Norfolk Power Distribution Inc.
EB–2009–0238
Final Submission
February 22 2010

Norfolk Power Distribution Inc ("NPDI") is a licensed electricity distributor (ED-2002-0521) that owns and operates an electricity distribution system that provides service within the County of Norfolk. On October 22 2009 NPDI submitted an application for new rates to be effective May 1, 2010.

On December 15 2009 NPDI received interrogatories from School Energy Coalition (SEC), Vulnerable Energy Consumers Coalition (VECC) and OEB Staff (Board Staff).

On January 8 2010 NPDI provided responses to the interrogatories.

On February 2 2010 NPDI received submissions regarding its application and responses to interrogatives from SEC, VECC and Board Staff.

NPDI now submits its final submission which will address the following aspects of the rate application:

LRAM/SSM Claim
Deferral and Variance Accounts
Z Factor – Storm Damage Costs
Retail Transmission Service Rates (RTSR)

LRAM/SSM Claim

Background

In its rate application, NPDI requested approval and recovery of historical lost revenue through the Lost Revenue Adjustment Mechanism (LRAM) and shared savings through the Shared Savings Mechanism (SSM).

NPDI received a number of interrogatories about the calculations that formed the basis of this application, and responded to these in attempt to clarify, explain, and – where appropriate – correct the amount of the claim.

In their submissions, Board Staff, VECC and SEC expressed continuing concerns with the application, and suggested various remedies for the Board's consideration. These positions may be summarized as follows:

Party	Concerns Identified by Party	Suggested Remedy by Party
Board Staff	There was a material change with inadequate discussion of the changes in the Energy Audits of Major Consumer program.	Further explanation of why the LRAM and SSM claim increased by a material amount, or rejection of claim.
VECC	Inadequate evidence supporting the SSM claim; acceptance of the LRAM claim.	Either: - require further evidentiary support (now) to be verified by Board staff; or - deny SSM claim and ask that NPDI file in the next rate case with proper evidentiary support.
SEC	Concern with changes in claim in updated tables, particularly around the TRC calculations for the Environmental Action Kits program, and both TRC and LRAM calculations for the Energy Audits for Major Customers program. Changes to two other programs mentioned (Water Heater Replacement and Lighten your Electricity Bill), but not deemed material.	Deny claim with leave to re-file with proper evidentiary support in the next rate case.

Submission

SSM claim

The originally filed SSM table calculated a total SSM of $42,362. The revised SSM was for $83,111. All changes in the SSM claimed were in three programs: the claim for the Lighten Your Electricity Bill claim increased by $2, for the Water Heater Replacement Program by $43, and in the Energy Audits for Major Customers program by $40,704. In the case of the first two programs, these increases were for minor corrections to the calculated costs and benefits.

In the case of the Energy Audits for Major Customers program, which represented nearly 60% of the total original SSM claim, and almost 80% of the total revised SSM

claim, NPDI already had explained the difficulties in calculating the TRC costs and benefits associated with this program, due at least in part to staff turnover resulting in loss of a data trail.

The Energy Audits for Major Customers program involved undertaking audits of industrial facilities and identifying low or no-cost opportunities to reduce electricity use that the facility operators could adopt. NPDI identified some significant opportunities. As detailed in Appendix C related to the responses to SEC's interrogatories, 147 kW of peak reductions were identified in 2005. The 2006 NPDI Annual Report on CDM provides details for an additional 262 kW of peak reduction opportunities. Unfortunately, there are questions around the extent to which these audit recommendations were adopted by program participants, and some of the underlying program assumptions, which have not been fully resolved as yet.

Given the high percentage of the total SSM that is represented by this program, NPDI is requesting to withdraw its SSM claim at this time. Should NPDI find a resolution to the lingering data issues, it will re-file its SSM claim according to the requirements outlined in the *Guidelines*.

LRAM claim

The originally filed LRAM claim was for $158,995 and this was revised in the Updated Manager's Summary to $175,997. Details of the original and revised claim are shown in Table 1.

Table 1 -- Comparison of original and revised LRAM claim

	Original	Revised	Difference
Third tranche			
Residential	$24,207	$24,207	$0
GS<50kW	$1,282	$1,282	$0
GS>50kW	$3,171	$3,171	$0
Sub-total	$28,659	$28,659	$0
OPA programs			
Residential	$121,028	$135,511	$14,483
GS<50kW	$11	$112	$101
GS>50kW	$9,297	$11,715	$2,418
Sub-total	$130,336	$147,337	$17,001
Total	$158,995	$175,997	$17,001

As Table 1 makes clear, the differences in the claim are due only to the Ontario Power Authority (OPA) programs, not NPDI's third tranche programs. These changes reflect the update of OPA savings in the final 2006-2008 results made available by the OPA on November 10 2009. The lost revenues are calculated by multiplying the savings by the appropriate rate, as shown in Appendix 2 of the updated Manager's Summary. As the OPA states in its letter, "The results provided in the report are in accordance with current OPA practices and policies for reporting progress against the provincial conservation goals."

Overall, the lost revenue associated with the OPA programs account for more than 80% of the estimated lost revenue, and these results are not in dispute.

In fact, the only LRAM claim which has been questioned is that associated with the Energy Audits for Major Customers, even though the claim for this program did not change. However, given that NPDI may revisit the results from this program for a revised SSM claim, and recognizing that it represents less than 2 per cent of the total LRAM claim, NPDI proposes that the lost revenue attributed to this program of $3,171 be assumed to be zero. This reduces the LRAM claim from $175,997 to $172,826.

As a result, the revised claim, based on addressing the concerns of intervenors, and the resulting rate riders, are summarized in Table 2.

Table 2 -- Proposed Rate Riders (final)

Customer class	LRAM	Carrying charges	Total	Unit	2008 Actual Billed kWh/kW	Rate Rider $/unit
Residential	$159,717	$9,270	$168,987	kWh	140,646,761	$0.001201
GS <50 kW	$1,394	$81	$1,475	kWh	63,049,737	$0.000023
GS >50 kW	$11,715	$631	$12,346	kW	361,081	$0.034192
Total	$172,826	$9,982	$182,808			

Conclusion

With the withdrawal of the SSM claim, the removal of the Energy Audits for Major Customers program from the LRAM claim, and the explanation of remaining changes in LRAM being only attributable to OPA's updated results, NPDI believes that it has fully addressed the concerns expressed by Board Staff and the intervenors in their submissions. NPDI respectfully requests that the Board grant approval for an LRAM in the amount of $182,808 including carrying charges, distributed by rate class as indicated in Table 2.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS

Background

In its original rate application NPDI indicated it would apply for disposition of its Group 1 Deferral and Variance accounts. However it was noted that due to a number of inconsistencies found in these accounts, NPDI was currently undergoing a rebuild of these accounts for the time period January 1st 2005 to December 31st 2008. In December 2009 the rebuild of these accounts was completed and on January 8th 2010 NPDI submitted a new Deferral and Variance Account Workform. This also complied with a request from Board Staff to submit an updated version 4 of this workform.

Intervenor Submissions

Board Staff noted that the EDDVAR report includes filing guidelines including a requirement for reconciliation of the regulatory trial balance that is reported to the Board as part of the RRR and the audited financial statements. Board staff however also noted that the changes to correct Group 1 balances during the 2005-2008 period may have resulted in the final proposed balances to no longer reconcile with the previously audited balances nor with NPDI's RRR filings.

Board Staff submitted that being mindful of the importance of timely disposition of deferral and variance account balances, the disposition should not be delayed and suggested the Board consider approving the proposed deferral and variance account balance disposition rate riders on a final basis. If there were concerns with the adjustments made Board Staff proposed that the rate riders could be declared interim until the re-filed balances can be brought forward in a future application and supported by a third party.

Board Staff also noted that NPDI selected a 4-year disposition period in its Deferral Variance Account Workform but submitted that a disposition period of no longer than one year would be appropriate. Reasons included reducing inter-generational inequities and also that returning funds accumulated during the four year period during a one year period would be in the customer's best interest. Board Staff also recognized that some volatility in electricity bills may result from the shortened disposition period.

Submission

NPDI has gone through an extensive review and rebuild of its deferral and variance accounts during the fall of 2009 to ensure the balances have been corrected before disposition. RRR filings have been re-submitted to reflect the changes in the accounts as a result of this work. Board Staff are correct that the changes to correct these

account balances have resulted in differences between the RRR filings and the previously submitted audited financial statements for the time period in question. While NPDI will have audited statements for 2008 restated to reflect the rebuilt account balances, these are not yet available.

In its original filing NPDI also noted that it was undergoing an audit for these accounts by the OEB's Regulatory Audit and Accounting Staff. On February 12 2010 NPDI received a draft version of the audit review report, which indicated two additional changes need to be made. These changes were:

1. An amount of $20,072 and applicable carrying charges related to a 2005 IESO service charge should be removed from account 1582 and charged to account 1580.

2. An amount of $78,829 and applicable carrying charges relating to Long Term Load Transfers in December 2008, should be removed from account 1580 and charged to account 1588.

NPDI has agreed with these findings and has made these changes. A new Deferral and Variance Account Workform has been completed reflecting the changes, and filed with the Board with this submission. These are the only changes to the workform.

Given the extensive review NPDI has gone through to rebuild these accounts over the four year period, the relatively minor findings of the OEB Regulatory Accounting and Audit Staff audit review (albeit draft only) and the work NPDI has done to date with its own auditors, NPDI agrees with Board Staff's suggestion that the proposed deferral and variance account balance disposition rate riders be approved with on a final basis, and respectively requests the Board to do so.

Disposition Timing

NPDI notes that the balance requested for disposition is approximately $1.4M or 13% of NPDI's $11.2M revenue requirement. As Board staff indicated, these amounts have accumulated over four years. Repaying this amount over one year will have a significant impact on NPDI's cash flow. NPDI wishes to note that as part of its 2008 rate application it requested disposition of these accounts and was denied leaving the length of time holding these funds outside of its control.

Also, as Board Staff indicated volatility in electricity bills will result if the disposition is carried out over one year. NPDI recently notified the OEB of its intention to submit a Cost of Service application later this year for rates effective May 2011. It is expected that this application will result in an increase in distribution rates as a result of an expected increase in the proposed 2011 rate base of 15%, compared to the approved 2008 rate base which was based on a cost of service application in that year. Also as

part of the application NPDI will be seeking approval to recover a return on its installed smart meters, which exceeds 95% completion at the time of this submission, as well as approval to recover stranded assets of approximately $1.3M. NPDI submits that disposing of the Group 1 accounts over one year in 2010, followed by a rate increase in 2011, which may also include the recovery of stranded assets, will create considerable volatility in customer's rates.

NPDI submits a more practical approach may be to use a two year disposition plan with 25% of the Group 1 accounts being disposed of in 2010 and the remaining 75% being disposed of in 2011 which would be a Cost of Service year for NPDI. This would assist in mitigating the rate increases occurring in that year while returning funds to customers in a shortened time period from that originally applied for.

As previously indicated, during the review and rebuild of its accounts NPDI found a number of inconsistencies and errors. Correcting these has resulted in a $520,000 reduction in its retained earnings account, a significant sum for the applicant. If the accounts were disposed in the approach described above, it would provide NPDI additional time to have these adjustments and restated financial statements audited before disposing the bulk of the account balances.

Z FACTOR – STORM DAMAGE COSTS

Background

In 2008 NPDI submitted an application to recover certain storm damage expenses. This claim was denied by the Board, with permission for the applicant to return at a later date with sufficient evidence (EB-2007-0753). As part of this application NPDI has applied for recovery of $164,235 in expenses and $15,214 in carrying charges, for a total of $179,449. SEC and Board Staff indicated there was no concern with the expense amount, noting the criteria of materiality, prudence and causation were met. Both SEC and Board Staff noted an issue with the amount of carrying charges applied for, suggesting the amount between the 2009 IRM and 2010 IRM being in question. This amount totals $1,026. With this exception, Board Staff also agreed with the applied for rate riders.

Submission

Carrying charges have been applied at prescribed rates to all applicable deferral and variance accounts and NPDI believes this is a fair and equitable approach. As such NPDI respectfully requests approval for the rate riders as applied for, related to the storm damage expenses and carrying charges. However NPDI will have no issue with removing the last year of carrying charges if so directed by the Board.

ADJUSTMENTS TO THE RETAIL TRANSMISSION SERVICE RATES (RTSR)

Background

Board Staff noted that NPDI had applied for an adjustment to its RTSR rates based on the July 22 2009 RTSR Guideline for proxy rate adjustments. Board Staff submitted that the revisions to the RTSRs ought to reflect the changes from their current levels to the January 1 2010 level, as per Decision and Rate Order of the Board EB-2008-0272.

Submission

NPDI agrees with the Board Staff recommendation and has revised the RTSR applied for to reflect the January 1 2010 values as follows:

Network Service Rate:	$2.97 per kW per month
Line Connection Service Rate:	$0.73 per kW per month
Transformation Connection Service Rate:	$1.71 per kW per month

NPDI respectfully requests approval to adjust its RTSR rates as indicated above.