

Ontario Energy Board

P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**

C.P. 2319
27^e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

August 20, 2009

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2700
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Submission on Canadian Niagara Power Inc.'s Electricity
Distribution Rate Applications for CNPI – Port Colborne (EB-2008-0224)**

Please find attached the Board Staff submission regarding the rate application from Canadian Niagara Power Inc. for its Port Colborne service area (EB-2008-0224).

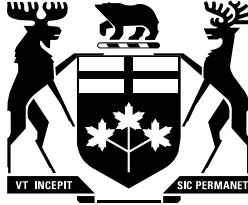
Please forward the attached to Canadian Niagara Power Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed By

Lee Harmer
Case Manager

Enclosure



ONTARIO ENERGY BOARD

STAFF SUBMISSION

**CANADIAN NIAGARA POWER INC.
– PORT COLBORNE (EB-2008-0224)**

2009 ELECTRICITY DISTRIBUTION RATES

August 20, 2009

Introduction

Canadian Niagara Power Inc. (CNPI or the Applicant) is an Ontario corporation and is a wholly-owned subsidiary of FortisOntario Inc. Among other things, the applicant carries on the business of owning and operating electricity distribution facilities within Ontario. It carries on its distribution business in the following three territories; Fort Erie, Port Colborne and Eastern Ontario Power.

CNPI submitted simultaneously a separate rate application for each of these service territories and the Board gave them file numbers as follows:

- CNPI – Eastern Ontario Power (Gananoque) EB-2008-0222,
- CNPI – Fort Erie EB-2008-0223, and
- CNPI – Port Colborne EB-2008-0224.

While the applications are separate, because they have been prepared by CNPI, contain some common elements and the intervenors are the same, the Board decided to deal with all three applications at the same time. However, the evidentiary phase for the CNPI – Port Colborne (CNPI – PC) application was protracted. As a result, the CNPI – Eastern Ontario Power (EB-2008-0222) and CNPI – Fort Erie (EB-2008-0223) applications have been dealt with separately and the Decision on those applications was issued on July 15, 2009 (the “EOP/Ft. Erie Decision”).

This Board staff submission is in regards to the CNPI – PC application. However, where appropriate, rather than repeating the material in the Board staff submission of May 29, 2009 regarding the Fort Erie and Eastern Ontario Power, this submission will simply reference staff’s previous submission. In addition, the Board’s EOP/Ft. Erie Decision contains findings relating to common elements amongst the three applications. Board staff submits that the findings made in that decision relating to the common elements are appropriate for the decision on this application.

The intervenors of record for all three applications include: the Association of Major Power Consumers in Ontario (“AMPCO”), Energy Probe Research Foundation (“EP”), the School Energy Coalition (“SEC”) and the Vulnerable Energy Consumers Coalition (“VECC”). AMPCO has not been an active participant in the review of the application.

CNPI – PC supplies electricity to approximately 9,160 customers (8,064 residential (88%), 962 energy billed General Service (10.5%), 72 demand billed General Service

(0.8%), 19 USL (0.2%), 44 Sentinel Lighting accounts (0.5%) and Street Lighting (1 customer with 2,015 lights). Its service territory includes the Town of Port Colborne as of December 31, 1990 as per the *Regional Municipality of Niagara Act*.

The Application

The CNPI – PC application is seeking approval of \$6,030,546¹ as the 2009 revenue requirement it requires to provide electricity distribution services. On an equivalent basis, this compares with a Board-approved level of \$4,790,357 for 2006 (a 25.9% increase), the last year the rates were reviewed on a cost of service basis. During the interim period, the Board has approved adjustments to distribution rates effective May 1, 2007 and May 1, 2008 through an IRM process.

The evidentiary phase of the application concluded at the end of the oral hearing on July 16, 2009 and the filing of undertakings on July 28, 2009.

CNPI filed an Argument-in-Chief (AIC) on the application on August 6, 2009.

Outstanding Issues from Previous Board Decisions

2006 Rate Application (RP-2005-0020/EB-2005-0345)

Corporate and Shared Costs Allocation Study

As part of its 2006 application, CNPI – PC applied to reflect the outcome of a study that allocates corporate and shared costs within its cost of service. At that time the Board accepted the resulting cost consequences for the determination of the 2006 revenue requirement and resulting rates. The Decision went on to state that “the study has not been sufficiently tested in this hearing for the Board to endorse its methodology beyond accepting the cost consequences for setting 2006 rates”. This matter was included in this 2009 rate application.

2007 Rate Application (EB-2007-0514)

Except for the review of storm damage that was dealt with as part of a combined hearing that subsequently approved the recovery of those costs through rate riders effective

¹ Argument in Chief, page 5

September 2007 through August 31, 2009, the applicant's 2007 rate application had no outstanding issues.

Rate Base

Background

CNPI – PC has documented its rate base in E2/T1/S1. In its AIC, CNPI – PC has documented the rate base and component parts (average in-service Net Fixed Assets and Working Capital Allowance ("WCA")). In the AIC, CNPI – PC has summarized the Rate Base in Table 3-1.² CNPI – PC is proposing a 2009 Rate Base of \$13,295,618, consisting of \$10,647,634 for average net fixed assets and a WCA of \$2,647,984.

Numerous interrogatories were posed by Board staff and intervenors to better understand CNPI's recent and proposed capital projects. As was documented in the application, and explored through interrogatories and the oral hearing, CNPI – PC has an operating system that has some unique situations that requires CNPI to address and prioritize projects to ensure effective and efficient electricity distribution service within Port Colborne.

Discussion and Submission

CNPI – PC is proposing increases to capital expenditures to rehabilitate parts of its network. Board staff submits that CNPI – PC has adequately supported its recent historical and proposed rate base, including capital projects discussed below, with respect to a need for, prioritization and prudence of the rate base in the CNPI – PC application. As such, Board staff takes no issue with the proposed rate base for this application.

2009 Capital Expenditures

Background

CNPI – PC has documented its capital expenditures in E2/T3/S2 and provided further explanation of capital projects in E2/T3/S3. Clarification of certain capital expenditures

² Argument-in-Chief, page 9

was sought through interrogatory responses by Board staff and intervenors. In its AIC, CNPI – PC has summarized the capital expenditures, reproduced in the following table³:

Capital Expenditures (excluding Smart Meters)

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
CNPI – PC	\$1,491,636	\$1,348,711	\$1,128,536	\$2,674,138

Discussion and Submission

As discussed in Rate Base above, CNPI – PC's capital projects were explored through interrogatories and during the oral hearing, in addition to the evidence documented in the application. CNPI – PC has capital projects which are necessitated by the need to address the aging and design of the legacy system and associated matters. While capital expenditures are higher for 2009 than for recent years, Board staff acknowledges that the significant expenditure for the new Beach Road DS (\$1,616,383) is also offset, in part, by \$830,000 in contributed capital. Based on the evidence on the record, Board staff considers that CNPI – PC has supported the need for, prioritization and prudence of its capital projects. As a result, Board staff does not take issue with CNPI – PC's proposed capital expenditures for 2009.

Asset Management

Background

CNPI – PC provided documentation on its current Asset Management process in E2/T1/S1/Appendix D. Board staff also considers that CNPI's Information Technology Capital Strategy documented in E2/T1/S1/Appendix C as being directly related to its asset management strategy.

Discussion and Submission

Board staff views the above documentation on CNPI – PC's Asset Management approach as useful evidence with respect to its processes. As noted elsewhere in this submission, Board takes no issue generally with CNPI – PC's proposals for its rate base and capital and operating expenditures. Board staff considers that CNPI – PC has taken into account customer expectations, service reliability, safety and productivity

³ Argument-in-Chief, page 9

improvements, and has justified the need for, priorities and prudence of capital projects in recent years and for the test year. However, Board staff submits that more formal asset management practices, undertaken with regard to CNPI – PC's needs and capabilities, would be beneficial.

Working Capital Allowance (WCA)

Background

CNPI – PC provided its proposed WCA and derivation in E2/T4/S1 and E2/T4/S2. As noted above, under Rate Base, CNPI – PC has proposed a WCA of \$2,647,984. CNPI – PC has used the standard methodology of calculating the WCA as 15% of the sum of controllable expenses and the cost of power. CNPI – PC has noted that it used the RPP price of \$0.0545/kWh from the April 11, 2008 Regulated Price Plan Report of the Board to proxy the commodity price, and used RTS and Wholesale Market Charges from the Board's April 21, 2008 Rate Order, in determining the Cost of Power.

Discussion and Submission

Board staff notes that the Board directed updates for the WCA in its EOP/Ft. Erie Decision and Board staff submits that this finding should equally apply for the CNPI – PC application; namely, that CNPI – PC should update the WCA in determining the revenue requirement and associated distribution rates to recover it in preparing its draft Rate Order, to reflect any changes in controllable expenses of load forecasts as determined by the Board in its Decision, as well as to reflect the most current estimate of the RPP commodity price of \$0.06072/kWh, from the Board RPP Report of April 15, 2009, as well as updates to reflect current approved retail transmission prices. The RRRP and Wholesale Market Service Charges should also be updated as applicable. Board staff notes that in its AIC⁴ CNPI – PC acknowledges these matters and indicates that CNPI – PC will comply with Board direction in these matters.

⁴ Argument-in-Chief, pages 23 and 24

Service Quality and Reliability

Background

In E2/T1/S1/Appendix B, CNPI – PC provided information on its service reliability performance, for the years 2005 to 2007. Updated information was provided in response to Board staff IR #18, and is summarized in the following table:

Service Reliability – Port Colborne Service Area

	All Causes of Interruptions			All Interruptions except for Loss of Supply (Cause Code 2)		
Year	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
2002	N/A	N/A	N/A	0.58	1.36	0.43
2003	2.63	1.80	1.46	2.27	1.68	1.35
2004	0.71	0.26	2.72	0.71	0.26	2.72
2005	3.94	3.86	1.02	3.94	3.86	1.02
2006	14.77	5.86	2.52	14.77	5.86	2.52
2007	3.57	4.95	0.72	3.51	4.87	0.72

Source: Response to Board staff IR #18

In its AIC⁵, CNPI notes that SAIDI and SAIFI reliability indices have generally increased (i.e. worsened) from 2005 to 2007, reflecting equipment failures and bad weather. CNPI notes that CAIDI, a measure of outage response has stayed stable, and capital investments have resulted in improved performance in 2008.

Discussion and Submission

Board staff observes that CNPI – PC's service quality and reliability, as reported to the Board in accordance with section 2.1.5 of the *Reporting and Record-keeping Requirements*, are consistent with the evidence on the record in this application. Board staff concurs with CNPI – PC's evidence and discussion in its AIC regarding worsening reliability performance to 2007. Board staff considers that the reliability performance is consistent with CNPI – PC's documentation of the physical network in its service area and of associated issues. While improved results in 2008 is too short a period on which to conclude that CNPI – PC has remedied reliability, Board staff considers that CNPI – PC is taking adequate efforts to maintain and operate its network in Port Colborne, and that capital projects, both undertaken and planned for system rebuild and conversions, should result in improved system reliability. Overall, Board staff takes no issue with the evidence provided on CNPI – PC's reliability performance, but submits that CNPI – PC needs to continue to focus its efforts on improving service quality and reliability.

⁵ Argument-in-Chief, page 4

Load and Revenue Forecast

The methodology and model used in this application is the same as for the other two CNPI applications. As a result, except for the specifics of this application as noted, the submission made by Board staff on May 29, 2009 regarding the Fort Erie and Eastern Ontario Power applications applies to this application as well.

In Exhibit 3 of its August 15, 2008 filing, the Applicant discussed the development of its load forecasts. It determined the 2008 Bridge Year and 2009 Test Year customer/connection count forecasts. It also determined the kWh forecasts – and the kW forecasts for appropriate classes – by customer class and presented variance analyses in support of the forecasts.

The Applicant provided additional information in response to two rounds of load forecasting interrogatories. At the April 20, 2009 oral hearing, the Applicant provided further clarification on its load forecast.

Discussion and Submission

In Exhibit 3, Tab 2, the Applicant provided a detailed description of its customer count forecast and load forecast. A detailed description of the GS>50kW class load was provided in response to Board staff interrogatory #37.

The Applicant noted that population historical growth had been very modest and this situation is expected to continue into the future. Consequently, the Applicant stated that it expected little change in customer count for most classes. For the Residential, GS<50kW and GS>50kW classes, it stated that the customer counts were expected to be at the historical levels or slightly lower. The customer count forecast for these classes reflected these expectations. Virtually no change was forecasted for the remaining classes.

The historical customer/connection count growth was +0.5% p.a.; the forecasted count growth is +0.1% p.a. after the transfer of 21 Residential customers to Welland Hydro Electric System Corporation. The 2009 forecasted count is 11,210.

The historical kWh change was +0.6% p.a.; the forecasted kWh change is *negative* 0.3% p.a. The 2009 forecasted load is 192.6 GWh.

In reply to VECC interrogatory #12, the Applicant provided a table comparing the effect of the Applicant's weather normalization factors and those developed by Hydro One when it prepared year-2004 custom-built factors for the Applicant's Cost Allocation Informational Filing. The table showed the factors developed by Hydro One to be *many* times larger than the Applicant's factors. That is, even though the Applicant's weather-normalization factors are larger than the basic IESO values, they are still much smaller than the values specifically developed for the utility in the past. Therefore, the Applicant's current values result in significantly less weather correction taking place than when the earlier values developed by Hydro One for the Applicant are used. The Applicant continued that, despite the large difference in the size of the factors, the Applicant's factors provide "a reasonable proxy to use in the Application."

VECC, in Supplementary interrogatory #40, pursued the large difference in the size of the Applicant's IESO-based factors and the Hydro One-based factors. The Applicant defended its position by stating that the volatility inherent in the Hydro One-based factors had not been evident in recent sales.

The Board's EOP/Ft. Erie Decision examined this matter at length and Board staff submits that the findings in that Decision are equally valid in this application.

Operating, Maintenance and Administration Costs

Operating, Maintenance and Administration (OM&A) Costs are the costs of labour, equipment, and material for sustaining the ongoing delivery of electricity by CNPI – PC through its distribution system to its customers. It also includes the administrative and general costs associated with operating and maintaining the distribution system.

In its AIC⁶, CNPI – PC provided a summary table indicating a total OM&A costs of \$4,155,188 for 2009.

Exclusive of the expenses associated with the lease which are discussed separately, the following areas of concern, which are different to the Fort Erie and Eastern Ontario Power applications (and the EOP/Ft. Erie Decision) are reviewed in this submission:

- Vegetation Management, and
- Regulatory Costs.

⁶ Argument-in-Chief, page 13

Vegetation Management

Background

CNPI – PC pointed out in Exhibit 4/Tab 2/Schedule 3 Appendix A page 3 that there is an increase of \$42,770 to \$128,046 for vegetation management in 2009.

Discussion and Submission

Unlike for Fort Erie, where there was a one time cost for rights-of-way clearing that the Board found should be amortized over three years, Board staff submits that this cost is not a one time cost. As pointed out in the exchange between Mr. Buonaguro and Mr. Sheogobind at page 61 of Transcript Volume 1:

“MR. BUONAGURO: I see. So the intensification is intended to address a specific problem which, once rectified, you will go back to your normal levels?

MR. SHEGOBIND: Yes, that's correct. It is areas outside the schedule zone such as the fire lanes, heavily wooded areas like that and Port Colborne where there is numerous trees and vegetation that continue to give us problems.

MR. BUONAGURO: The height of that intensification results in spending of 43,000 or so in 2009, 2010, and 2011 and then falls off?

MR. SHEGOBIND: That is correct, yes. I expect it will fall off after 2011, yes.”

Board staff submits that the Applicant has justified the continuation of this expense over three years.

Regulatory Costs

Background

CNPI – PC, in response to Board staff interrogatory 44 a) submitted that the total regulatory costs in the Application was \$106,608. This included ongoing and one time costs. CNPI – PC revised the one time costs in the Application in Exhibit K1.2, April 20, 2009 to \$241,197, which includes \$80,941 for intervenor costs. In its AIC⁷, CNPI – PC proposed to amortize this total cost over three years at \$80,399 per year.

⁷ Argument-in-Chief, pages 15 and 16

Discussion and Submission

The Board found in the EOP/Ft. Erie Decision that the regulatory cost should be reduced. Eastern Ontario Power's costs were reduced from \$110,771 to \$75,000, and Fort Erie's costs were reduced from \$123,031 to 100,000. In its findings the Board pointed out:

“Comparison with regulatory cost amounts incurred or allowed by the Board for other distributors cannot be a precise exercise for many reasons, including but not limited to, the complexity and quality of the filing, size of the utility, dependence on external resources, type and complexity of proceeding, and intervenor costs.”

While the CNPI – PC application material is similar to the other two applications, its review has been significantly different from that for Eastern Ontario Power and Fort Erie. The review included an extended review of the lease between The Corporation of the City of Port Colborne (Shareholder of the Lessee), Port Colborne Hydro Inc (Lessee), and Canadian Niagara Power Inc. (the Lessor), including a Motion to compel CNPI to provide more complete interrogatory responses, a subsequent Motion to Vary the Board's decision and the additional provision of material and the need for an oral hearing specific to the implications of the lease arrangement. As a result, the regulatory costs for this application are higher than the equivalent costs for the Fort Erie and Eastern Ontario Power applications to reflect the greater effort related to the review of the lease. Board staff submits that given the circumstances of the review of this application, the additional costs sought by CNPI – PC should be considered reasonable by the Board.

The Lease

Background

In its AIC⁸, CNPI – PC provides its summary of the issues relating to the lease between CNPI and the Town of Port Colborne through Port Colborne Hydro Inc. and its position on the appropriate rate treatment for the annual expenses associated with the lease payment arrangements. It concludes its submission by stating:

“CNPI submits that the lease payments under the Operating Lease should be recovered as an operating expense. They amount to less than the fair market value of the assets leased, which is the appropriate benchmark for prudence.”

⁸ Argument-in-Chief, pages 28 to 36

It appears, however, that SEC is of the opinion that the lease meets the criterion for a capital lease and that the declaration that it is an operating lease was a business move to avoid the capital transfer tax. Thus its form was beneficial from a financial perspective for CNPI (or FortisOntario) and Port Colborne Hydro Inc.

Discussion and Submission

The examination of the lease arrangement was the prime focus of the oral hearing on July 16, 2009. Board staff submits that the two main components of this matter are:

- the definition of the lease (i.e. operating or a capital); and,
- the subsequent rate treatment.

The definition of the lease

In considering the definition of the lease, Board staff notes that during the course of the lease, aging and failed assets have been replaced. As a result, ratepayers appear to be paying for legacy Port Colborne assets that have been replaced and removed from service while now also paying for the replacement assets of CNPI – PC, which are included in rate base. For example, the Wilhelm DS was a legacy Port Colborne Hydro asset which would have been factored into the lease payments. However, Wilhelm DS is no longer in service and “used and useful”, being replaced by the new Beach Road DS. There has been no adjustment to the lease payments to reflect removal of the legacy Wilhelm DS asset. As a result, it appears that the ratepayers are paying for both stranded or removed assets, like Wilhelm DS, as well as the replacement assets invested in and owned by CNPI resulting in double payment. By replacing assets, it appears that CNPI is not just operating the system, but is indeed, enhancing the assets as if they were its own. In other parts of CNPI’s operations, the cost of the replaced asset, net of depreciation, is removed from rate base.

Board staff raises the following questions and concerns:

- How much is the double payment? If the replaced Port Colborne Hydro assets were at or near end of life, then their value factored into the lease payments may be relatively small and even immaterial.
- Are there considerations that would justify this “double recovery”, which would not normally be allowed for rate treatment? For example, CNPI has documented operational efficiencies and addressed reliability concerns in the Port Colborne area through its investments. The operational and reliability issues may well be

related to the age and design of the legacy Port Colborne Hydro assets, and CNPI is remedying these with its investments. Port Colborne ratepayers may be benefiting from CNPI's asset management and operational competencies, and this could be used as a justification for increased rates (particularly if the difference is not that significant due to the age of the legacy Port Colborne Hydro assets).

The operational lease arrangement may also resemble a franchise agreement in that, even though legacy Port Colborne Hydro assets are removed, the annual payments remain the same. The annual payments reflect the agreement between Port Colborne and CNPI for the stream of revenues (and including changes in demand and growth over the term of the lease) for CNPI to take on, with exclusive rights to service, electricity distribution in Port Colborne.

Therefore, whether the lease is different in substance than in form is a complex determination and the Board should give weight to expert opinions in deciding how to treat the lease. Board staff submits that the opinion and declaration by the Ministry of Finance should be given significant weight. The Ministry has ruled that the lease is an operating lease and has allowed taxes to be calculated on that basis.

Weighing all these components and given the fact that the majority of the term of the lease has passed, Board staff submits that it would be just and reasonable from a rates perspective to concur with the Ministry of Finance's declaration that the subject lease is an operating lease.

The subsequent rate treatment

As an operating lease, CNPI makes an annual payment of \$1,528,200 per year to Port Colborne and expenses it to operations, recoverable through distribution rates. Given the concerns raised earlier regarding "double recovery", one issue is whether this entire amount ought to be included as part of the revenue requirement. Board staff submits that the following material might be useful to provide some quantum to the level of "double recovery".

SEC tried to establish the costs to operations if the lease was treated as a capital lease and therefore a rate base item. In an attempt to establish a comparison between the lease payments as operating expense and the costs to operations if the lease was a capital lease, SEC requested in Interrogatory #34 that the sufficiency/deficiency be

recalculated with the assumption that the assets leased from Port Colborne Hydro Inc. are included in rate base. It should be noted that the undertaking uses book value, not the present value of the stream of payments or the fair market value of the assets.

CNPI's response compared the result of that calculation on a service revenue requirement basis, and compared the results to the service revenue requirement in the Application. The treatment of the lease as an operating cost is \$633,196 more than if the book value of the assets were placed in rate base.

As another view of the difference, SEC requested Undertaking No. JT4.7. This undertaking compares the annual lease payments to the resulting costs if the Port Colborne assets were booked to rate base for each year of the lease. For 2009, the result is that the rate payer is paying \$532,286 more as an operating lease. The difference between the two amounts is due to the difference between the income taxes when Port Colborne Hydro Inc's assets are calculated on a stand alone basis (Undertaking No. JT4.7) and the assets being rolled into the CNPI rate base (Interrogatory #34).

Board staff submits, that should the Board decide that not all of the annual payment ought to be recovered through rates, the amounts referenced in the previous paragraphs might be used as guidance for an upper bound of any reduction from the \$1,528,200. This would result in a level less than the \$1,528,200 being recovered on a going forward basis to the expiration of the lease.

Depreciation

Background

The general application of depreciation is common to the three CNPI applications. As a result, except for the specifics of this application, the submission made by Board staff on May 29, 2009 regarding the Fort Erie and Eastern Ontario Power applications applies to this application as well.

CNPI – PC has documented its accumulated depreciation expense in E2/T2/S4, E2/T2/S5 and E4/T2/S7. Board staff has summarized the annual depreciation expense as shown in E4/T2/S7 for CNPI – PC in the following table.

Depreciation Expense

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
CNPI – PC	\$527,528	\$518,695	\$585,188	\$645,216

In response to a Board staff interrogatory⁹, CNPI provided further information on CNPI's depreciation rates.

Submission

Board staff notes that the Board has approved CNPI's proposed depreciation expense and methodology in the EOP/Ft. Erie Decision. Board staff submits that the Board's determination in that Decision should also apply to this CNPI – PC application.

Loss Adjustment Factors

Background

In response to Board staff interrogatory #59, CNPI – PC reaffirmed that the proposed Total Loss Factor (TLF) for 2009 of 1.0382 is based on the actual TLF for 2007. The Board approved TLF in the 2006 EDR was 1.0322. CNPI – PC's service territory is supplied totally from the IESO-controlled grid. It affirmed that the proposed Supply Facilities Loss Factor (SFLF) of 1.0052 (as compared to the industry standard of 1.0045 for directly connected distributors) is based on the actual SFLF for 2007 and that it reflects the enduring SFLF.

The proposed underlying distribution loss factor (DLF) is 1.0328. CNPI – PC's actual DLFs during the 3-yr period from 2005 to 2007 are shown in the table below.

Year	2005	2006	2007
Actual DLF	0.9769	1.0149	1.0328

The actual value for 2005 is less than unity. A less than unity value implies that the retail kWh delivered by the distributor exceeds the wholesale kWh delivered to the distributor. Based on the explanation provided in the application and the responses to Board staff interrogatories #59 and #71, Board staff accept that the actual DLF values for 2005 and 2006 are incorrect, owing to anomalies caused by:

⁹ Response to Board staff IR #15

- the de-registration of Hydro One Distribution (HOD), i.e. termination of the arrangement whereby HOD's distribution in Wainfleet (on the western boundary of CNPI – PC) was previously embedded within CNPI – PC; and,
- changes in the operational profile of the embedded generators within CNPI – PC's service territory.

Discussion and Submission

Board staff is concerned that CNPI – PC's proposed TLF of 1.0382 is slightly higher than the Board approved TLF in the 2006 EDR of 1.0322. However in the absence of correct actual loss factors for 2005 and 2006, Board staff submits that CNPI – PC's proposed TLF (1.0382) for the test year 2009 is acceptable.

Taxes

This is a common issue among the three CNPI applications. As a result, the submission made by Board staff on May 29, 2009 regarding the Fort Erie and Eastern Ontario Power applications applies to this application as well.

Submission

Board staff notes that the Board's EOP/Ft. Erie Decision adequately address this matter and Board staff submits that the Board's findings in that Decision should also apply to this CNPI – PC application.

Smart Meters

The application of Smart Meters is common to the three CNPI applications. As a result, the submission made by Board staff on May 29, 2009 regarding the Fort Erie and Eastern Ontario Power applications applies to this application as well.

Submission

Board staff notes that the Board's EOP/Ft. Erie Decision addressed this matter and Board staff submits that the Board's findings in that Decision should also apply to this CNPI – PC application.

Deferral and Variance Accounts

Background

In its application, CNPI – PC is requesting only the disposition of Account 1508 – Other Regulatory Assets over one year. The same request was made for the Fort Erie and Eastern Ontario Power applications.

This encompasses disposal of the December 31, 2007 balance including interest up to April 30, 2009. The balance in this account including interest up to April 30, 2009 is \$25,918. The associated rate riders assumed to be in effect for one year are provided in the table below.

Deferral and Variance Account Rate Riders Disposition of account 1508					
Residential (\$/kWh)	GS<50kW (\$/kWh)	GS>50kW (\$/kW)	USL (\$/kWh)	Sentinel Lighting (\$/kW)	Street Lighting (\$/kW)
0.0002	0.0001	0.0221	0.0001	0.1691	0.0491

In response to Board staff interrogatory #63 part (c), CNPI – PC provided information on a selected group of its deferral and variance accounts that have account balances as of December 31, 2007. This information is provided in the table below. The balances shown include interest up to December 31, 2007.

Regulatory Asset Account Balances at December 31, 2007		
Account Description	Account #	Total (\$)
Other Regulatory Assets - OEB Cost Assessments	1508	24,918
Extraordinary Event Costs	1572	147,115
One-time Wholesale Market Service	1582	26,285
Recovery of Regulatory Asset Balances	1590	(84,335)
Total		113,983

The associated rate riders assumed to be in effect for one year are provided below.

Deferral and Variance Account Rate Riders Disposition of accounts 1508, 1572, 1582 and 1590					
Residential (\$/kWh)	GS<50kW (\$/kWh)	GS>50kW (\$/kW)	USL (\$/kWh)	Sentinel Lighting (\$/kW)	Street Lighting (\$/kW)
0.0004	0.0003	0.0594	0.0003	0.2167	0.0960

Board staff notes that a separate initiative that the Board will undertake for the disposition of commodity account 1588 (RSVA power) and other related RSVAs has not yet been finalized. In this regard however, Board Staff Discussion Paper “Electricity Distributors’ Deferral and Variance Account Review Initiative” (EB-2008-0046) issued on April 1, 2009, proposes that distributors be required to file an application to dispose of all account balances (with a few exceptions such as PILs, CDM, smart meters and account 1590) as part of their cost-of-service application. In the oral hearing conducted on April 21, 2009, CNPI-PC stated their agreement to dispose of all accounts (Volume 2, p. 9-12) and as part of Undertaking # JT2.2 provided balances in accounts 1508, 1580, 1582, 1584, 1586 and 1588. This encompasses disposal of the December 31, 2007 balance including interest up to April 30, 2009. The balances in these accounts including interest up to April 30, 2009 are provided in the table below.

Regulatory Asset Account Balances at December 31, 2007 (including interest up to April 30, 2009)		
Account Description	Account #	Total (\$)
Other Regulatory Assets - OEB Cost Assessments	1508	25,965
RSVA – Wholesale Market Service Charge	1580	(383,363)
RSVA – One-time Wholesale Market Service	1582	27,385
RSVA – Retail Transmission Network Charge	1584	(250,463)
RSVA – Retail Transmission Connection Charge	1586	82,995
RSVA – Power	1588	1,524,908
Total		1,027,426

The associated rate riders assumed to be in effect for 3 years are provided in the table below.

Deferral and Variance Account Rate Riders Disposition of accounts 1508, 1580, 1582, 1586, 1588					
Residential (\$/kWh)	GS<50kW (\$/kWh)	GS>50kW (\$/kW)	USL (\$/kWh)	Sentinel Lighting (\$/kW)	Street Lighting (\$/kW)
0.0018	0.0018	0.4030	0.0018	0.0020	0.5913

Submission

Board staff notes that in the EOP/Ft. Erie Decision, the Board concluded that it would be better to defer the disposition of the accounts other than 1508 and accepts the disposition of Account 1508 - Other Regulatory Assets over one year as proposed by CNPI. Notwithstanding the previous material, Board staff submits that the Board’s findings in that Decision should also apply to this CNPI – PC application.

Cost of Capital and Capital Structure

This is a common issue among the three CNPI applications. As a result, the submission made by Board staff on May 29, 2009 regarding the Fort Erie and Eastern Ontario Power applications applies to this application as well.

Submission

Board staff notes that the Board has made a determination on the Cost of Capital in the Board's EOP/Ft. Erie Decision. In its AIC filed on August 6, 2009, CNPI repeats its proposed debt cost treatment, but also states that it "does not object to the Board applying the same rationale in regard to cost of debt as it did in the Fort Erie and Eastern Ontario Power decisions (EB-2008-0222, EB-2008-0223)."¹⁰ Board staff concurs with this latter proposition. Board staff submits that the Board's findings in the EOP/Ft. Erie Decision is equally applicable to the determination of rates in this CNPI – PC application.

Revenue to Cost Ratios

Background

CNPI – PC's proposed revenue-to-cost ratios for each rate class for 2009 are shown in column 3 of the table below. The table also shows revenue-to-cost ratios per the informational filing (column 1) and the Board policy range (column 4).

	Revenue to Cost Ratio			
	1	2	3	4
	Informational Filing	TOA Adjusted	Proposed 2009	Board Policy Range
Residential	93.42%	94.70%	93.43%	85% - 115%
GS < 50 kW	89.36%	91.16%	89.39%	80% - 120%
GS > 50 kW	167.08%	160.16%	135.58%	80% - 180%
USL	61.43%	59.80%	52.51%	80% - 120%
Sentinel Lights	49.58%	53.41%	63.46%	70% - 120%
Street Lights	29.39%	31.99%	38.69%	70% - 120%
Back-up/ Standby Power	5.56%	6.27%	n/a	n/a

¹⁰ Argument-in-Chief, p. 19

- Residential: The proposed ratio is within the policy range. The application states that a move to a unity ratio would result in a 9.6% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. The proposed ratio of 93.43% will result in a 7.1% bill impact for a 1000 kWh customer.
- GS < 50 kW: The proposed ratio is within the policy range. The application states that a move to a unity ratio would result in a 9.2% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. The proposed ratio of 89.39% will result in a 5.8% bill impact for a 2000 kWh customer.
- GS > 50 kW: The proposed ratio is within the policy range. The application states that a move to a unity ratio would result in a -1.3% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. Their proposed ratio of 135.58% will result in a 3.0% bill impact for the average customer.
- USL: The proposed ratio is outside the policy range and has moved to a value away from 100%. The application states that a move to a unity ratio would result in a 56% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. The proposed ratio of 52.51% will result in a 9.9% bill impact for the 750 kWh customer. In response to Board staff interrogatory #69, CNPI-PC has explained that an increase of 22% in the service revenue requirement for the USL class (Application vs. Cost Allocation Informational Filing) coupled with no growth in the class has forced them to reduce the allocation of revenue to the class in order to respect a total bill impact of 10%.
- Sentinel Lights: The proposed ratio is outside the policy range. The application states that a move to a unity ratio would result in a 31.1% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. The proposed ratio of 63.46% will result in a 9.7% bill impact for the average customer.
- Street Lights: The proposed ratio is outside the policy range. The application states that a move to a unity ratio would result in a 63.9% bill impact. CNPI – PC proposes to gradually move towards a 100% ratio. The proposed ratio of 38.69% will result in a 9.9% bill impact for the average customer.
- Standby Power: CNPI – PC has not forecasted any revenue related to this class because the existing customers with generation facilities behind the revenue meter have increased their dependence on electricity service. Costs associated with these customers who are included in the population of GS>50kW customers, will be recovered through distribution rates proposed for that class.

Discussion and Submission

In response to VECC interrogatory # 31, CNPI – PC provided an alternative cost allocation run including revenue-to-cost ratios under conditions of revenues by rate class reduced by the transformer ownership allowance (TOA) and allocated costs excluding the cost of transformer ownership. Board staff notes there is a mismatch between “Total Revenue” and “Revenue Requirement” resulting in an overall revenue-to-cost ratio of 102.87% (rather than 100%) for CNPI – PC, apparently because revenue was not adjusted from gross to net of TOA. Assuming that this is the problem, Board staff has

recalculated the ratios as shown in column 2 of the table. Board staff notes that after factoring in the impact of the TOA, the ratio would increase from 93.42% to 94.70% for the residential class and decrease from 167.08% to 160.16% for the GS > 50 kW class.

Board staff submits:

- The TOA adjusted revenue-to-cost ratios in column 2 should be the starting point rather than the informational filing ratios in column 1.
- CNPI – PC should rebalance rates such that revenue-to-cost ratios that are outside the Board policy range move to the closest boundary of the range. CNPI-PC should assess the rate impact resulting from this action. For those rate classes, where the rate impact:
 - is not excessive, the movement of the ratio should be in one step in the first year.
 - is excessive, the movement of the ratio should be in multiple steps, halfway to the closest boundary of the range in the first year, and in equal steps in the subsequent two years.

Retail Transmission Service Rates

Background

As outlined in its AIC¹¹, CNPI – PC has multiple delivery points connected to the IESO-controlled grid. It developed new retail transmission service charges in accordance with the Board's guideline and indicated that it will comply with Board direction in this matter.

Discussion and submission

Board staff submits that the Applicant's proposed charges are reasonable.

Specific Service Charges

Background

CNPI states that it will continue with all of its currently approved Specific Service Charges.

¹¹ Argument-in-Chief, page 23

Discussion and submission

Board staff submits that these charges are reasonable.

All of which is respectfully submitted