Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2008-0225

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 Centre Wellington Hydro Ltd. 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 29, 2009

BACKGROUND

Centre Wellington Hydro Ltd. ("Centre Wellington") filed an application with the Ontario Energy Board on August 18, 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. Centre Wellington is the licensed electricity distributor serving the Township of Centre Wellington.

Centre Wellington 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 Centre Wellington would be one of the electricity distributors to have its rates rebased for the 2009 rate year. Accordingly, Centre Wellington filed a cost of service application based on 2009 as the forward test year.

The Board assigned the application file number EB-2008-0225 and issued a Notice of Application and Hearing dated September 15, 2008. The Board approved three interventions: the Association of Major Power Consumers Ontario ("AMPCO"), School Energy Coalition ("SEC"), and Vulnerable Energy Consumers Coalition ("VECC").

Procedural Order No. 1 was issued on October 29, 2008. The Board made provision for written interrogatories and a transcribed technical conference. On January 9, 2009 the Board issued Procedural Order No. 2 converting the technical conference to a supplemental round of interrogatories and providing dates for submission. VECC and SEC filed interrogatories and made submissions. Centre Wellington's reply argument was filed on March 4, 2009. The full record is available at the Board's offices.

In its application, Centre Wellington requested a revenue requirement of $2,739,753 to be recovered in new rates effective May 1, 2009. The resulting requested rate decrease was estimated at 2.5% on the delivery component of the bill for a residential customer consuming 1,000 kWh per month. In its final submission Centre Wellington agreed with a number of adjustments to its application and revised its revenue requirement to $2,749,467.

THE ISSUES

The issues listed below were raised in the submissions filed by Board staff, SEC, and VECC and are addressed in the following sections of the Decision:

- Load Forecast
- Operating, Maintenance & Administrative Expenses
- Payments in Lieu of Taxes
- Capital Expenditures and Rate Base
- Cost of Capital
- Cost Allocation and Rate Design
- Deferral and Variance Accounts

LOAD FORECAST

VECC submitted that the approach used by Centre Wellington to weather normalize historical usage and project 2008 and 2009 weather normal consumption is preferable to methodologies used by other distributors. However, VECC submitted that there is still room for improvement. VECC stated that the Board should encourage Centre Wellington to refine its weather normalization and forecasting approach for its next rebasing application to address the following:

- Integrate the forecasts of customer count and usage.
- Pro-rate monthly data, prior to the full availability of true monthly data based on smart metering.
- Develop a more rigorous approach for forecasting the GS>50 and Intermediate classes.

For the purpose of setting 2009 rates, VECC submitted that the Board should accept Centre Wellington's load and customer forecast. Board staff and SEC made no submissions on this issue.

Board Findings

The Board is satisfied that the forecast as filed is acceptable. The Board will not direct Centre Wellington to refine its weather normalization and forecast methodologies as suggested by VECC. However, the Board does expect Centre Wellington to continue to consider refinements to its forecast methodologies and expects Centre Wellington to consider VECC's recommendations as part of that process.

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

Table 1 below highlights the five basic components of Centre Wellington's proposed OM&A expenses for 2009 and compares them with previous years. Property and capital taxes are not included in this presentation.

Table 1 - OM&A Expenses ($)
As stated in August 2008 application

	2006 Board Approved	2007 Actual	2008 Forecast	2009 Forecast
Operations	175,881	256,507	284,900	264,900
Maintenance	258,340	252,713	296,200	292,600
Billing & Collecting	285,425	314,401	323,100	332,200
Community Relations	21,753	42,778	56,500	35,600
Administrative & General	706,526	636,151	739,200	786,300
TOTAL	**1,447,925**	**1,502,550**	**1,699,900**	**1,711,600**

The 2009 OM&A figure reflects Centre Wellington's original proposal filed in August 2008, adjusted to remove property and capital taxes. During the proceeding, Centre Wellington proposed adjustments to its original OM&A to incorporate a new forecast of regulatory costs. Centre Wellington's reply submission presented the new forecast of 2009 OM&A at $1,753,350. The figure includes property and capital taxes of $35,000. Removing property and capital taxes yields an adjusted 2009 OM&A of $1,718,350. This figure is directly comparable to the figures in the table above.

The Board notes that the increase in total OM&A expenses over the 2008 forecast is less than 1%. The increase proposed in OM&A since the 2006 Board-approved OM&A (the last set of base rates approved by the Board) is 18.7%.

The submissions from VECC and SEC were related to the following issues: the 2009 inflation assumptions, the absence of a service agreement between Centre Wellington and its affiliate, the Township of Centre Wellington, and the appropriate level of regulatory costs to include in rates.

While VECC noted that the inflation assumptions used for 2009 Billing & Collections (2.32%), Community Relations (3.89%), and Administrative & General (1.35%) were higher than current 2009 inflation estimates, it also noted that the impact in dollar terms is small. VECC also commented that despite the apparent absence of a services agreement with the Township of Centre Wellington (which is required by the Board pursuant to its affiliate Relationship Code), the costs arising from the services appear to be appropriate.

SEC's only area of real concern was that the utility's claim for regulatory costs is too high by $43,000 because it included costs for a technical and settlement conference that did not occur because it was decided that these events in this process were not required. SEC said that the over-stated costs translate to $10,750 per year when considered over the 4-year timeframe before the next re-basing ($43,000 divided by four).

The utility replied that its requested regulatory budget is appropriate because there were unbudgeted items for the regulatory process that represent real regulatory expenses. Centre Wellington said that items such as the second round of interrogatories, the cost of replying to submissions and the cost of preparing the draft rate order were not budgeted. It stated that the amount sought for reduction by SEC is therefore not warranted.

Board Findings

The Board finds that Centre Wellington's requested OM&A amount for 2009 is appropriate without any further adjustment. The 2009 OM&A amount approved is therefore $1,718,350. While it is true that the Technical and Settlement conferences were not required, the round of supplementary interrogatories that effectively replaced them may well have produced offsetting costs. As a whole the Board does not consider Centre Wellington's claim in this area to be inappropriate.

Centre Wellington shall file services agreements between itself and its affiliates, including the Township of Centre Wellington. It must file these agreements with the Board within one month of the date of this Decision.

PAYMENTS IN LIEU OF TAXES (PILs)

PILs are proxies for capital and income taxes that otherwise would have to be paid if the distributor was not owned by a municipality.

Centre Wellington updated its PILs calculation claiming a total of $27,207 as PILs expense for the 2009 Test Year. In the supplemental round of interrogatories, Board staff noted that Centre Wellington had used a corporate income tax rate of 22% versus the standard rate of 16.5%. Board staff asked[1] Centre Wellington to justify the 22% rate on account of the fact that municipalities are not taxable and do not pay taxes on dividends received from the utilities they own. In its response, Centre Wellington emphasized that it is treated as a Canadian-controlled private corporation or "CCPC" for tax purposes. When CCPC's earn investment income, such as interest, the amount earned is subject to tax at a higher rate than that applicable to regular business income. Centre Wellington referred to KPMG's assessment[2] that the income tax rate on interest income is 22% because interest income is supposed to be investment income.

In its submission, Board staff maintained that Centre Wellington's arguments are valid for tax filing purposes but asserted that calculating taxes for PILs purposes is a regulatory concept based on guidelines which are established by the Board. The Board's guidelines are based on the concept that benefits follow costs. Ratepayers do not gain any benefit when a dividend is paid to the municipality. When a dividend is paid to the municipality, it will pay no tax. But the utility will be able to deduct the dividend refund on its tax return. And dividends are taxed at a lower level than interest. Since municipalities are not taxable, the whole income tax integration issue is moot.

Moreover, in Staff's view, dividends are not considered in the Board's rate-making framework. Dividends, refundable dividend tax on hand, dividend refund,

[1] Board Staff Supplemental IR No. 7
[2] Documents filed by Centre Wellington on January 15, 2009

etc. are specific to the shareholder. Ratepayers do not benefit, therefore it is argued, they should not bear the cost of a higher tax rate.

Board staff submitted that the appropriate regulatory income tax rate for Centre Wellington on a standalone basis is 16.5% based on the evidence submitted in the application. In reply, Centre Wellington accepted Board staff's position to use a corporate income tax rate of 16.5% in its PILs calculation.

In accepting Board staff's position, Centre Wellington submitted that along with the usage of a tax rate of 16.5%, it should be directed to remove the effect of regulatory assets in the calculation of regulatory taxable income. Centre Wellington quoted the Board's Brantford Power Decision (EB-2007-0698) in which the Board denied increasing regulatory taxable income through the addition of movements, or recoveries, in regulatory assets. The Board in that decision stated that the appropriate forum for the issues raised by Brantford Power was the Board's pending proceeding on account[3]. Until that proceeding is concluded, the Board found that there was no basis to deviate from the findings that it had made in other cases where the same issue had been identified.

Board staff also noted an incorrect Ontario Capital Tax rate was used by Centre Wellington. In Reply, Centre Wellington agreed to use the appropriate Ontario Capital Tax rate of 0.225% for 2009.

Board Findings

The Board is satisfied with the amendments adopted by Centre Wellington with respect to the appropriate tax rates and methodology to be used in arriving at the PILS calculation. The draft rate order shall reflect the same. Insofar as the Board process with respect to Account 1562 (and other accounts) has not concluded, there is no basis upon which any further adjustments should be made.

RATE BASE AND CAPITAL EXPENDITURES

Centre Wellington forecast its rate base to be $8,818,124 in 2009. This represented an increase of approximately 0.2% ($21,351) over 2007 actual and an increase of approximately 2.4% ($210,340) over 2006 actual.

As set out in Table 2 below, Centre Wellington forecast capital expenditures of

[3] EB-2007-0698, Decision, Brantford Power Inc., July 18, 2008, pages 11 - 12

$815,600 in 2009. This is an increase of approximately 60% compared to 2007 and 2008 actual capital expenditures.

Table 2 - Summary of Capital Expenditures 2007-2009

	2007 Actual	2008 Bridge	2009 Test
Capital Expenditures	$510,941	$512,600	$815,600
% change as compared to the prior year		0.32%	59.1%

The largest increases were noted in the following accounts:

Gross Capital Asset Account	2008 Projected Additions	2009 Projected Additions	Percentage increase over 2008
1830 – Poles, Towers & Fixtures	$ 70,700	$ 110,500	56%
1835 – Overhead Conductors & Devices	$ 82,300	$ 136,300	66%
1850 – Line Transformers	$ 147,000	$ 306,000	108%
1920 – Computer Equipment - Hardware	$ 13,000	$ 29,000	123%
1930 – Transportation Equipment	$ 0	$ 45,000	-

The issues addressed in this section are:

- Purchase of Line Transformers
- Working capital

Purchase of Line Transformers

In its submission, Board staff expressed concern about the significant increases in costs related to line transformers. In response to Board staff interrogatories[4], Centre Wellington indicated that the high cost was as a result of depleted stock and the desire to build up an inventory of new transformers. Of the $306,000 earmarked for purchase of line transformers, 24 transformers at a cost of $161,300 were ordered to replace depleted stock and the remaining 26 transformers at a cost of $144,700 would be used for new and replacement installations. Board staff submitted that there was some uncertainty as to whether the intended purchase of spares exceeded Centre Wellington's requirements. If that were the case, Board staff argued that Centre Wellington would be earning a rate of return on spares that would not actually be required until some time far into the future.

[4] Board staff interrogatory number 22 and supplemental interrogatory number 5

VECC noted in its submission that of the transformers ordered as “spares”, $121,310 was earmarked for transformers that had already been ordered, while $40,000 worth of transformers were to be ordered in 2009. Since the delivery time for new transformers is up to 48 weeks, VECC submitted that a modest reduction to 2009 capital additions was appropriate to reflect the delayed delivery.

In its reply, Centre Wellington noted that in the period 2000 to 2005, it was able to obtain transformers from neighboring utilities. As of 2006, it had become harder to source surplus transformers from these utilities and with Centre Wellington’s own inventory depleted, it was considered prudent to replenish its stock.

Centre Wellington submitted that its objective was to maintain a transformer inventory that includes one spare transformer of every size. Centre Wellington expected that this objective would be met by the end of 2009 and requirements beyond that point would be ordered on an as needed basis.

Centre Wellington further submitted that lead times for transformers had significantly reduced since it had filed its application. The lead time was approximately 16 weeks for 3-phase transformers and 6-8 weeks for single phase transformers. Centre Wellington confirmed that five of the 15-50 kVa transformers that are to be ordered in 2009 have scheduled installation dates. This size and type of transformer was the most widely used in Centre Wellington’s service area and was likely to have a higher replacement requirement compared with other large sized transformers. Centre Wellington emphasized that it expected to order additional 50 kVa transformers in 2010 to meet normal demands. In light of these arguments, Centre Wellington submitted that the Board should approve the 2009 forecast for the purchase of transformers amounting to $306,000.

Board Findings

The Board accepts Centre Wellington’s plan with respect to transformer replacement. The creation of a modest inventory of replacement transformers is a reasonable response to the difficulty it now faces in procuring replacement equipment from neighboring utilities.

Working Capital

In response to interrogatories[5], Centre Wellington updated its working capital allowance to $2,104,973 to account for the Board's Fall 2008 Cost of Power Forecast and changes to the Network and Transmission Connection rates.

VECC in its submission indicated that the value needed to be revised further to reflect the updated estimates of 2009 Transmission Network and Connection charges and the actual loss factors proposed for 2009. VECC also recommended that the Board should work with the distributors and the IESO to establish a common approach to determine the elements of the RPP price that should be included in the Cost of Power for purposes of determining working capital allowances.

In reply, Centre Wellington argued that it had used the latest Board approved Hydro One charges to calculate the Transmission Network and Connection charges. With respect to using the 2009 proposed Loss Factor, Centre Wellington attached a Summary of Proposed Changes to its Reply Argument that calculated the impact of the proposed Loss Factor. The final working capital allowance after all adjustments as submitted in the Reply Argument was $2,100,978.

Board Findings

While the Board sees merit in VECC's suggestion for a more coordinated approach to the establishment of a system-wide Cost of Power for a variety of reasons, it will not require this applicant to change its proposal. The Board directs Centre Wellington to update the cost of power to reflect the price contained in the April 2009 RPP price report, $0.06072/kWh.

SMART METERS

In an update to its application Centre Wellington requested the standard $1.00 per month per metered customer rate adder based on the October 22, 2008 Board Guideline on Smart Meter Funding and Cost Recovery. Centre Wellington estimates installing 6,169 meters in the 2009 Test Year at a capital cost of $1.3 million or $215.25 per meter as well as 2009 OM&A costs of $145,189. These costs are based on the London Hydro Request for Proposal and internal estimates of installation, AMI, computer hardware and software requirements.

[5] VECC interrogatory number 10

Centre Wellington expects to complete installation of all smart meters by December 2009.

Centre Wellington has 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 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 in its submission supported Centre Wellington's request for the $1.00 per customer smart meter funding adder.

Board Findings

The Board approves Centre Wellington's request for a smart meter funding adder of $1.00 per month per metered customer in accordance with the Board Guideline on Smart Meter Funding and Cost Recovery. This is consistent with the approach adopted by the Board in numerous other proceedings.

COST OF CAPITAL and CAPITAL STRUCTURE

With the exception of long-term debt, parties agreed that Centre Wellington's proposed cost of capital was consistent with the Board's guidelines and the recent Cost of Capital Parameter Updates for 2009 Cost of Service Applications.

Capital Structure

Centre Wellington's proposed capital structure of 56.67% debt and 43.33% equity is consistent with the Board Report on *Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors*, issued December 20, 2006. The Board Report requires all licensed Ontario electricity distributors to move toward a 60% debt and 40% equity ratio. Centre Wellington's proposed structure is consistent with the transition to the 60/40 ratio of debt to equity.

Short Term Debt

Centre Wellington has included a 4% short-term debt component as part of its proposed capital structure and has accepted the short-term debt rate of 1.33% identified in the Cost of Capital Parameter Updates for 2009 Cost of Service Applications issued on February 24, 2009.

Long Term Debt

Centre Wellington has proposed a long term debt cost of 7.25% for 2009. The relevant Promissory Note (the "Note") is for an amount of $5.05 million payable to the Township of Centre Wellington.

In its prefiled evidence, Centre Wellington noted that the Board had determined in previous proceedings 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 Response to Interrogatories[6], Centre Wellington indicated that the Note had not been revised or amended since it was issued in November 2000 as long-term debt. Centre Wellington further noted that there is no intention on the part of either party to change the current arrangements since they were put in place to provide long-term financial certainty on flexible terms that will benefit Centre Wellington Hydro and its ratepayers.

Centre Wellington further noted in response to supplemental interrogatories[7] that the fixed interest rate was established at the time of incorporation when the deemed debt rate was 7.25%. The fixed rate of 7.25% was agreed upon (using the OEB guideline) in order to provide both Centre Wellington and the Township of Centre Wellington with a predetermined rate of interest and for the shareholder a known consistent revenue stream. The mutual expectation of Centre Wellington and the Township was that the Note would remain in place to finance the assets of the utility at a long-term market rate approved by the Board. The Note does not require Centre Wellington to pay back the principal or expose it to a refinancing risk as the Township has confirmed its intention to continue to provide the required long-term financing under the current terms.

SEC in its submission argued that the Note is callable on demand and the appropriate cost rate should be the Board's deemed long-term debt rate. VECC made a similar argument submitting that for short-term or callable debt, the appropriate rate is the Board's deemed long-term debt rate.

In reply, Centre Wellington emphasized that Board staff did not challenge Centre Wellington's arguments or oppose the 7.25% as an appropriate long-term debt rate and that SEC too did not challenge any of the supporting evidence.

[6] Board staff interrogatory number 30
[7] Board staff supplemental interrogatory number 6

Centre Wellington further indicated that the financing arrangements between it and the Township were designed to benefit its ratepayers while ensuring a fair market-based return to the shareholder. Centre Wellington submitted that since the fixed interest rate was established at the time of incorporation at a long-term market-based rate determined by the Board, this rate and the embedded debt arrangements should not be subject to change or to the variability of a deemed rate. Accordingly, Centre Wellington proposed that the Board approve the 7.25% rate as a fixed rate that will be applied to Centre Wellington's 2009 Cost of Service Application and for all future Cost of Service rate applications until such time that the Note is no longer required to finance the utility's long-term assets.

In making this request, Centre Wellington pointed to the benefits that ratepayers would receive with respect to a lower rate of 7.25% versus the Board's recently announced[8] deemed long-term debt rate of 7.62%. Centre Wellington further submitted that it would not be just and reasonable on the part of the Board to approve the lower fixed rate of 7.25% and refrain from approving the embedded treatment of the Note. In case the Board were to decide that the Note cannot be treated as embedded debt, Centre Wellington requested approval of the Board's deemed long-term debt rate of 7.62% for the 2009 Cost of Service Rate Application.

Common Equity

Centre Wellington confirmed the use of the revised return on equity ("ROE") of 8.01% adopted by the Board in February 2009.

Board Findings

In its Report respecting 2nd Generation IRM, the Board 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. The policy underpinning of this approach is that ratepayers, who cover the costs associated with these notes, are entitled to a measure of objectivity with respect to the notes, an element impossible to guarantee without the application of some external factor. We recognize that the note holder in this case-the Township- has indicated that it has no intention of calling the note, or otherwise altering what is seen by it, and the utility, as a reasonable mutually beneficial ongoing financing arrangement.

[8] Cost of Capital Parameter Updates for 2009 Cost of Service Applications, February 24, 2009

But the fact is that in all of its relevant particulars the Note meets the description used in the Board's 2nd Generation IRM Report, and therefore, without compelling evidence to the contrary, should be subject to the deeming provision. In this case, there is no such contrary evidence. The fact that the interest rate for the Note was established in 2000 using an objective standard, which would have governed lending relationships between unrelated third parties, does not derogate from the fact that the Note is in fact a loan from the sole shareholder, callable on demand.

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.

Accordingly, the Board requires Centre Wellington to apply the deemed rate of 7.62% to this embedded debt.

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:

- Retail transmission rates
- Line Losses
- Low Voltage Costs
- Revenue to cost ratios
- Rate design - monthly fixed charges

Retail Transmission Service Rates (RTS Rates)

Centre Wellington is a partially embedded distributor. In its original filing, Centre Wellington provided information respecting transmission costs. Centre Wellington indicated that its proposed 2009 retail transmission service ("RTS") rates are designed to more accurately reflect the costs of these services from Hydro One.

Centre Wellington has updated its RTS rates to reflect the changes in the Board guideline, *Electricity Distribution Retail Transmission Service Rates [G-2008-0001]* issued on October 22, 2008. As a result of the approval of Hydro One's new Uniform Transmission Rates, which came into effect January 1, 2009, Centre Wellington also indicated that the rates had been designed to account for the tendency of Centre Wellington's current RTS rates to over recover costs. The changes are outlined in Table 3 below.

Table 3- Hydro One's Uniform Transmission Rates

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

Staff submitted that the new rates are designed to collect the associated revenues appropriately. VECC submitted that the Board should approve Centre Wellington's proposed RTS rates for 2009.

Board Findings

The Board accepts the Centre Wellington's updated proposal as reflected in Table 3.

Line Losses

In its original application, Centre Wellington proposed a Distribution Loss Factor ("DLF") of 1.0370 based on the average for the last three years. In response to an interrogatory, Centre Wellington revised its DLF value to 1.0308. Accordingly, Centre Wellington revised its Total Loss Factor ("TLF") for 2009, from 1.0681 to 1.0449.

Board staff agreed with Centre Wellington's proposed revised DLF and TLF. SEC and VECC made no submissions.

Board Findings

The Board accepts Centre Wellington's proposal as amended.

Low Voltage Costs

The original application included $91,000 in Low Voltage ("LV") costs for 2009. VECC submitted that Centre Wellington should update its LV costs to reflect the final rate order issued in January 2009 for Hydro One Networks 2008 distribution rates, including the Sub-Transmission rates applicable to LV costs. Board staff submitted that Hydro One Networks had since filed an application (EB-2008-0187) which included its proposed Sub-Transmission rates for May 1, 2009. Staff argued that Centre Wellington's forecast LV costs should assume that the May 1, 2009 rates will be approved. In its reply, Centre Wellington updated its LV costs assuming approval of the May 1, 2009 Sub-Transmission rates in the Hydro One Networks application. The revised forecast LV costs for 2009 total $89,391.98.

Centre Wellington indicated that LV costs would be allocated on the basis of 2009 normalized kWh load. Board staff agreed that Centre Wellington was properly assigning LV charges on the basis of 2009 figures. SEC and VECC made no submissions.

Centre Wellington updated its LV costs on the basis of Hydro One's proposed rates for May 1, 2009. No party disagreed with the update. Centre Wellington has requested $89,391.98 for forecast LV costs for 2009.

Board Findings

The Board accepts the Applicant's updated proposal, including its proposal for allocation of the LV costs.

Revenue to Cost Ratios

Table 4 below sets out Centre Wellington'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. The result of Centre Wellington's Cost Allocation informational filing are set out in column 3. Centre Wellington's proposed revenue to cost ratios is in column 4 below.

Table 4 - Revenue to Cost Ratios

1 Customer Class	2 Board Target Range[9]	3 Cost Allocation Informational Filing	4 2009 Rate Application, as requested	5 2009 VECC's modified Cost Allocation Run as per IR #28c[10]
Residential	85-115	106.51	**103.00**	109.87
GS < 50	80-120	109.71	**106.62**	114.68
GS > 50kW regular	80-120	114.91	**112.82**	105.04
GS > 50kW intermediate	85-115	65.07	**87.20**	34.87
Street Lighting	70-120	8.72	**40.47**	9.18
Sentinel Lighting	70-120	16.01	**45.23**	16.88
USL	80-120	138.26	**112.08**	142.31

VECC argued that Centre Wellington's original cost allocation informational filing improperly assigns the cost of transformer ownership allowance across all classes, resulting in an over allocation of cost to those classes where customers generally do not own their own transformers. VECC submitted that it would be more appropriate to update the informational filing to align with Centre Wellington's proposal to assign all transformer ownership allowance costs to the GS>50 classes. These ratios appear in column 5 in the table above. Centre Wellington noted that there are potential flaws in the Cost Allocation Informational Filing, but argued that it has accepted the Board's position of using the Cost Allocation Informational Filing to develop 2009 rates.

Board staff noted in its submissions that the proposed ratios across all classes are within the Board's target range and that the changes proposed are in line with the Board's policy.

[9] Report of the Board, *Application of Cost Allocation for Electricity Distributors,* November 28, 2007.
[10] VECC's interrogatory #28c requested that Centre Wellington perform a cost allocation run which better reflects Centre Wellington indication that it would be assigning the entire cost of transformer ownership allowance to the GS>50kW classes.

On the proposed revenue to cost ratios as a whole, VECC submitted that the surplus revenue generated by increasing the revenue to cost ratios for street, sentinel, and GS>50 should be used to reduce the revenue to cost ratio for USL down to 120%, and then be used to reduce all classes above that are above 100% revenue-to-cost ratio – with emphasis on classes with ratios furthest from unity.

Street and Sentinel Lighting

Board staff noted that Centre Wellington's proposal was to increase the revenue to cost ratio to 70% in both Street and Sentinel Lighting, phased in over a period of three years, as reproduced in Table 5 below from interrogatories[11]:

Table 5 - Centre Wellington's Proposed Street and Sentinel Lighting Ratios

Customer Class	CA Info Filing	2009	2010 IRM	2011 IRM
Street Lighting	8.72	40.47	55.23	70.00
Sentinel Lighting	16.01	45.23	57.61	70.00

Staff submitted that the phase-in approach for Centre Wellington should be similar to those approved in 2008. In other situations similar to Centre Wellington's, the Board has directed that the rates be increased to reach the Board's target range in two or three years.

Staff noted that Centre Wellington's proposed revenue to cost ratio for Street and Sentinel Lighting for 2009 are at the midpoint between the current level and the lower boundary of the Board's target range. Staff submitted that Centre Wellington should be required to reach the lower boundary of the Board's target range for Street and Sentinel Lighting in 2010, rather than in 2011 as Centre Wellington has proposed. SEC concurred with Board staff that the Street Lighting class revenue to cost ratio should be moved to 70% within two years. SEC argued that the revenue to cost ratios for the Street and Sentinel Lighting classes ultimately should be adjusted to move towards unity during the IRM period, and noted that Street Lighting has been the biggest beneficiary of the over-contribution by the Residential and general service rate classes is the Street Lighting class.

[11] Response to Board Staff Interrogatory #4(b)

Centre Wellington replied that the revenue to cost ratios for Street and Sentinel Lighting should not be adjusted to 70% for the 2010 rate year, suggesting that the Board should not allow a second consecutive increase of this magnitude when it has the authority to mitigate the impacts by rebalancing over three years (2010, 2011, and 2012). VECC generally agreed with Centre Wellington's proposed adjustment to move approximately half way to the bottom end of the Board's target range.

Centre Wellington disagreed with the SEC proposal to raise the revenue to cost ratios toward 100% over the IRM period, citing several reasons that the Cost Allocation Study should not be strictly applied; including the quality of data and limited modeling experience.

GS>50kW

SEC submitted that the GS>50kW customers should receive adjustments to their revenue to cost ratios which reflect real and not nominal adjustments to reduce the distribution rate impacts the GS>50 class is facing.

GS>3,000kW class

VECC argued that the revenue to cost ratio for the GS<3,000kW class (the "intermediate" class) should be moved up to 80%, the bottom of the Board's target range, and not 87.3% as proposed by Centre Wellington.

SEC made further submissions suggesting that the lone customer in the GS>3,000kW (intermediate) class should be moved to the GS>5,000kW class. Centre Wellington replied that while SEC's proposal may reduce over-contribution by the GS>50kW class, the time to assess the movement of customers from one class to another is during a Cost Allocation Study. Centre Wellington submitted that moving customers from one rate class to another without exploring the implications should not be considered, while also noting that the Board recently issued a Staff Discussion Paper which contemplates a rate design review.[12]

Board Findings

The Board finds that the Centre Wellington's proposal with respect to the ratios is acceptable, modified to reflect the re-allocation of the Transformer Ownership

[12] EB-2007-0031, *Rate Classification for Electricity Distribution Customers,* January 29, 2009.

Allowance to the GS>50 classes, as proposed by VECC. This outcome is reflected in Column 5 of Table 4.

As to timing of the migration of the Streetlighting class to the lower end of the preferred band (70%), the Board is prepared to accede to the Utility's request that it be accomplished over two further years. The Board acknowledges that the transition for this class will result in significant increases, and to the extent possible these should be mitigated by allowing the process to take the additional year.

The Board does not accept SEC's proposal to reallocate costs to the GS>50 Kw class on the basis of "real", as opposed to "nominal" costs. The Board's methodology is intended to produce a consistent approach to cost allocation system-wide. If there are mitigation issues with respect to a particular class, they should be dealt with as such, and not by attempting to re-invent the cost allocation exercise. In this case, the Board will address this aspect later in the rate design section of this decision.

The Board accepts the Utility's proposal with respect to the GS>3000 class. While the Board's acceptable range starts at 80%, moving this class to 87.3% does not conflict with Board policy. Similarly, the Board does not adopt SEC's proposal to move the sole member of this class to the GS>5000 class. As Centre Wellington points out, moving a customer from one class to another should generally only be done with full knowledge of the customer, and with a full review of the range of consequences attendant with such a change.

Rate Design - Monthly Fixed Charges

VECC submitted that there is no justification for Centre Wellington's proposal to increase the fixed portion of the Residential class rate design from 56% to 61% prior to the completion of the Board's current initiative regarding distribution rate design. VECC noted that the current monthly service charges are within the established range, and the bill impacts do not require mitigation. VECC submitted that the Board should direct Centre Wellington to maintain the existing fixed-variable split in its Residential rate design for the 2009 rate year. Centre Wellington replied that the proposed monthly fixed charge is within the bounds established by the Board. Centre Wellington noted that if the Board approved the fixed charges proposed by VECC the revenue to cost ratio target ranges and bounds for monthly charges in other classes may not be met.

SEC expressed concern over the significant distribution rate impacts for some GS>50kW customers in Centre Wellington's proposal to increase the fixed charge from approximately $42 to $131/month, a 209% increase. SEC submitted that the proposed fixed charge is not unreasonable, but recommended that the increase to the fixed charge should be phased-in. SEC suggested that the 2009 fixed charge should be approximately $72/month, the avoided cost, based on Centre Wellington's informational filing.

Centre Wellington replied that SEC's proposed fixed-variable split would result in a rate that has an even higher variable component than the existing rate. Centre Wellington argued that SEC's recognition that the proposed fixed charge is reasonable is an indication that the current approved rate is grossly understated compared to other LDCs.

Board Findings

While the Board has initiated a consultation process to consider the principles underlying rate design and possible alternatives to current practice, that process is in its early stages and should not be expected to inform rate design issues in cases for some time. It would not be appropriate to forego otherwise desirable changes to rate design until that time. Centre Wellington has provided a convincing case that the fixed portion of its respective rates should increase. Particularly convincing was the comparison between Centre Wellington's rate structure and that of other analogous utilities.

The Board considers Centre Wellington's proposal with respect to the increase in the fixed portion of the rates to be acceptable in all cases, with the exception that the change proposed for the GS>50Kw class shall be phased in over three years, to mitigate the possible implications for this class. To be sure, the re-allocation as between the fixed and the variable portion of the rate is intended to be revenue-neutral. In this case that may mean that there will not be any marked overall increase for the affected customer. But given the overall economic conditions, the Board considers it prudent in this case to phase in the change as indicated.

DEFERRAL AND VARIANCE ACCOUNTS

Table 6 below sets out the account balances (as of December 31, 2007 with interest forecast to April 30, 2009), which Centre Wellington proposes to clear for disposition. Board staff noted that Centre Wellington has provided a continuity schedule necessary to confirm the balances for disposition.

Table 6 - Accounts requested for disposition by Centre Wellington

ACCOUNT #	ACCOUNT NAME	BALANCE - $
1508	Other Regulatory Assets	$90,486
1550	Low Voltage Variance Account	($106,721)
1584	RSVA – Retail Transmission Network Charges	$14,277
1586	RSVA – Retail Transmission Network Charges	($733,449)
TOTAL		**($735,406)** **Credit to ratepayers**

The total balance is a $735,406 credit to ratepayers. Centre Wellington's proposal is to dispose of this balance over 3 years. Centre Wellington is aware that the Board is proposing to deal with RSVA balances through a separate process from the Cost of Service applications. Board staff, VECC, and SEC agreed with Centre Wellington's proposal to clear accounts 1508, 1550, 1584, and 1586 in light of the large credit balance and rate impact mitigation the clearance will effect.

Board staff submitted that the Board may wish to consider disposition of additional accounts in this proceeding. These are set out in the table below.

Table 7 - Accounts to be Considered for Disposition

ACCOUNT #	ACCOUNT NAME	BALANCE - $
1508	Other Regulatory Assets	$90,486
1518	Retail Cost Variance Account – Retail	$58,239
1548	Retail Cost Variance Account – STR	$1,551
1550	Low Voltage Variance Account	$(106,721)
1580	RSVA – Wholesale Market Service Charge	$(309,874)
1582	RSVA – One-time Wholesale Market Service	$21,141
1584	RSVA – Retail Transmission Network Charge	$14,277
1586	RSVA – Retail Transmission Connection Charge	$(733,449)
1588	RSVA – Power (including Global Adjustment)	$(149,905)
TOTAL		**$(1,114,253)**

In its reply, Centre Wellington submitted that if the Board decided to clear all of the accounts in the above table, that the accounts be disposed over a period of four years.

No party proposed disposition of the accounts related to Smart Meter, PILs, CDM or Recovery of Regulatory Asset Balances (1590).

Board Findings

The Board has developed a practice of directing that deferral and variance accounts be disposed of where they either individually or collectively represent a significant amount considering the size of the utility under review. The Board to date has not generally disposed of the balances in the accounts related to PILs, Smart Meters, CDM and Regulatory Asset Balances. In this case there are accounts which have accumulated comparatively large balances. Also, the total balance of the accounts under consideration represents the equivalent of a full year of OM&A expense. Disposing of these accounts now avoids possibly undesirable intergenerational inequities, and is prudent. As a general rule, Utility management should be characterized by an absence of volatility and large swings in its financial life.

The Board considers that this is a case where all of the accounts represented on Tables 6 and 7 should be disposed of, consistent with the position taken by Board Staff. The Utility has asked that this be accomplished over a period of four years, that is prior to the next scheduled re-basing. The Board accepts this submission and so orders.

Allocation of Regulatory Asset Rate Riders

VECC noted that the practice has been to allocate recovery of account 1508 to customer classes based on distribution revenues and not kWh as proposed by Centre Wellington. VECC also submitted that account 1584 and 1586 should be allocated on the basis of kWh. Centre Wellington replied that it is willing to change the allocators for these three accounts on the basis of VECC's submissions.

Board Findings

The Board finds merit in VECC's suggestions and directs the Applicant to implement them in the preparation of the draft rate order.

INTERIM RATES

The Board notes that in its application, Center Wellington requested that should the Board not be able to provide an order for implementation as of May 1, 2009, Center Wellington's proposed rates for 2009 should be declared interim.

Board Findings

The Board has considered this request but has determined that Center Wellington's current rates for its service area should be made interim, effective May 1, 2009 pending the issuance of final rates for 2009. The Board expects that final rates will be issued reasonably close to May 1, 2009 and therefore it is not necessary to consider implementing Centre Wellington's proposed rates on an interim basis.

IMPLEMENTATION

The Board has made findings in this Decision which change the 2009 distribution rates from those proposed by Centre Wellington. These changes are to be reflected in a Draft Rate Order incorporating an effective date of May 1, 2009 but the Board will not implement new rates on May 1, 2009. As a result there will be a period of time starting on May 1, 2009 that Centre Wellington will have charged customers according to its currently approved rates rather than the Board approved 2009 rates. In order to recover this foregone distribution revenue the Board will allow Centre Wellington to, in its rate order, provide for a rate rider or rate riders that will enable Centre Wellington to recover any difference in revenue.

Based on this Decision the Board directs Centre Wellington to file the proposed rate rider(s), the duration of the proposed rate rider(s), the supporting materials to justify the rate rider(s) and to satisfy the Board that the revenues received would adequately recover the foregone revenues.

In filing its Draft Rate Order, it is the Board's expectation that Centre Wellington 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 Centre Wellington to file detailed supporting material, including all relevant calculations showing the impact of this Decision on Centre Wellington'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. Centre Wellington should also show detailed calculations of the revised low voltage rate adders, retail transmission service 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*. 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-2008-0225**,** 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. Centre Wellington shall file with the Board, and shall also forward to AMPCO, SEC, and VECC, 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. AMPCO, SEC, and VECC shall file any comments on the Draft Rate Order with the Board and forward to Centre Wellington within 7 days of the filing of the Draft Rate Order.

3. AMPCO, SEC, and VECC shall file with the Board and forward to their respective cost claims within 26 days from the date of this Decision.

4. Centre Wellington shall file with the Board and forward to AMPCO, SEC, and VECC responses to any comments on its Draft Rate Order within 7 days of the receipt of any submissions.

5. Centre Wellington shall file with the Board and forward AMPCO, SEC, and VECC any objections to the claimed costs within 40 days from the date of this Decision.

6. AMPCO, SEC, and VECC shall file with the Board and forward to Centre Wellington any responses to any objections for cost claims within 47 days of the date of this Decision.

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

THE BOARD ORDERS THAT:

The currently approved rates for Centre Wellington's service area are declared interim as of May 1, 2009 and until such time as a final rate order is issued by the Board.

DATED at Toronto, April 29, 2009
ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary