May 12, 2009

Board Staff Comments
Northern Ontario Wires Inc.
2009 Cost of Service
(EB-2008-0238)

Draft Rate Order ("DRO") documentation and Revenue Requirement Work Form ("RRWF")

On April 22, 2009, the Board issued its Decision and Order on Northern Ontario Wires' ("NOW") 2009 cost of service application. The Decision required NOW to submit its Draft Rate Order within fourteen days of the issuance of the Decision. NOW submitted its Draft Rate Order and supporting documentation on May 6, 2009. The following are staff's comments regarding NOW's Draft Rate Order.

General

1. NOW has not adequately documented the RRWF. Staff can verify some but not all numbers shown on the RRWF input sheet. The cells on the input sheets are linked to the detailed rate models that NOW has used for its rate application. Some of these linkages are formulae (i.e. summations of cells). The detailed rate models have not been provided. In its reply, NOW should input the numbers directly into the RRWF and provide sufficient explanation or a summary calculation so that the numbers can be reasonably checked.

2. On Appendix 4 of the RRWF (Utility Income) and Appendix 6 (Capitalization/Cost of Capital), NOW documents that differences in deemed interest and deemed equity return (net income) are due to rounding differences. Board staff disagrees. In the RRWF, NOW provides a rate base (per Decision) of $5,623,079, while it shows a rate base of $5,562,368 on Appendices 5 and 6 of the RRWF. This is a difference of $60K, and will be a primary factor in the variances in the interest expense and equity return calculations.

3. In Appendix 6 of the RRWF (Capitalization/Cost of Capital), Board staff observes that NOW used a deemed long-term debt capitalization of 52.67% and a deemed equity capitalization of 43.33%. While the impacts are minor, Board staff notes that the table shown on page 21 of the Decision shows a deemed long-term debt portion of 52.7% and a deemed equity of 43.3%. Staff is of the view that rounding these percentages to one decimal place would be consistent with the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation*

for Ontario's Electricity Distributors, issued December 20, 2006. Staff notes that for other inputs into the calculation of the weighted average cost of capital, distributors may use more decimals in their models and applications as per the Board report (e.g. debt rates, ROE and the weighted average cost of capital are normally rounded to two decimal places such as 8.01% and 6.18%).

4. On the Input Sheet, the amount of ($49,168) is shown. However, Board staff is unclear as to what this amount represents. NOW should provide an explanation in its reply.

Working Capital

With respect to NOW's rate base, Board staff are satisfied that the average gross fixed assets, accumulated depreciation and average net fixed assets conform with NOW's application and the Board's Decision and Order. However, the Board directed on pp. 18-19 for NOW to update the working capital allowance to reflect the May 1, 2009 RPP of $0.06072/kWh, and also addressed Low Voltage and Retail Transmission Rates, as addressed elsewhere in the Decision. In Appendix 5, NOW shows an allowance for working capital of $1,803,411, and in Appendix 12, NOW shows a Cost of Power of $10,035,427. However, no documentation or derivation of these numbers is provided. Board staff submits that NOW should provide summary tables showing the calculation of the working capital base and working capital allowance, and should provide sufficient discussion so that the Board and other parties can understand the numbers.

Low Voltage Costs

NOW submitted a forecast of its LV cost at $149,845 in its final argument, based on a fixed charge of $376 per month and a variable LV rate of $3.24 per kW. Its revised forecast in Appendix 7 of the Draft Rate Order is $74,507, based on a fixed charge of $116.01 per month and variable rate of $1.63 per kW.

The Board Decision states at pp. 22-3:

> ….. it is the Board's view that NOW should use the most up-to-date approved LV values in determining its forecast cost. The Board also notes that effective February 1, 2009, Hydro One includes a substantial rate rider credit which will continue 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, NOW 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.

1. Board staff submits that NOW's earlier forecast was based on two delivery points plus Common ST Line plus low-voltage HVDS, all at rates <u>submitted</u> in the Hydro One application EB-2007-0681. In contrast, the fixed rate <u>approved</u> in that Decision is $181.79, less Rate Rider # 4 at $65.78. The Decision directs that the effect of Rate Rider # 4 should be spread over four years whereas the rate rider itself will last for only two years, so the effective rate is therefore $181.79 **less 0.5 * $65.78** per delivery point. The effective fixed charge for two delivery points is $297.80. Similarly, the approved Common ST rate is $0.54, and the rate rider is $0.195 per kW, and following the methodology of the Decision this is $0.4425 per kW. This component appears to be missing from the analysis in Appendix 7. The approved rate for the low voltage HVDS is $2.56 per kW, and the rate rider is $0.93, arriving at $2.095 per kW. The effective variable rate is therefore $2.54 per kW.

   Board staff submits that NOW's forecast of LV cost should be $117,507. The LV Rate Adder for each class should be adjusted upward accordingly.

2. Staff notes that NOW included the full impact of Hydro One's credit as opposed to only one half the impact as directed by the Board. Staff also noted that NOW has proposed to recover its LV costs through separate rate riders identified on the tariff as opposed to rate adders embedded in the distribution rates.

   Staff notes that there is no evidence on the proposed tariff that the impact of the Hydro One credit would be terminated after two years nor that the LV rate riders would be amended to account for the cessation of the credit. If NOW's intention is in fact to revise the LV rate riders after two years, there is there is no indication on the record that NOW intends to revise its LV rate riders for the remaining two years of its IRM plan or how it plans on doing this. Staff suggests that NOW should recalculate its LV rate adders as per the approach outlined in #1 above and embed the LV adders in the base distribution rates. Embedding LV adders in base distribution rates is consistent with the treatment afforded by the majority of distributors to LV cost recovery. This treatment will free NOW from requiring to make an LV adjustment as part of its 2011 3rd generation IRM application.

Fixed/Variable Splits

The application proposed to change the fixed/variable split for a number of classes relative to the current split. In all cases except the GS>50 kW class the proposal would decrease the fixed component relative to the variable component. With a decrease in the approved revenue requirement compared to the application, the Draft Rate Order must provide rate(s) that are lower than those in the application.

The rates that are provided in Appendix 9 leave the Monthly Service Charges unchanged from the application, except for a change in the Smart Meter rate adder, while decreasing the volumetric rate. The exception is the Unmetered Load class, which is dealt with separately in the next section of this submission. In all cases, the fixed/variable split that would result from the rates in Appendix 9 would be considerably lower than those in the application.

The Decision approves the fixed/variable splits in the application (p. 27):

> The Board finds that the F:V proportions that result from NOW's proposed rates are acceptable for all classes. In the particular case of the GS >50 kW class, the ceiling would have likely increased if the cost allocation study had been updated for the 2009 revenue requirement, and the proposed Monthly Service Charge is decreasing, so it appears that the disparity must be decreasing. The Board finds the proposed rate structure to be reasonable for purposes of this rebasing application.

The table below shows the rates found in the application (Exhibit 1 / 2 / 1 / pp. 2-3) in column 4. The proposed fixed rates (D.R.O. Appendix 9) are in column 5. The volumetric rates in column 5 are from Appendix 9 plus Board staff's re-calculation of the LV rate adder. For convenience, the current approved Monthly Service Charges are shown in column 3. All rates shown are gross of Smart Meter and LV rate adders.

NOW Rate Design
Comparison of Application and Draft Rate Order

Class		2008	2009		
	charge	Current	Application	DRO	DRO/Appl
1	2	3	4	5	6
Residential	MSC ($)	16.66	17.76	18.50	**104.2%**
	$/kWh	0.0108	0.0179	0.0144	**80.3%**
GS<50kW	MSC	21.8	23.26	24.00	**103.2%**
	$/kWh	0.0102	0.0156	0.0138	**88.7%**
GS>50kW	MSC	209.32	205.26	206.00	**100.4%**
	$/kW	2.0558	0.945	0.8851	**93.7%**
USL	MSC	11.00	12.00	25.79	**214.9%**
	$/kWh	0.0102	0.0409	0.0138	**33.8%**
Streetlights	MSC	1.04	6.25	6.25	**100.0%**
	$/kW	3.3881	6.6742	1.8949	**28.4%**

Board staff submits that the proposed rates in Appendix 9 do not reflect the Decision, because they have the effect of increasing the fixed/variable split in every class compared to what has been approved. Staff submits that the percentages in column 6 of the table should be approximately equal in each pair, i.e. the same percentage change for the Monthly Service Charge and volumetric rate for each class, in order to implement the fixed/variable splits that have been approved in the Decision. The percentages in column 6 would be expected to differ slightly within each pair, because the rates shown include rate adders that are not affected by the distribution revenue requirement. However, the very wide divergence between what was examined in this record and what is now proposed is not attributable to rate adders.

Rate Design for Unmetered Scattered Load ("USL")

NOW proposed a volumetric rate for its USL class that is the same as that of the GS<50 kW class, as per the Decision, which reads at p. 27:

> The Board directs NOW to calculate a uniform volumetric rate for the GS < 50 kW class and the USL class. The Monthly Service Charges may differ from each other, as has been proposed by NOW. The decreased revenue due to the reduction in the USL volumetric rate may instead be recovered from the Monthly Service Charges of the two classes together and both

rates for each class should be re-calculated and submitted in the Draft Rate Order.

NOW proposes a fixed charge for USL at $25.79 per connection, which is higher than the corresponding charge for a metered customer, and which is increased from the proposed amount in the application to such an extent that there is no shortfall as the Decision allows for.

Board staff submits that the Decision points to a differential between the two fixed charges (GS<50 kW and USL) similar to what was found in the application ($23.26 and $12.00 respectively). The monthly fixed charge for USL should therefore be approximately $11 per connection. This calculation is based on the assumption that the fixed charge for GS< 50 kW will be lower than $24.00 in light of the previous section of this submission, and based also on the assumption that the USL charge would be approximately half of the GS< 50 kW charge (as is the case in the application). The Decision allows for NOW to recover the small shortfall, $25.79 less $11 per connection, by increasing its fixed or variable rate marginally for the two classes combined.

Regulatory Asset Recovery Rate Riders

NOW notes that it was unable to replicate the aggregate amount of ($622,335) that is found in the Decision, and suggests an amount of ($724,286). Board staff agrees with NOW's calculation, and submits that the rate riders in Appendix 10 are correct.

Rural and Remote Electricity Rate Protection ("RRRP")

Staff notes that despite NOW's response to staff interrogatory #13 in which NOW updated its application to amend the RRRP rate from 10 cents per kWh to13 cents per kWh, the proposed tariff submitted with the DRO shows a RRRP rate of $0.10 per kWh. NOW should amend this rate to the $0.13 per kWh rate announced by the Board on December 17, 2008.

Loss Factors

Staff notes that the proposed total loss factors identified on the tariff do not match the loss factors approved in the Decision. NOW should submit a revised tariff reflecting the correct loss factors and all other corrections that need to be made to its original Draft Rate Order filing, as part of its reply.