

IN THE MATTER OF the Ontario Energy Board Act, 1998, being
Schedule B to the Energy Competition Act, 1998 S.O. 1998, c.15;

AND IN THE MATTER OF an application by Norfolk Power
Distribution Inc. to the Ontario Energy Board for an Order or
Orders approving or fixing just and reasonable rates and other
Service charges for the distribution of electricity as of May 1,
2011.

**Norfolk Power Distribution Inc. (NPDI)
Responses to Vulnerable Energy Consumer's Coalition (VECC)
Interrogatories on the Preliminary Issue**

1 **QUESTION #1**

2 **Reference: Exhibit 1/Tab 2/Schedule 1, page 2**
3 **2011 Revenue Requirement Work Form**

4 **Please provide NPDI's actual return on deemed equity for 2008 and 2009 as well as its**
5 **projected return on deemed equity for 2010. For each of these years, please provide**
6 **supporting schedules comparable to Sheets 1, 4 & 5 (data column 1) from the Revenue**
7 **Requirement Work Form.**

8 **RESPONSE – QUESTION #1**

9 The return on equity for the years 2010 (Forecast), 2009 (Actual) and 2008 (Actual) is 6.44%,
10 9.19% and 2.51% respectively. Detailed calculations have been provided below using the same
11 format and calculations as can be found on Sheets 1, 4 & 5 of the Revenue Requirement Work
12 Form.

REPLICATION OF SHEET 1 FROM OEB REVENUE REQUIREMENT WORKFORM (re: VECC IR #1(a))

<u>RATE BASE</u>	<u>2010 BRIDGE</u>	<u>2009 ACTUAL</u>	<u>2008 ACTUAL</u>
Gross Fixed Assets (average)	\$73,800,624	\$67,291,515	\$63,439,977
Accumulated Depreciation (average)	(\$27,001,405)	(\$24,166,928)	(\$21,559,244)
Net Fixed Assets (average)	\$46,799,219	\$43,124,587	\$41,880,734
Allowance for Working Capital	\$5,741,449	\$4,999,455	\$5,030,512
Total Rate Base	\$52,540,668	\$48,124,042	\$46,911,245

<u>Derivation of Allowance for Working Capital</u>			
Controllable Expenses	\$4,967,157	\$4,566,514	\$5,294,943
Cost of Power	\$33,309,170	\$28,763,185	\$28,241,801
Working Capital Base	\$38,276,327	\$33,329,699	\$33,536,744
Working Capital Rate %	15.00%	15.00%	15.00%
Working Capital Allowance	\$5,741,449	\$4,999,455	\$5,030,512

REPLICATION OF SHEET 4 - REVENUE REQUIREMENT WORK FORM (re: VECC IR #1(a))

<u>2010 Bridge</u>	<u>Capitalization Ratio</u>		<u>Cost Rate</u>	<u>Return</u>
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	56.00%	\$29,422,774	5.81%	\$1,709,760
Short-term Debt	4.00%	\$2,101,627	2.07%	\$43,504
Total Debt	60.00%	\$31,524,401	5.56%	\$1,753,264
Equity				
Common Equity	40.00%	\$21,016,267	8.57%	\$1,801,094
Preferred Shares	0.00%	\$ -	0.00%	\$ -
Total Equity	40.00%	\$21,016,267	8.57%	\$1,801,094
Total	100.00%	\$52,540,668	6.76%	\$3,554,358

<u>2009 Actual</u>	<u>Capitalization Ratio</u>		<u>Cost Rate</u>	<u>Return</u>
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	52.70%	\$25,361,370	6.50%	\$1,647,468
Short-term Debt	4.00%	\$1,924,962	4.47%	\$86,046
Total Debt	56.70%	\$27,286,332	6.35%	\$1,733,514
Equity				
Common Equity	43.30%	\$20,837,710	8.57%	\$1,785,792
Preferred Shares	0.00%	\$ -	0.00%	\$ -
Total Equity	43.30%	\$20,837,710	8.57%	\$1,785,792
Total	100.00%	\$48,124,042	7.31%	\$3,519,305

<u>2008 Actual</u>	<u>Capitalization Ratio</u>		<u>Cost Rate</u>	<u>Return</u>
	(%)	(\$)	(%)	(\$)
Debt				
Long-term Debt	49.30%	\$23,127,244	6.10%	\$1,410,762
Short-term Debt	4.00%	\$1,876,450	4.47%	\$83,877
Total Debt	53.30%	\$25,003,694	5.98%	\$1,494,639
Equity				
Common Equity	46.70%	\$21,907,551	8.57%	\$1,877,477
Preferred Shares	0.00%	\$ -	0.00%	\$ -
Total Equity	46.70%	\$21,907,551	8.57%	\$1,877,477
Total	100.00%	\$46,911,245	7.19%	\$3,372,116

	2010 BRIDGE	2009 ₁	2008 ₂		
	At Current Approved Rates	Adjusted for Regulatory Items	Per Audited Financial Stmts	Adjusted for Regulatory Items	Per Audited Financial Stmts
Distribution Revenue	\$10,997,878	\$10,852,474	\$11,015,722	\$9,913,395	\$9,750,148
Other Operating Revenue Offsets - net	\$324,000	\$428,286	\$428,286	\$418,768	\$428,348
Total Revenue	\$11,321,878	\$11,280,760	\$11,444,008	\$10,332,163	\$10,178,496
Operating Expenses	\$7,670,453	\$6,994,440	\$7,088,863	\$7,584,840	\$7,648,038
Deemed Interest Expense	\$1,753,264	\$1,733,514	\$1,270,618	\$1,494,639	\$1,346,917
Total Cost and Expenses	\$9,423,717	\$8,727,954	\$8,359,480	\$9,079,479	\$8,994,955
Utility Income Before Income Taxes	\$1,898,161	\$2,552,807	\$3,084,528	\$1,252,684	\$1,183,541
Tax Adjustments to Accounting Income for 2010 (Effective Rate Not Available)	(\$265,684)	\$ -	\$ -	\$ -	\$ -
Taxable Income	\$1,632,477	\$2,552,807	\$3,084,528	\$1,252,684	\$1,183,541
Effective Income Tax Rate	31.00%	29.57%	29.57%	52.47%	52.47%
Income Tax on Taxable Income	\$506,068	\$754,786	\$912,000	\$657,293	\$621,013
Income Tax Credits (Capital Tax)	\$39,406	\$84,500	\$84,500	\$81,000	\$81,000
Utility Net Income	\$1,352,687	\$1,713,520	\$2,088,028	\$514,391	\$481,528
Utility Rate Base	\$52,540,668	\$48,124,042	N/A	\$46,911,245	N/A
Deemed Equity Portion of Rate Base *	\$21,016,267	\$20,837,710	\$26,490,169	\$21,907,551	\$24,702,141
Income/Equity Rate Base (%)	6.44%	8.22%	7.88%	2.35%	1.95%
Approved Return on Equity	8.57%	8.57%	N/A	8.57%	N/A
Variance from Approved ROE	-2.13%	-0.35%	N/A	-6.22%	N/A

1 - 2009 Adjustments

- 2009 Distribution Revenues for "Adjusted Regulatory Net Income" have been adjusted to remove the 2008 Lost Revenue Rate Rider revenues (\$163,248)
- Interest Expense has been adjusted from ACTUAL interest expense to "deemed" interest expense
- Amortization Expense (included in Operating Expenses) has been adjusted for the 1/2 year rule as per OEB Filing Guidelines for Distribution Rate Applications
- Equity has been adjusted to the Deemed Level of Equity based on 43.3% of Rate Base

2 - 2008 Adjustments

- 2008 Distribution Revenues for "Adjusted Regulatory Net Income" have been adjusted to add the 2008 Lost Revenue Rate Rider revenues collected in 2009 (\$163,248)
- Interest Expense has been adjusted from ACTUAL interest expense to "deemed" interest expense
- Amortization Expense (included in Operating Expenses) has been adjusted for the 1/2 year rule as per OEB Filing Guidelines for Distribution Rate Applications
- Equity has been adjusted to the Deemed Level of Equity based on 46.7% of Rate Base

* For 2009 Actual and 2008 Actual, the Equity figure is the Equity figure reported in the financial statements

QUESTION #2

Reference: Exhibit 1/Tab2/Schedule 1, pages 2-3

a) Please indicate 2011 average fixed asset value for the Bloomsburg Transformer Station that is included in NPDI's proposed 2011 rate base.

RESPONSE – QUESTION #2(a)

The 2011 average fixed asset value for the Bloomsburg Transformer Station that is included in NPDI's proposed 2011 rate base is \$9,745,222. With reference to Table 2.4 of Exhibit 2/Tab 2/Schedule 1, page 4 and Table 2.5 of Exhibit 2/Tab 2/Schedule 1, page 5 (fixed asset continuity schedules for 2010 and 2011 respectively), the following table summarizes the average fixed asset value for the Bloomsburg Transformer Station that is included in NPDI's proposed 2011 rate base.

Caclulation of 2011 Average Fixed Asset Value for Bloomsburg Transformer Station

	<u>Gross Asset</u> <u>Value</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Fixed Asset</u> <u>Value</u>
1808 Transformer Station Buildings	\$ 1,615,717	\$ 180,532	\$ 1,435,185
1815 Transformer Station Equipment	\$ 8,912,635	\$ 524,390	\$ 8,388,245
Closing 2010 Balance - Transformer Station Assets	\$ 10,528,352	\$ 704,922	\$ 9,823,430
2011 Additions			
1808 Transformer Station Buildings	\$ -	\$ 32,314	\$ 1,402,871
1815 Transformer Station Equipment	\$ 100,000	\$ 224,102	\$ 8,264,143
Closing 2011 Balance - Transformer Station Assets	\$ 10,628,352	\$ 961,338	\$ 9,667,014
Average Fixed Asset Value for Bloomsburg Transformer Station			\$ 9,745,222

QUESTION #2 (cont'd)

b) What was the 2008 fixed asset value for the Bloomsburg Transformer Station that was included in NPDI's approved 2008 rate base (and 2008 approved rates)?

RESPONSE – QUESTION #2(b)

The 2008 fixed asset value for the Bloomsburg Transformer Station that was included in NPDI's approved 2008 rate base (and 2008 approved rates) was \$4,323,126. More detailed calculations have been provided below.

	<u>Gross Asset</u>	<u>Accumulated</u>	<u>Net Fixed Asset</u>
	<u>Value</u>	<u>Depreciation</u>	<u>Value</u>
2007 Transformer Station Assets			
1808 Transformer Station Buildings	\$ 1,455,870	\$ 87,102	\$ 1,368,768
1815 Transformer Station Equipment	\$ 2,997,994	\$ 212,501	\$ 2,785,493
Closing 2007 Balance - Transformer Station Assets	\$ 4,453,864	\$ 299,603	\$ 4,154,261
	<u>Gross Asset</u>	<u>Accumulated</u>	<u>Net Fixed Asset</u>
	<u>Value</u>	<u>Depreciation</u>	<u>Value</u>
2008 Transformer Station Assets			
1808 Transformer Station Buildings	\$ 1,530,070	\$ 116,962	\$ 1,413,108
1815 Transformer Station Equipment	\$ 3,199,994	\$ 289,976	\$ 2,910,018
Closing 2008 Balance - Transformer Station Assets	\$ 4,730,064	\$ 406,938	\$ 4,323,126
Average Fixed Asset Value for Bloomsburg Transformer Station Included in 2008 Rate Base			\$ 4,238,694

QUESTION #2 (cont'd)

c) Please provide a schedule that sets out:
- NPDI's forecast 2008 Retail Transmission Connection charges as approved in EB-2007-0753.
- NPDI's forecast 2008 Retail Transmission Connection charges assuming the Bloomsburg Transformer Station was in-service as currently projected for 2011

RESPONSE – QUESTION #2(c)

During the 2008 cost of service application (EB-2007-0753) process, NPDI's forecast of retail transmission connection charges was not used as a basis for the approved rates. Instead, the Board established NPDI's 2008 retail transmission connection charges by directing NPDI to reduce its current rates.

“its current RTS – Network Service Rate by 18% and its current RTS – Line and Transformation Connection Service Rate by 5%. Those percentages are based on the reductions in wholesale transmission rates that were effective November 1, 2007 and are similar to the reductions proposed by Hydro One Distribution in its current rates case.” (EB-2007-0753, Decision, p29).

The 2008 Board-approved rates are provided in Table 2C.1 below. In addition NPDI has provided a forecast 2008 Hypothetical Rates, assuming Bloomsburg Transformer Station was fully operational in 2008 (as projected for 2011). The methodology for this forecast is provided in detail below Table 2C.1.

Table 2C.1 – Retail Transmission and Connection Rate Comparison

	2008 Board Approved Rates	2008 Hypothetical Rates	Percentage Change
Residential	0.0044	0.0028	-35.5%
GS < 50 kW	0.0039	0.0023	-41.0%
GS > 50 kW	1.5469	0.7721	-50.1%
Street Lighting	1.1959	0.7797	-34.8%
Sentinel Lighting	1.2209	2.4509	100.7%
Unmetered Scattered Load	0.0039	0.0021	-45.3%

In 2008 NPDI was embedded to both Hydro One and Haldimand County Hydro. With the completion of the Bloomsburg station, NPDI was able to eliminate all charges from Haldimand, shifting the related load to the new transformer station. The 2008 actual kW billed to NPDI are provided below in Table 2C.2, followed by Table 2C.3 which contains the forecasted shift in kW NPDI would expect to be billed, if the TS was in service during 2008.

1 **Table 2C.2 – 2008 Actual kW Billed**

2008 Actual	Billed - IESO (kW)	Billed - Hydro One (kW)	Billed - Haldimand (kW)	Total
January	33,375	16,232	10,739	60,346
February	34,363	16,861	10,593	61,817
March	31,921	14,713	9,853	56,487
April	30,585	12,708	8,568	51,861
May	27,178	12,721	7,747	47,646
June	31,611	18,101	11,933	61,645
July	37,495	18,843	12,665	69,003
August	36,366	16,921	12,125	65,412
September	35,862	15,239	9,022	60,123
October	31,067	14,058	7,233	52,358
November	32,242	15,957	8,237	56,436
December	32,771	17,130	8,935	58,836
Total	394,836	189,484	117,650	701,970

2 **Table 2C.3 – 2008 Hypothetical kW Billed**

2008 Hypothetical - Bloomsburg Fully Operational	Billed - IESO (kW)	Billed - Hydro One (kW)	Billed - Haldimand (kW)	Total
January	44,114	16,232		60,346
February	44,956	16,861		61,817
March	41,774	14,713		56,487
April	39,153	12,708		51,861
May	34,925	12,721		47,646
June	43,544	18,101		61,645
July	50,160	18,843		69,003
August	48,491	16,921		65,412
September	44,884	15,239		60,123
October	38,300	14,058		52,358
November	40,479	15,957		56,436
December	41,706	17,130		58,836
Total	512,486	189,484		701,970

3 With the move of Haldimand load to the Bloomsburg TS it is anticipated 50% of NPDI's total
4 load will flow through the new TS. This is consistent with the first few months of full operation of
5 the Bloomsburg TS since its completion. Transformation charges from Hydro One will remain at
6 the current levels. Charges have been estimated with 2008 rates.

1 **Table 2C.4 – 2008 Hypothetical Transformation Connection Charges**

Transformation Connection Charges	2008 Total kW Forecast	Bloomsburg kW	Hydro One kW	IESO Transformation Connection Charge (kW)	Hydro One Transformation Connection charge (\$1.38/KW)	IESO Transformation Connection Charge (\$1.61/KW)	Total Transformation Connection Charges
Jan	60,346	30,173	16,232	13,941	\$22,400	\$22,445	\$44,845
Feb	61,817	30,909	16,861	14,048	\$23,268	\$22,616	\$45,885
Mar	56,487	28,244	14,713	13,531	\$20,304	\$21,784	\$42,088
Apr	51,861	25,931	12,708	13,223	\$17,537	\$21,288	\$38,825
May	47,646	23,823	12,721	11,102	\$17,555	\$17,874	\$35,429
Jun	61,645	30,823	18,101	12,722	\$24,979	\$20,482	\$45,461
Jul	69,003	34,502	18,843	15,659	\$26,003	\$25,210	\$51,214
Aug	65,412	32,706	16,921	15,785	\$23,351	\$25,414	\$48,765
Sep	60,123	30,062	15,239	14,823	\$21,030	\$23,864	\$44,894
Oct	52,358	26,179	14,058	12,121	\$19,400	\$19,515	\$38,915
Nov	56,436	28,218	15,957	12,261	\$22,021	\$19,740	\$41,761
Dec	58,836	29,418	17,130	12,288	\$23,639	\$19,784	\$43,423
Total	701,970	350,985	189,484	161,501	\$261,488	\$260,017	\$521,505

2 Line connection charges have been charged on all kW at the 2008 rate.

3 **Table 2C.5 – 2008 Hypothetical Line Connection Charges**

Line Connection Charges	2008 Total kW Forecast	IESO kW	IESO Line Connection Charge (\$0.59/kW)	Hydro One kW	Hydro One Line Connection Charge (\$0.50/kW)	2011 Total Line Connection Charges
Jan	60,346	44,114	\$26,027	16,232	\$8,116	\$34,143
Feb	61,817	44,956	\$26,524	16,861	\$8,431	\$34,955
Mar	56,487	41,774	\$24,647	14,713	\$7,357	\$32,003
Apr	51,861	39,153	\$23,100	12,708	\$6,354	\$29,454
May	47,646	34,925	\$20,606	12,721	\$6,361	\$26,966
Jun	61,645	43,544	\$25,691	18,101	\$9,051	\$34,741
Jul	69,003	50,160	\$29,594	18,843	\$9,422	\$39,016
Aug	65,412	48,491	\$28,610	16,921	\$8,461	\$37,070
Sep	60,123	44,884	\$26,482	15,239	\$7,620	\$34,101
Oct	52,358	38,300	\$22,597	14,058	\$7,029	\$29,626
Nov	56,436	40,479	\$23,883	15,957	\$7,979	\$31,861
Dec	58,836	41,706	\$24,607	17,130	\$8,565	\$33,172
Total	701,970	512,486	\$302,367	189,484	\$94,742	\$397,109

4 Based on current cost allocation and estimated charges from above, the 2008 Hypothetical

5 Proposed rates have been calculated as set out below.

Table 2C.6 – 2008 Hypothetical Proposed Connection RTSR

	12 CP from Cost Allocation	Connection Charges	2008 Billing Determinant	UOM	2008 Approved Loss Factor	Billing Det Uplifted - does not apply to kW	Proposed Connection RTSR
Residential	306,210	\$442,248	147,477,515	kWh	1.0560	155,736,256	\$0.0028
GS < 50 kW	107,874	\$155,798	64,081,972	kWh	1.0560	67,670,562	\$0.0023
GS > 50 kW	215,623	\$311,417	403,334	kW		403,334	\$0.7721
Street Lighting	5,117	\$7,390	9,478	kW		9,478	\$0.7797
Lighting	585	\$846	345	kW		345	\$2.4509
Scattered Load	633	\$915	406,396	kWh	1.0560	429,154	\$0.0021
Total	636,043	\$918,613					

QUESTION #3

Reference: i) Exhibit 1/Tab 2/Schedule 1, page 4
ii) OEB Filing Requirements for Transmission and Distribution Applications, Chapter 3, July 9, 2010
iii) OEB Letter, January 29, 2009 (EB-2009-0028)

a) Please confirm that the distributor is not required to include an LRAM/SSM application as part of an IRM-based rate application and that such a filing is at the discretion of the distributor.

RESPONSE – QUESTION #3(a)

Please see NPDI's response to Energy Probe Interrogatory #4.

QUESTION #3 (cont'd)

b) Please confirm that Smart Meter Cost Recovery Applications do not form part of a standard IRM-based application.

RESPONSE – QUESTION #3(b)

Please see NPDI's response to Energy Probe Interrogatory #4

QUESTION #3 (cont'd)

c) In January 2009 the OEB issued a letter regarding the electricity distributors it proposed for re-basing in 2010 and 2011 and requested comments. Did NPDI provide any comments to the OEB indicating its interest in submitting a cost of service rebasing application for 2011 in response to this letter? If yes, provide a copy. If not, why not?

RESPONSE – QUESTION #3(c)

NPDI did not provide a response to the OEB letter issued January 2009.

In the letter the Board recognizes the intensive nature of the cost of service application.

“The Board recognizes the cost of service process is effort intensive for applicants, the Board and intervenors.” (January 29, 2009, EB-2009-0028)

NPDI's 2008 Cost of Service Application process did not conclude until August 22 2008. Reviewing the decision from that application, it is apparent that significant additional work would be required for a future cost of service application. In early January 2009 the sole management staff with rate application experience, and direct responsibility for rate applications, left the organization. Given these two circumstances NPDI was not in a position to evaluate the Board letter as well its own ability to complete such an application, and to commit to a time period for submitting its next cost of service application.

NPDI did provide a letter to the OEB indicating its intention to file a cost of service application for 2011 rates in February 2010. This letter of notification was sent prior to the Board's April 20, 2010 Letter which states:

“Any distributor that proposes to file a cost of service application for 2011 rates, and that is not on the list attached as Appendix A to this letter, must so notify the Board in writing as soon as possible, and in any event no later than May 31, 2010, if it has not done so already.”

NPDI is not aware of the Board stipulating a due date for notification of an intention to file a cost of service letter prior to the April 20th 2010 letter.

1 In any event the Board recognized NPDI's intention to file a 2011 cost of service application in
2 its Decision on NPDI's 2010 IRM rate application (EB-2009-0238). Full details of this exchange
3 are available in NPDI's response to Energy Probe Interrogatory #7(b).

4 **QUESTION #3 (cont'd)**

5 **d) Did NPDI complete its installation of smart meters by year end 2009 such that all**
6 **smart meter costs could be audited and included in rate base as part of its 2011**
7 **application?**

8 **RESPONSE – QUESTION #3(d)**

9 NPDI had completed installation of 90.4% of its smart meters by year end 2009. All amounts
10 applied for as part of the 2011 application have been audited as part of NPDI's 2009 financial
11 statements. These amounts have been included as part of rate base in the 2011 application.

12 This is consistent with the Board Guideline G-2008-0002 – Smart Meter Funding and Cost
13 Recovery (G-2008-002) – which indicates a minimum threshold of 50% installation before
14 applying for cost recovery.

15 “The Board also expects that only two applications will need to be made for the recovery
16 of smart meter costs. The first is when the distributor achieves at least 50% penetration
17 of smart meters within its service area. The second is when the distributor installs 100%
18 of the meters.” (G-2008-002, October 22, 2008, P. 12).