Niagara-on-the-Lake Hydro Inc.

January 6, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
26th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Niagara-on-the-Lake Hydro Inc. 2010 Rate Application

OEB Case EB-2009-0237

Responses to Board Staff Interrogatories

Dear Ms. Walli

Niagara-on-the-Lake Hydro Inc. is pleased to submit its responses to Board staff interrogatories, as follows:

a) A PDF of the responses to www.err.oeb.gov.on.ca
b) E-mail of the 2010 V4 IRM3 Deferral Variance model to BoardSec@oeb.gov.on.ca
c) Two paper copies of item a) to your office by courier.
d) A CD of items a) and b) above to your office by courier.

We would be pleased to provide any further information or details that you may require.

Yours truly

J Huntingdon

Jim Huntingdon, President
Encl.

Board Staff Interrogatories
2010 IRM3 Electricity Distribution Rates
Niagara-on-the-Lake Hydro Inc.
EB-2009-0237

RESPONSES

1. Ref: 2010 IRM Deferral Variance Account 2006 EDR LV

In the 2006 EDR application NOTL included $29,450 in LV Allocation as a Rate Adder. In 2007 and 2008 the price cap adjustment (GDP-IPI – X) was 0.9% and 1.1% respectively. This would have increased the 2007 and 2008 LV Allocation to $29,715 and $30,041 respectively. In the 2010 IRM Deferral Variance Account Workform NOTL has reported $18,773, $32 and $0 for 2006, 2007 and 2008 additions for USoA 1550 LV Variance account.

	DVAWF		2006 EDR	
	Transactions (additions) during 2006/7/8, excluding interest and adjustments	Transactions (reductions) during 2006/7/8, excluding interest and adjustments	7-2 ALLOCATION - LV-Wheeling Cell L120	(GDP-IPI) - X
2006	$ 18,773	$ -	$ 29,450	0.0%
2007	$ 32	$ -	$ 29,715	0.9%
2008	$ -	$ -	$ 30,041	1.1%

a) Please confirm that NOTL has applied the 2006 EDR LV Allocation against Hydro One LV costs and that the balance shown in the Deferral Variance Account workform are net of the LV allocation and correct.

Response

As a result of this IR, NOTL has re-examined the details of the 2006 EDR application and Hydro One LV costs from 2006 to 2008 and finds that the 2006 EDR LV allocation was not applied against Hydro One LV costs. Over this period, NOTL inadvertently believed that it did not have an approved "LV rate" (as stated on lines 23-24 of Page 4 of the Manager's Summary) and missed the implications of the LV data in the 2006 EDR worksheets.

Please note that, correspondingly, in the 2009 cost of service application, NOTL did not apply for and did not receive approval of an LV rate. The Hydro One LV *costs had in any case discontinued as of July 2008, so that no LV rate would have been required.*

.

Thus, the costs shown in the "DVAWF" are the gross costs billed to NOTL by Hydro One for the period May 2006 to July 2007, at which time these charges ended (please see Page 31 of the Manager's Summary for details).

b) If LV Allocation not applied or Account 1550 not correct please provide an explanation in respect to the accounting for the LV

Response

The following is a summary of NOTL's actual accounting for Account 1550 reflecting the values above (excluding carrying charges):

2006	*Pay Hydro One shared LV line charge:*	*Account 4750*	*Dr $18,773,*
		Cash account	*Cr ($18,773)*
	RSVA adjustment:	*Account 4750*	*Cr ($18,773)*
		Account 1550	*Dr $18,773*
2007	*Pay Hydro One shared LV line charge:*	*Account 4750*	*Dr $32,*
		Cash account	*Cr ($32)*
	RSVA adjustment:	*Account 4750*	*Cr ($32)*
		Account 1550	*Dr $32*

2. Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by NOTL shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued "Regulatory Audit and Accounting Bulletin 200901" which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

	C	D	E	U	V
22			Account Number		Total Claim
23	**Account Description**				I = C + D+ E + F + G + H
24					
30					
31	RSVA - Power (Excluding Global Adjustment)		1588		388,950
32	RSVA - Power (Global Adjustment Sub-account)				140,305

a) Has NOTL reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?

Response

NOTL has done this review and has confirmed that it has accounted for 1588 and sub-account Global Adjustment correctly.

b) Has NOTL made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account workform?

Response

NOTL has not made adjustments and none need to be made.

3. Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

> *The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.*
>
> *This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.*
>
> *For these reason the Board's original Deferral Variance Account workform was modeled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.*
>
> *Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.*
>
> *What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."*

Board staff would like to poll NOTL on the above issue.

a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does NOTL agree that this proposal would be fair to all customers? Why or why not?

Response

NOTL agrees that in principle it would be fairer to all customers to have a separate GA disposition rate rider for non-RPP customers, since the GA DVA balance is not attributable to RPP customers.

However, in practice, unfairness would arise as customers move between RPP and non-RPP and where the GA rate rider that they are billed is based on GA DVA balances for periods that are not the same as the period that the customer was non-RPP. This issue would be greater for retrospective application of a separate rate rider (i.e. disposition of December 31, 2008 or 2009 balances), when customer switches between RPP and non-RPP over the entire GA period would be involved.

b) If the Board were to order NOTL to provide such a rate rider, would NOTL's billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would NOTL see with this rate rider?

Response

NOTL believes that its billing system would be capable of billing the non-RPP customers the separate rate rider.

However, although no system changes would be required, the setting up of the billing parameters would be complex.

Also, the status (RPP vs. non-RPP) of each customers would have to be the current status at the time of the billing, as it would be impractical to determine whether the status should be switched for the purpose of the application of the rate rider (e.g. a current non-RPP customer might have been RPP during the GA DVA balance period that determined the rate rider).

c) If NOTL were to be unable to bill in this fashion what would NOTL consider proposing in the alternative?

Response

Outside of the billing system, no other practical alternative is evident.

4. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the billing determinants identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	2008 Billed Customers or Connections A	2008 Billed kWh B	2008 Billed kW C
Residential	6,584	66,607,551	
General Service Less Than 50 kW	1,209	34,497,593	
General Service 50 to 4,999 kW	123	80,852,618	208,072
Unmetered Scattered Load	32	302,169	
Street Lighting	1,953	1,086,069	2,900

a) Please identify if these values are from the NOTL 2009 Cost of Service Application or 2008 RRR reported values.

Response

NOTL was guided by the DVA workform filing instructions issued on August 24, 2009, which stated that "for IRM3 applicants that rebased in 2009 this will be your 2009 forecast". Thus, these values are 2009 forecasts based on the NOTL 2009 cost of service application, but the application values were updated during the 2009 COS process to reflect the Board's decision.

b) If the above are from the 2009 CoS application please provide reference to location in the application.

OEB staff are requested to refer to Page 24 of the Manager's Summary, which states that the data are the same as provided in Sheet B1.1 of the Supplemental model. Then, for B1.1, please refer to Pages 10 and 11 of the Manager's Summary. Here is where NOTL stated that the values are an update of Table 22 in Exhibit 3, Tab 2 of the 2009 COS application to reflect the Board decision. The updated values are those in the final Revenue Requirement Workbook for the 2009 application. These values are shown in the chart at the foot of Page 10 in the Manager's Summary. They are shown again in the chart at the top of Page 11, which is an adjusted restatement of the Table 22 which was in the original application.

c) If the above are from the 2008 RRR reported values, please explain why NOTL has not used the 2009 CoS values.

Response

[The values are not from the 2008 RRR, therefore this question is not applicable].

5. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the Billed kWh for Non-RPP customers identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed kWh for Non-RPP customers D
Residential	4,028,642
General Service Less Than 50 kW	3,238,540
General Service 50 to 4,999 kW	69,103,202
Unmetered Scattered Load	984
Street Lighting	988,118

a) Please identify if these values are estimated or actual values and specify the applicable period.

Response

These values are estimated values for 2009. This is in keeping with the DVA workform filing instructions issued on August 24, 2009, which stated that "for IRM3 applicants that rebased in 2009 this will be your 2009 forecast". The estimation methodology is explained on Pages 24 and 25 of the Manager's Summary.

b) If the above values are estimated please explain why NOTL is unable to determine the actual values.

Response

Actual values for 2009 were not available at the time of this application and are not available yet. 2008 actual values would not be in keeping with the filing instructions.

c) As discussed in one of the question above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would NOTL support using the numbers above as the most reasonable denominator to be used for rate determination.

Response

NOTL supports using the billed kWh numbers above as the most reasonable denominator if a non-RPP rate rider is implemented. Using kWh would be consistent with kWh being the driver of the GA DVA balance.

d) If NOTL were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does NPEI believe that the rider be applied to customers in the MUSH sector? If not, would NPEI have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

[NOTL assumes that "NPEI" should read "NOTL"].

Response

NOTL does not believe that a GA rate rider should be applied retrospectively to MUSH sector customers, because these customers were RPP in the past.

It would be fair, however, to apply prospectively a GA rate rider for GA DVA balances generated after these customers moved to non-RPP (November 1, 2009).

Please note, however, that under this arrangement MUSH customers could be treated more fairly than other non-RPP customers who would be billed a GA rate rider for such a prospective DVA balance period. MUSH will have remained non-RPP during all of that DVA balance period, whereas other customers who are non-RPP when the rider is applied may not have been non-RPP for all of the DVA balance period. Similarly, RPP customers at the time of application of the rate rider to non-RPP may have been non-RPP during the DVA balance period. This issue was referred to in the response to 3a) above.

NOTL would have the billing capability to exclude MUSH sector customers without system changes but setting up of the billing parameters would be necessary. In NOTL's case, this setting up would be manageable because of the relatively small number of MUSH sector customers in Niagara-on-the-Lake.

6. Ref: 2010 IRM Deferral Variance Total Claim

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

	C	D	E	V
22			**Account Number**	**Total Claim**
23	**Account Description**			**I = C + D+ E + F + G + H**
24				
25	LV Variance Account		1550	0
26				
27	RSVA - Wholesale Market Service Charge		1580	(424,741)
28	RSVA - Retail Transmission Network Charge		1584	53,018
29	RSVA - Retail Transmission Connection Charge		1586	(406,657)
30				
31	RSVA - Power (Excluding Global Adjustment)		1588	388,950
32	RSVA - Power (Global Adjustment Sub-account)			140,305
33				
34	Recovery of Regulatory Asset Balances		1590	(23,382)
35	Disposition and recovery of Regulatory Balances Account		1595	0
36				
37		Total		(272,507)

a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board's website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you.

Response

NOTL has completed and submitted Workform V4.

Sheet C1.4a is an additional sheet that was not part of the Workform V3 that NOTL previously submitted. The adjustments in 2009 that are shown in column L of Sheet C1.4a reflect a true up that was done in July 2009 of IESO form 1598 submissions for the period January 2005 to December 2008.

b) Please reconcile the final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify the source and reasons for variances.

Response

There are zero variances between the 2008 year end RRR filing amounts for Accounts 1550, 1580, 1584, 1586, 1588 (excluding global adjustment) and 1588 global adjustment versus the final balances for disposition of these accounts.

For account 1590, the reconciliation and major reasons for variance are identified below:

ACCOUNT 1590 RECONCILIATION

Item	Amount	
2010 IRM3 Claimed Amount	-$23,382	A
RRR Filing Amount as of Dec-31-08	-$312,559	B
Variance	-$289,177	C=B-A

Sources of Variance	Amount	See Note #
Remaining liability for Hydro One regulatory asset charges - Jan 2009 to Apr 2010	-$224,096	1
Hydro One regulatory asset charges - actual charges less than approved	-$41,207	2
Carrying charges incorrectly calculated on 1590 recoveries	-$13,502	3
Interim recoveries to Apr 2006 - actual recoveries exceeded approved	-$11,104	4
Minor variances	$731	
Total Variance	-$289,177	

Notes - Reasons for variance:

1. *The Hydro One monthly charges of $14,006 are debited to 1590 (as explained on Page 38 of the Manager's Summary). There are 16 more monthly invoices from January 2009 to the final one for April 2010. Thus, this particular liability/credit component of the total variance will be reduced to zero at April 30, 2010 (16 invoices of $14,006 = $224,096).*
2. *As explained on Page 38 of the Manager's Summary, the total Hydro One actual charges are less than the approved charges by $41,207. Thus, in total, the debits to 1590 of Hydro One charges fall short of removing the overall Hydro One liability/credit value by $41,207.*
3. *NOTL originally (2006 to 2008) had not applied recoveries to principal first (as referred to in e) below, based on its erroneous understanding at that time of how recoveries were to be applied. NOTL's methodology of calculating carrying charges on the cumulative recoveries resulted in an interest credit value of ($10,417) in account 1590, as opposed to the correct debit value of $3,084 as per cell H41 in the Table on Page 33 of the Manager's Summary. Thus, this component of the variance is a liability/credit value of ($10,417-$3,084 = $13,502[1]). This error caused a corresponding excess interest expense of $13,502 debited to account 4405[2].*

   Please note, however, that pursuant to the clarification in document issued September 4, 2009, the transactions were recalculated to comply with this requirement, as detailed on Page 33 of the Manager's Summary. The corrected values are submitted in this application. See response e) below.

1 Numbers may appear not to add due to rounding.
[2] This expense should possibly have been debited to account 6035.

4. As per cell U46 of the DVA worksheet "B1.1 2006 Reg Assets", the total recoveries to April 30, 2006 were approved as $610,143. The calculation of this amount in the 2006 EDR DVA model included estimates for the latter part of 2005 up to April 2006. NOTL's actual recoveries credited to account 1590 were $621,247, exceeding the approved amount by $11,104.

c) Please confirm that NOTL has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If NOTL has used other practices in the calculation please explain where in the filing and why.

Response

NOTL confirms that to the best of its knowledge it has complied with and applied correctly the Board's accounting policy and procedures for calculation of the final disposition balance.

d) Please confirm that NOTL has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If NOTL has used other calculations please explain where in the filing and why.

Response

NOTL confirms that it has used the simple interest calculation as required by the Board. NOTL confirms (as set out on Page 35, paragraph 5.1.d of the Manager's Summary) that it has used the Board's prescribed interest rates.

e) Please confirm that NOTL has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If NOTL has not complied with this requirement please explain why not?

Response

NOTL confirms that it has complied with the above requirement. Please refer to Page 33 of the Manager's Summary for a Table showing the calculations whereby NOTL met this requirement.

Supplemental Module

7. Ref: Supplemental Module - Z-Factor Tax Changes

Sheet "F1.1 Z-Factor Tax Changes" of the supplemental module shows Grossed-Up Tax Amount as $310,463 while the 2009 RRWF sheet "3.Taxes_PILs" shows Grossed-Up Income Taxes as $351,762.

a) Please review and advise of the correct amount.

Response

As stated on Page 6 of the Manager's Summary, $351,762 was approved by the Board, and is therefore considered by NOTL to be the correct amount.

Please note that NOTL observed in preparing the application that the value in Sheet F1.1 was different but the supplemental module did not allow direct date entry to adjust this value to the correct one. Sheet E1.2 did however allow the correct value to be entered.

HST Interrogatory

8. Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

a. Would NOTL agree to capture in a variance account the reductions in OM&A and capital expenditures?

Response

With the limited information on what is proposed, NOTL would not agree with the proposal:

- *If the variance account is on the balance sheet (as is currently the case for "DVAs"), the proposal would result in incorrect income statements. For example, for a $100 OM&A expense which would have attracted $8 in PST, the income statement would show an incorrect expense of $108, because the offset credit amount of ($8) would be on the balance sheet.*
- *If by "variance account" in the case of OM&A, "contra-account" is meant, then it would be necessary to have a contra account for every affected OEB OM&A account. Although the income statement would thereby be correct (for example, $108 charge to OEB OM&A account "X" and offset of ($8) to OEB OM&A contra-account to "X", resulting in correct net expense*

amount of $100 for account "X"), the accounting and accounts payable process for such an arrangement would be complicated and time-consuming.

- *After HST is in place, the PST that would have applied if PST were still in place will not necessarily be known for a given expense. Suppliers should not be expected to provide such information and estimation by LDCs' of the amount for each expense item would be impractical and costly. If instead 8% were to be used, this would only be an approximation of savings.*

b. Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

Response

NOTL would suggest that the Board consider that the appropriate way to reflect the reductions would be through the cost of service rebasing applications. At that time, the projection of costs of service would necessarily have to be "free of PST". Depending where an LDC is in the multi-year rebasing cycle, there could be some years of actual PST-free historical expense data to assist in the projections.

This approach would be consistent with the Board's approach to addressing certain major rate factors only at rebasing time. For example, the rate of return for an LDC is set at time of rebasing and kept constant until the next rebasing, even if significant changes in the current approved rate, up or down, occur between rebasing times. In NOTL's case, the rate of return on equity approved in the 2009 rebasing was 8.01%, which will remain in NOTL rates until April 30, 2013. The most recent OEB cost of capital report (December 11, 2009) indicates a return on equity rate of 9.75% - 1.74% greater than NOTL's approved return on equity.

- End -