding adder of $1.00 per month per metered customer. In so finding, the Board makes no determination of the prudence and reasonableness of Westario's estimated smart meter costs, which will be reviewed in a future application when Westario applies for disposition of the smart meter variance account balances.

IMPLEMENTATION

The Board has made findings in this Decision which will change Westario's revenue requirement, and therefore the proposed 2009 distribution rates. These changes are to be reflected in a Draft Rate Order prepared by Westario.

The Board issued an Interim Order on April 14, 2009 which makes Westario's current rates interim effective May 1, 2009 and allows for an effective date for Westario's new rates as early as May 1, 2009. As Westario was not late in filing its application, the Board has determined that an effective date as of May 1, 2009 for Westario's new 2009 rates is appropriate.

In developing its Draft Rate Order, Westario is directed to establish the 2009 rates assuming a 12 month recovery period. The implementation date of the Final Rate Order will be June 1, 2009. Westario is also directed to calculate rate riders that would recover one month of foregone revenue. Westario should propose an appropriate time period for recovery giving due consideration to bill impacts. The current interim rates are in effect until the Board approves the Final Rate Order.

As the 2009 rates will be implemented beginning June 1, 2009, for the rate riders to dispose of approved deferral and variance account balances, Westario is directed to calculate the rate riders to collect the balances from customers over a period of 23 months rather than 24 months.

In filing its Draft Rate Order, it is the Board's expectation that Westario will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects Westario to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Westario's proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. 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. Westario should also show detailed calculations of the revised low voltage rate adders, retail transmission rates and variance account rate riders reflecting this Decision.

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*. The Board will determine eligibility for costs in accordance with its Practice Direction on Cost Awards. 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-2008-0250, 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. Westario 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 including the Revenue Requirement Work Form in Microsoft Excel format.

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

3. Westario shall file with the Board and forward to intervenors responses to any comments on its Draft Rate Order within 7 days of the date of receipt of intervenor submissions.

4. Intervenors shall file with the Board, and forward to Westario, their respective cost claims within 30 days from the date of this Decision.

5. Westario shall file with the Board and forward to intervenors any objections to the claimed costs within 44 days from the date of this Decision.

6. Intervenors shall file with the Board and forward to Westario any responses to any objections for cost claims within 51 days of the date of this Decision.

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

DATED at Toronto, April 24, 2009

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary