



EB-2011-0103

IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to set distribution rates for Wasaga Distribution Inc.

PROCEDURAL ORDER No. 1

On July 18, 2011 the Ontario Energy Board (the "Board") on its own motion issued a Notice of Proceeding and Order Respecting Interim Rates (the "Notice") to make an order fixing just and reasonable rates for Wasaga Distribution Inc. ("Wasaga") pursuant to sections 19 and 78 of *Ontario Energy Board Act, 1998*. The Board assigned this proceeding File No. EB-2011-0103.

The Notice set out the underpinning circumstances and a number of Board expectations for the proceeding, namely that:

- (i) Wasaga would file its 2012 cost of service application in a timely manner, with the reminder that the deadline for filing cost of service applications for 2012 rates was August 26, 2011;
- (ii) Board was concerned regarding the appropriateness of certain adjustments made by Wasaga in its calculations of the rate of return levels for 2009 and 2010; and,
- (iii) the issue of any over earnings for the remainder of the 2011 rate year, and the appropriate remedy (if any) to such overearnings would be an issue that may be explored in Wasaga's application for 2012 rates.

In this regard, the Board also declared Wasaga's existing rates interim effective July 18, 2011 pending the hearing of the application to be filed by Wasaga.

This proceeding has been held in abeyance pending the filing by Wasaga. To date, the Board has not received a cost of service application from Wasaga. The interim rates made effective July 18, 2011 continue to apply.

Wasaga's April 7, 2011 request to defer its scheduled 2012 cost of service rate setting proceeding was denied by the Board on the basis of the company's demonstrated over earning. The Board has not received an application to demonstrate otherwise. Wasaga was originally scheduled to have its rates reset effective May 1, 2012 through a cost of service proceeding. Beyond that date, the Board is concerned with the potential for customers being required to initially pay more than need be and the related issue of intergenerational cross subsidies that arises when current customers leave the system.

In order to estimate the amount by which existing rates beyond May 1, 2012 would result in overearnings, the Board has analysed Wasaga's financial results for the year ended December 31, 2010 sourced from Wasaga's *Reporting and Record Keeping Requirements* and Annual Financial Statements. Using the Board's Revenue Requirement Work Form, version 2.2, the analysis indicates that Wasaga over earned in the amount of \$290,849 which equates to approximately 9% of its 2010 distribution revenues. The completed analysis and Revenue Requirement Work Form is attached as Appendix A to this Procedural Order.

In order to mitigate the risk that customers are paying distribution rates that result in earnings that exceed the deemed allowed rate of return set by the Board, the Board is considering the merit of adjusting Wasaga's existing interim rates downward effective June 1, 2012. The adjustment would also mitigate concerns of intergenerational inequity. While the appropriate date for such an adjustment should likely be May 1, 2012, the effective date for new rates based on a cost of service application, the Board will afford Wasaga an opportunity to file submissions on its proposal. The analysis provided in Appendix A indicates that a 4.4% decrease, (referred to as the "over earnings adjustment factor") to the existing base monthly service charge and base distribution volumetric rate for all customer classes would result in revenues that would permit Wasaga to earn the deemed rate of return on equity. The proposed adjusted rates are shown in Appendix B.

Subject to its consideration of any submissions from Wasaga as described below, the Board intends to issue a new interim rate order for rates effective June 1, 2012 which will reflect the adjustments shown in Appendix B. These rates would be declared

interim pending the Board's determination of a complete cost of service application filed by Wasaga for 2012 rates. Since interim rates are and will be in place, the Board would have the ability to retrospectively alter this adjustment (either higher or lower) as the evidence ultimately warrants.

The Board will consider any submissions filed by Wasaga on (i) the appropriateness of and the degree to which the Board intends to adjust Wasaga's rates, (ii) the manner in which the over earnings have been calculated in the Revenue Requirement Work Form and the calculation of the over earnings adjustment factor as shown in Appendix A and (iii) the manner in which the rates are proposed to be adjusted as shown in Appendix B.

THE BOARD ORDERS THAT:

1. If Wasaga wishes to file a submission on the matters identified in this procedural order, Wasaga shall file its submission by May 9, 2012.

Any submission filed with the Board must quote the file number, EB-2011-0103, be made through the Board's web portal at <https://www.errr.ontarioenergyboard.ca>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Wasaga must use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at <http://www.ontarioenergyboard.ca/OEB/Industry>.

Any communications should be directed to the attention of the Board Secretary and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, April 25, 2012

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

APPENDIX A

TO PROCEDURAL ORDER No.1

EB-2011- 0103

Wasaga Distribution Inc.

DATED: April 25, 2012



Ontario Energy Board

**REVENUE REQUIREMENT
WORK FORM**

Version 2.20

Choose Your Utility:

Wasaga Distribution Inc. ▲
Waterloo North Hydro Inc.
Welland Hydro-Electric System Corp. ▼

File Number:

EB-2011-0103

Rate Year:

2012

Application Contact Information

Name:

APPENDIX A

Title:

Phone Number:

Email Address:

Copyright

This Revenue Requirement Work Form Model is protected by copyright and is being made available to you solely for the purpose of your application, any subsequent updates and preparing or reviewing your draft rate order. You may use and copy this model for that purpose, and provide a copy of this model to any person that is advising or assisting you in that regard. Except as indicated above, any copying, reproduction, publication, sale, adaptation, translation, modification, reverse engineering or other use or dissemination of this model without the express written consent of the Ontario Energy Board is prohibited. If you provide a copy of this model to a person that is advising or assisting you in preparing or reviewing your draft rate order, you must ensure that the person understands and agrees to the restrictions noted above.



Ontario Energy Board

REVENUE REQUIREMENT WORK FORM

Version 2.20

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[10A. Bill Impacts - Residential](#)

[10B. Bill Impacts - GS LT 50kW](#)

Notes:

- (1) Pale green cells represent inputs
- (2) Pale green boxes at the bottom of each page are for additional notes
- (3) Pale yellow cells represent drop-down lists
- (4) ***Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.***
- (5) ***Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel***



Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**

Version 2.20

Wasaga Distribution Inc.
Data Input ⁽¹⁾

	Initial Application	(6)	Per Board Decision
1 Rate Base			
Gross Fixed Assets (average)	\$19,869,977 (8)	\$ 19,869,977	\$19,869,977
Accumulated Depreciation (average)	(\$10,841,139) (5)	(\$10,841,139)	(\$10,841,139)
Allowance for Working Capital:			
Controllable Expenses	\$2,178,039	\$ 2,178,039	\$2,178,039
Cost of Power	\$10,198,569	\$ 10,198,569	\$10,198,569
Working Capital Rate (%)	15.00%	15.00%	15.00%
2 Utility Income			
Operating Revenues:			
Distribution Revenue at Current Rates	\$3,409,550		
Distribution Revenue at Proposed Rates	\$3,260,330 (11)		
Other Revenue:			
Specific Service Charges	\$142,201		
Late Payment Charges	\$34,651		
Other Distribution Revenue	\$394,197		
Other Income and Deductions	\$37,138		
Total Revenue Offsets	\$608,187 (7)		
Operating Expenses:			
OM+A Expenses	\$2,178,039	\$ 2,178,039	\$2,178,039
Depreciation/Amortization	\$621,954	\$ 621,954	\$621,954
Property taxes			
Other expenses	\$25,004	25004	\$25,004
3 Taxes/PILs			
Taxable Income:			
Adjustments required to arrive at taxable income	(3)		
Utility Income Taxes and Rates:			
Income taxes (not grossed up)	\$190,576		
Income taxes (grossed up)	\$236,917		
Federal tax (%)	19.56% (10)		
Provincial tax (%)			
Income Tax Credits			
4 Capitalization/Cost of Capital			
Capital Structure:			
Long-term debt Capitalization Ratio (%)	60.0%		
Short-term debt Capitalization Ratio (%)	(2)	(2)	(2)
Common Equity Capitalization Ratio (%)	40.0%		
Preferred Shares Capitalization Ratio (%)			
	100.0%		
Cost of Capital			
Long-term debt Cost Rate (%)	6.35% (9)		
Short-term debt Cost Rate (%)			
Common Equity Cost Rate (%)	9.00% (9)		
Preferred Shares Cost Rate (%)			

Notes:

General Data inputs are required on Sheets 3, 10A and 10B. Data from Sheet 3 will automatically complete calculations on sheets 4 through 9 (Rate Base through Revenue Requirement). Sheets 4 through 9 do not require any inputs except for notes that the Applicant may wish to enter to support the results. Pale green cells are available on sheets 4 through 9 to enter both footnotes beside key cells and the related text for the notes at the bottom of each sheet.

- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
 - (2) 4.0% unless an Applicant has proposed or been approved for another amount.
 - (3) Net of addbacks and deductions to arrive at taxable income.
 - (4) Average of Gross Fixed Assets at beginning and end of the Test Year
 - (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
 - (6) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.
 - (7) Input total revenue offsets for deriving the base revenue requirement from the service revenue requirement
 - (8) Averages of 2009 and 2010 YE balances for GFA and Accumulated Depreciation
 - (9) From 2006 EDR - final 2006 EDR model
 - (10) 19.56% corresponds to 2010 AFS and Wasaga's June 30, 2011 analysis. From 2010 IRM model (final), sheet D2.1, 2010 cell N24, aggregate Fed and Prov tax rate =
 - (11) -0.043765306
- In other words, an 4.4% uniform reduction in monthly and volumetric distribution rates (ignoring rate riders, RTSRs, RPP, SMFA, etc.) is to be applied uniformly to monthly and volumetric distribution rates (excluding rate riders, RRRP, SMFA, etc.) to get to approved ROE of 9.00% from 2006 EDR.



Ontario Energy Board

REVENUE REQUIREMENT WORK FORM

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Wasaga Distribution Inc. Rate Base and Working Capital

Rate Base

Line No.	Particulars		Initial Application				Per Board Decision
1	Gross Fixed Assets (average) (3)		\$19,869,977	\$ -	\$19,869,977	\$ -	\$19,869,977
2	Accumulated Depreciation (average) (3)		(\$10,841,139)	\$ -	(\$10,841,139)	\$ -	(\$10,841,139)
3	Net Fixed Assets (average) (3)		\$9,028,838	\$ -	\$9,028,838	\$ -	\$9,028,838
4	Allowance for Working Capital (1)		\$1,856,491	\$ -	\$1,856,491	\$ -	\$1,856,491
5	Total Rate Base		\$10,885,329	\$ -	\$10,885,329	\$ -	\$10,885,329

Allowance for Working Capital - Derivation

(1)

6	Controllable Expenses		\$2,178,039	\$ -	\$2,178,039	\$ -	\$2,178,039
7	Cost of Power		\$10,198,569	\$ -	\$10,198,569	\$ -	\$10,198,569
8	Working Capital Base		\$12,376,608	\$ -	\$12,376,608	\$ -	\$12,376,608
9	Working Capital Rate % (2)		15.00%	0.00%	15.00%	0.00%	15.00%
10	Working Capital Allowance		\$1,856,491	\$ -	\$1,856,491	\$ -	\$1,856,491

Notes


(2)

Some Applicants may have a unique rate as a result of a lead-lag study.

(3)

Average of opening and closing balances for the year.




Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

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Wasaga Distribution Inc.
Utility Income

Line No.	Particulars	Initial Application				Per Board Decision
Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)	\$3,260,330	(\$3,260,330)	\$ -	\$ -	\$ -
2	Other Revenue	(1) \$608,187	(\$608,187)	\$ -	\$ -	\$ -
3	Total Operating Revenues	\$3,868,517	(\$3,868,517)	\$ -	\$ -	\$ -
Operating Expenses:						
4	OM+A Expenses	\$2,178,039	\$ -	\$2,178,039	\$ -	\$2,178,039
5	Depreciation/Amortization	\$621,954	\$ -	\$621,954	\$ -	\$621,954
6	Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
7	Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other expense	\$25,004	\$ -	\$25,004	\$ -	\$25,004
9	Subtotal (lines 4 to 8)	\$2,824,997	\$ -	\$2,824,997	\$ -	\$2,824,997
10	Deemed Interest Expense	\$414,731	(\$414,731)	\$ -	\$ -	\$ -
11	Total Expenses (lines 9 to 10)	\$3,239,728	(\$414,731)	\$2,824,997	\$ -	\$2,824,997
12	Utility income before income taxes	\$628,789	(\$3,453,786)	(\$2,824,997)	\$ -	(\$2,824,997)
13	Income taxes (grossed-up)	\$236,917	\$ -	\$236,917	\$ -	\$236,917
14	Utility net income	\$391,872	(\$3,453,786)	(\$3,061,914)	\$ -	(\$3,061,914)
Other Revenues / Revenue Offsets						
Notes						
(1)	Specific Service Charges	\$142,201		\$ -		\$ -
	Late Payment Charges	\$34,651		\$ -		\$ -
	Other Distribution Revenue	\$394,197		\$ -		\$ -
	Other Income and Deductions	\$37,138		\$ -		\$ -
	Total Revenue Offsets	\$608,187	\$ -	\$ -	\$ -	\$ -



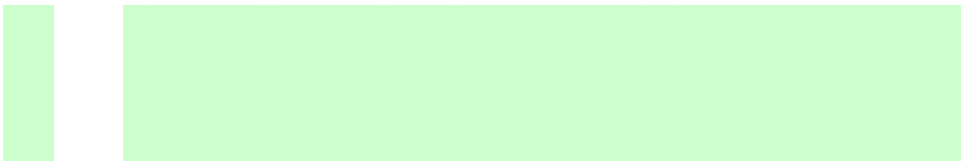

Ontario Energy Board
REVENUE REQUIREMENT
WORK FORM

Version 2.20

Wasaga Distribution Inc.
Taxes/PILs

Line No.	Particulars	Application		Per Board Decision	
Determination of Taxable Income					
1	Utility net income before taxes	\$391,872	\$ -	\$ -	\$ -
2	Adjustments required to arrive at taxable utility income	\$ -	\$ -	\$ -	\$ -
3	Taxable income	<u>\$391,872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Calculation of Utility income Taxes					
4	Income taxes	\$190,576	\$190,576	\$190,576	\$190,576
6	Total taxes	<u>\$190,576</u>	<u>\$190,576</u>	<u>\$190,576</u>	<u>\$190,576</u>
7	Gross-up of Income Taxes	\$46,341	\$46,341	\$46,341	\$46,341
8	Grossed-up Income Taxes	<u>\$236,917</u>	<u>\$236,917</u>	<u>\$236,917</u>	<u>\$236,917</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$236,917</u>	<u>\$236,917</u>	<u>\$236,917</u>	<u>\$236,917</u>
10	Other tax Credits	\$ -	\$ -	\$ -	\$ -
Tax Rates					
11	Federal tax (%)	19.56%	19.56%	19.56%	19.56%
12	Provincial tax (%)	0.00%	0.00%	0.00%	0.00%
13	Total tax rate (%)	<u>19.56%</u>	<u>19.56%</u>	<u>19.56%</u>	<u>19.56%</u>

Notes





Ontario Energy Board
**REVENUE REQUIREMENT
 WORK FORM**

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Wasaga Distribution Inc.
Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio	Cost Rate	Return	
Initial Application					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	60.00%	\$6,531,198	6.35%	\$414,731
2	Short-term Debt	0.00%	\$ -	0.00%	\$ -
3	Total Debt	60.00%	\$6,531,198	6.35%	\$414,731
	Equity				
4	Common Equity	40.00%	\$4,354,132	9.00%	\$391,872
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$4,354,132	9.00%	\$391,872
7	Total	100.00%	\$10,885,329	7.41%	\$806,603
Per Board Decision					
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	0.00%	\$ -	0.00%	\$ -
2	Short-term Debt	0.00%	\$ -	0.00%	\$ -
3	Total Debt	0.00%	\$ -	0.00%	\$ -
	Equity				
4	Common Equity	0.00%	\$ -	0.00%	\$ -
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	0.00%	\$ -	0.00%	\$ -
7	Total	0.00%	\$10,885,329	0.00%	\$ -

Notes
 (1)

4.0% unless an Applicant has proposed or been approved for another amount.

REVENUE REQUIREMENT
WORK FORM

Version 2.20

Wasaga Distribution Inc.
Revenue Deficiency/Sufficiency

Line No.	Particulars	Initial Application		Per Board Decision			
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		(\$290,849)		(\$584,553)		\$2,824,997
2	Distribution Revenue	\$3,409,550	\$3,551,179	\$3,409,550	\$3,844,883	\$ -	(\$2,824,997)
3	Other Operating Revenue	\$608,187	\$608,187	\$ -	\$ -	\$ -	\$ -
	Offsets - net						
4	Total Revenue	\$4,017,737	\$3,868,517	\$3,409,550	\$3,260,330	\$ -	\$ -
5	Operating Expenses	\$2,824,997	\$2,824,997	\$2,824,997	\$2,824,997	\$2,824,997	\$2,824,997
6	Deemed Interest Expense	\$414,731	\$414,731	\$ -	\$ -	\$ -	\$ -
	Total Cost and Expenses	\$3,239,728	\$3,239,728	\$2,824,997	\$2,824,997	\$2,824,997	\$2,824,997
7	Utility Income Before Income Taxes	\$778,009	\$628,789	\$584,553	\$435,333	(\$2,824,997)	(\$2,824,997)
8	Tax Adjustments to Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Income per 2009 PILs						
9	Taxable Income	\$778,009	\$628,789	\$584,553	\$435,333	(\$2,824,997)	(\$2,824,997)
10	Income Tax Rate	19.56%	19.56%	19.56%	19.56%	19.56%	19.56%
11	Income Tax on Taxable Income	\$152,179	\$122,991	\$114,339	\$85,151	(\$552,569)	(\$552,569)
12	Income Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Utility Net Income	\$625,830	\$391,872	\$470,214	(\$3,061,914)	(\$2,272,428)	(\$3,061,914)
14	Utility Rate Base	\$10,885,329	\$10,885,329	\$10,885,329	\$10,885,329	\$10,885,329	\$10,885,329
	Deemed Equity Portion of Rate Base	\$4,354,132	\$4,354,132	\$ -	\$ -	\$ -	\$ -
15	Income/(Equity Portion of Rate Base)	14.37%	9.00%	0.00%	0.00%	0.00%	0.00%
16	Target Return - Equity on Rate Base	9.00%	9.00%	0.00%	0.00%	0.00%	0.00%
17	Deficiency/Sufficiency in Return on Equity	5.37%	0.00%	0.00%	0.00%	0.00%	0.00%
18	Indicated Rate of Return	9.56%	7.41%	4.32%	0.00%	-20.88%	0.00%
19	Requested Rate of Return on Rate Base	7.41%	7.41%	0.00%	0.00%	0.00%	0.00%
20	Deficiency/Sufficiency in Rate of Return	2.15%	0.00%	4.32%	0.00%	-20.88%	0.00%
21	Target Return on Equity	\$391,872	\$391,872	\$ -	\$ -	\$ -	\$ -
22	Revenue Deficiency/(Sufficiency)	(\$233,959)	\$0	(\$470,214)	\$ -	\$2,272,428	\$ -
23	Gross Revenue Deficiency/(Sufficiency)	(\$290,849) (1)		(\$584,553) (1)		\$2,824,997 (1)	

Notes:

(1)

Revenue Deficiency/Sufficiency divided by (1 - Tax Rate)



Ontario Energy Board

**REVENUE REQUIREMENT
WORK FORM**

Version 2.20

**Wasaga Distribution Inc.
Revenue Requirement**

Line No.	Particulars	Application		Per Board Decision	
1	OM&A Expenses	\$2,178,039		\$2,178,039	
2	Amortization/Depreciation	\$621,954		\$621,954	
3	Property Taxes	\$ -		\$ -	
5	Income Taxes (Grossed up)	\$236,917		\$236,917	
6	Other Expenses	\$25,004		\$25,004	
7	Return				
	Deemed Interest Expense	\$414,731		\$ -	
	Return on Deemed Equity	\$391,872		\$ -	
8	Service Revenue Requirement (before Revenues)	\$3,868,517		\$3,061,914	
9	Revenue Offsets	\$608,187		\$ -	
10	Base Revenue Requirement	\$3,260,330		\$3,061,914	
11	Distribution revenue	\$3,260,330		\$ -	
12	Other revenue	\$608,187		\$ -	
13	Total revenue	\$3,868,517		\$ -	
14	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	\$0 (1)		(\$3,061,914) (1)	

Notes
(1)

Line 11 - Line 8

APPENDIX B

TO PROCEDURAL ORDER No.1

EB-2011- 0103

Wasaga Distribution Inc.

DATED: April 25, 2012

**Wasaga Distribution Inc.
EB-2011-0103
2012 Interim Distribution Rates Calculation**

APPENDIX B

Overearnings adjustment Factor:	4.40%	From RRWF Overearnings analysis		
Rate Class		2011 Board-approved Rate	x (1 - Overearnings Adjustment Factor)	2012 Interim Rate
Residential				
Monthly Service Charge	\$/month	\$ 11.82	95.60%	\$ 11.30
Volumetric Rate	\$/kWh	\$ 0.0147	95.60%	\$ 0.0141
GS < 50 kW				
Monthly Service Charge	\$/month	\$ 13.65	95.60%	\$ 13.05
Volumetric Rate	\$/kWh	\$ 0.0138	95.60%	\$ 0.0132
GS 50 to 4,999 kW				
Monthly Service Charge	\$/month	\$ 31.29	95.60%	\$ 29.91
Volumetric Rate	\$/kW	\$ 4.7472	95.60%	\$ 4.5383
Unmetered Scattered Load				
Monthly Service Charge	\$/month	\$ 6.83	95.60%	\$ 6.53
Volumetric Rate	\$/kWh	\$ 0.0138	95.60%	\$ 0.0132
Streetlighting				
Monthly Service Charge	\$/month	\$ 0.24	95.60%	\$ 0.23
Volumetric Rate	\$/kW	\$ 0.1436	95.60%	\$ 0.1373