



Niagara-on-the-Lake Hydro Inc.

February 2, 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

Reply to Board Staff Submission

Dear Ms. Walli

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

- a) A PDF of the reply to www.err.oeb.gov.on.ca
- b) E-mail of amended 2010 IRM3 model (regarding RTR rates) 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

Jim Huntingdon, President
Encl.

**Reply to Board Staff Submission
2010 IRM3 Electricity Distribution Rates
Niagara-on-the-Lake Hydro Inc.
EB-2009-0237**

POTENTIAL TAX SHARING RATE RIDER

Submission

Board staff notes that as a result of having kWh Tax Sharing rate adders of \$(0.0000) when rounded to the fourth decimal place and kW Tax Sharing rate adders of \$(0.00) when rounded to the second decimal place, the amount of \$12,599 will not be returned to ratepayers, which defeats the intent of tax sharing process. Board staff submits that the Board may wish to consider directing NOTL to record the Tax Sharing amount of \$(12,599) in the variance account 1595 for disposition in a future rate setting.

Reply

Upon reviewing the tax sharing rate adders, the rounding to all zeroes which is referred to above does not appear to occur, as follows:

| <u>Rate Class</u> | <u>Metric</u> | <u>Model Result</u> | <u>Rounded</u> |
|-------------------|---------------|---------------------|----------------|
| Residential | \$/kWh | (0.00009) | (0.0001) |
| GS<50kW | \$/kWh | (0.00009) | (0.0001) |
| GS>50kW | \$/kW | (0.01369) | (0.01) |
| Unmetered Load | \$/kWh | (0.00023) | (0.0002) |
| Street Lighting | \$/kW | (0.12837) | (0.13) |

Nonetheless, because the overall amount is relatively small, NOTL would not object to recording the tax sharing amount in the variance account 1595 for future disposition.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Submission

Board staff suggests that the Board may wish to consider establishing a separate rate rider for the disposition of the global adjustment sub-account balance. The rate rider would apply prospectively to non-RPP customers, and would exclude the MUSH sector and other designated customers that were on RPP. Board staff submits that recovering the global adjustment sub-account balance solely from non-RPP customers would be more reflective of cost causality since it was that group of customers that were

undercharged by the distributor in the first place. However, the Board may wish to consider, as an alternative, to recover the allocated global adjustment sub-account balance from all customers in each class. This approach would recognize the customer migration that might occur both away from the non-RPP customer group and into the non-RPP customer group.

In addition to the decision on whether a separate rate rider should be established for the disposition of the global adjustment sub-account, the Board must decide on the time period over which the rate riders should apply. As previously noted, customer migration might occur in the low volume group. For this group of customers, there would be a benefit to dispose of the global adjustment sub-account balance over a relatively short period of time in order to reduce inter-generational inequities. Board staff submits that a disposition period no longer than one year would be appropriate. These balances have been accumulating over the last four year period and to delay immediate action is not in the customer's best interest. Board staff recognizes that some volatility in electricity bills *may* result. That aside, Board staff believes that a one year disposition period would be in the interest of all parties.

In order to reduce inter-generational inequities, Board staff submits that the disposition period for all Group 1 accounts should not exceed one year.

Reply

NOTL agrees with the Board staff submission.

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| ADJUSTMENTS TO THE REVENUE TO COST RATIOS |
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| Submission |
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| Board staff submits that NOTL has complied with the filing requirements of the 2010 Supplemental Filing Module. Board staff takes no issue with NOTL's revenue to cost ratio adjustments. |
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Reply

NOTL notes that Board staff takes no issue.

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| ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR) |
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| Submission |
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| Board staff notes that very few distributors, including NOTL, effected in their 2009 rates the July 1, 2009 level of UTRs since for most of them, distribution rates would have been implemented on May 1, 2009. Therefore, in accordance with the July 22, 2009 RTSR Guideline, Board staff submits that the revisions to the RTSRs ought to reflect the changes from the current level to the January 1, 2010 level, that is an increase of |
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| about 15.6% to the RTSR Network Service rate, and an increase of about 4.3% (the change from \$0.70 to \$0.73) to the RTSR Line Connection Service Rate only for NOTL. |
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| Board staff has reviewed the evidence provided by the applicant and submits that the proposal by NOTL may no longer be reasonable, based on the January 1, 2010 level of the UTRs. Board staff submits that the applicant's proposed rates be revised to reflect the January 1, 2010 values as noted above. |
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Reply

NOTL agrees with the Board staff submission. An amended IRM3 Rate Generator model is submitted with this reply reflecting these revisions, on the assumption that the Board would approve the staff submission. The resulting monthly rates and charges from this amended model are highlighted below:

Applied For Monthly Rates and Charges General

Proposed Tariff Sheet

Current and Proposed Tariff
Sheets

Rate Class

Residential

| Rate Description | Metric | Rate |
|--|--------|-----------|
| Service Charge | \$ | 18.21 |
| Service Charge Smart Meter Funding Adder | \$ | 1.00 |
| Distribution Volumetric Rate | \$/kWh | 0.0128 |
| Distribution Volumetric Tax Change Rate Rider – effective until April 30, 2011 | \$/kWh | (0.00009) |
| Distribution Volumetric Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings | \$/kWh | 0.00010 |
| Distribution Volumetric Deferral Account Rate Rider One – effective until April 30, 2013 | \$/kWh | 0.00020 |
| Distribution Volumetric Deferral Account Rate Rider Two – effective until April 30, 2011 | \$/kWh | (0.00225) |
| Retail Transmission Rate – Network Service Rate | \$/kWh | 0.0062 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate | \$/kWh | 0.0015 |
| Wholesale Market Service Rate | \$/kWh | 0.0052 |
| Rural Rate Protection Charge | \$/kWh | 0.0013 |
| Standard Supply Service – Administrative Charge (if applicable) | \$ | 0.25 |

Rate Class

General Service Less Than 50 kW

| Rate Description | Metric | Rate |
|--|--------|-----------|
| Service Charge | \$ | 45.72 |
| Service Charge Smart Meter Funding Adder | \$ | 1.00 |
| Distribution Volumetric Rate | \$/kWh | 0.0137 |
| Distribution Volumetric Tax Change Rate Rider – effective until April 30, 2011 | \$/kWh | (0.00009) |
| Distribution Volumetric Lost Revenue Adjustment Mechanism (LRAM) Recovery/Shared Savings | \$/kWh | 0.00010 |
| Distribution Volumetric Deferral Account Rate Rider One – effective until April 30, 2013 | \$/kWh | 0.00020 |
| Distribution Volumetric Deferral Account Rate Rider Two – effective until April 30, 2011 | \$/kWh | (0.00208) |
| Retail Transmission Rate – Network Service Rate | \$/kWh | 0.0057 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate | \$/kWh | 0.0014 |
| Wholesale Market Service Rate | \$/kWh | 0.0052 |
| Rural Rate Protection Charge | \$/kWh | 0.0013 |
| Standard Supply Service – Administrative Charge (if applicable) | \$ | 0.25 |

Rate Class

General Service 50 to 4,999 kW

| Rate Description | Metric | Rate |
|---|--------|-----------|
| Service Charge | \$ | 337.94 |
| Service Charge Smart Meter Funding Adder | \$ | 1.00 |
| Distribution Volumetric Rate | \$/kW | 2.6409 |
| Distribution Volumetric Tax Change Rate Rider – effective until April 30, 2011 | \$/kW | (0.01369) |
| Distribution Volumetric Deferral Account Rate Rider One – effective until April 30, 2013 | \$/kW | 0.04700 |
| Distribution Volumetric Deferral Account Rate Rider Two – effective until April 30, 2011 | \$/kW | (0.23897) |
| Retail Transmission Rate – Network Service Rate | \$/kW | 2.2984 |
| Retail Transmission Rate – Network Service Rate – Interval metered | \$/kW | 2.4841 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate | \$/kW | 0.5315 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval metered | \$/kW | 1.2784 |
| Wholesale Market Service Rate | \$/kWh | 0.0052 |
| Rural Rate Protection Charge | \$/kWh | 0.0013 |
| Standard Supply Service – Administrative Charge (if applicable) | \$ | 0.25 |

Rate Class

Unmetered Scattered Load

| Rate Description | Metric | Rate |
|--|--------|-----------|
| Service Charge (per Customer) | \$ | 54.01 |
| Distribution Volumetric Rate | \$/kWh | 0.0162 |
| Distribution Volumetric Tax Change Rate Rider – effective until April 30, 2011 | \$/kWh | (0.00023) |
| Distribution Volumetric Deferral Account Rate Rider One – effective until April 30, 2013 | \$/kWh | 0.00330 |
| Distribution Volumetric Deferral Account Rate Rider Two – effective until April 30, 2011 | \$/kWh | (0.00235) |
| Retail Transmission Rate – Network Service Rate | \$/kWh | 0.0057 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate | \$/kWh | 0.0014 |
| Wholesale Market Service Rate | \$/kWh | 0.0052 |
| Rural Rate Protection Charge | \$/kWh | 0.0013 |
| Standard Supply Service – Administrative Charge (if applicable) | \$ | 0.25 |

Rate Class

Street Lighting

| Rate Description | Metric | Rate |
|--|--------|-----------|
| Service Charge (per connection) | \$ | 3.94 |
| Distribution Volumetric Rate | \$/kW | 15.4329 |
| Distribution Volumetric Tax Change Rate Rider – effective until April 30, 2011 | \$/kW | (0.12837) |
| Distribution Volumetric Deferral Account Rate Rider One – effective until April 30, 2013 | \$/kW | 0.09650 |
| Distribution Volumetric Deferral Account Rate Rider Two – effective until April 30, 2011 | \$/kW | (0.18826) |
| Retail Transmission Rate – Network Service Rate | \$/kW | 1.7333 |
| Retail Transmission Rate – Line and Transformation Connection Service Rate | \$/kW | 0.4108 |
| Wholesale Market Service Rate | \$/kWh | 0.0052 |
| Rural Rate Protection Charge | \$/kWh | 0.0013 |
| Standard Supply Service – Administrative Charge (if applicable) | \$ | 0.25 |

{Please see the Note on Page 8 regarding an error in the Manager's summary only of the original Application regarding transcription of Deferral Account Rate Rider Two rates from the model}

ACCOUNTING FOR THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

NOTL Specific Background

In response to Board staff interrogatory # 8 which asked if NOTL agrees that a deferral account should be established to capture the reductions in OM&A and capital expenditures, NOTL stated that it does not agree with the proposal. However NOTL stated that it "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."

Submission

Board staff submits that the Board may wish to consider establishing a deferral account to record the amounts, after July 1, 2010 and until NOTL's next cost-of-service rebasing application, that were formerly incorporated as the 8% PST on capital expenditures and expenses incurred, but which will now be eligible for an HST Input Tax Credit ("ITC"). The intention of this account would be to track the incremental change due to the introduction of the HST that incorporates an ITC from the 5% to the 13% level. To qualify for this treatment, the cost of the subject items must be in the category of distribution revenue requirement. Tracking of these amounts would continue in the deferral account until NOTL's next cost of service application is determined by the Board or until the Board provides guidance on this matter, whichever occurs first.

NOTL would apply to clear the balance in the account as a credit to customers at the next opportunity for a rate change after the account balance information becomes available and is supported by audited financial statements.

Reply

NOTL respectfully would like to re-iterate that it does not agree with the proposal to establish a disposal account. A number of reasons are set out under IRR 8(a, Pages 12 and 13 of NOTL's response to interrogatories.

A key reason is the incorrect LDC income statements that would result for OM&A, in that expenses on the income statement would be overstated by being required to include an estimated amount (say \$x) of what PST would be if it were still in place. The offset of -\$x would be on the balance sheet in the disposal account.

As quoted in the "NOTL Specific Background" of the Board staff submission, taken from NOTL's interrogatory response on this matter, NOTL did suggest that the cost of service application is the appropriate time to address the reductions. However, NOTL submits that this reduction should be on a go-forward basis only, based on PST-free cost projections for the test year, with no variance account for the between-rebasing years. This approach would be consistent with the go-forward-only treatment of rate of return, where there is no mechanism (such as an annual IRM adjustment would provide) to account for the difference between the approved rate of return that happened to be current at the time of rebasing (8.01% in NOTL's case) and the approved rates of return that ensued between rebasing years (9.75% as of December 11, 2009, which in NOTL's case results in a deemed return on equity shortfall of 1.74% or approx. \$165,000 per year).

NOTE:

In preparing this Reply Submission, NOTL has found that the “Deferral Account Rate Rider Two” rates shown on Page 40, Section 6 – Proposed Rates Tariff, in the Manager’s Summary of the Application dated October 21, 2009 did not pick up the correct rates from the DVA model. NOTL confirms that the DVA model was correct. The IRM3 model included with this reply submission (to amend RTR rates) has the same, correct “Deferral Account Rate Rider Two” rates as in the original application IRM3 model.