

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



BY EMAIL

January 27, 2010

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0070 & EB-2010-0071**

In accordance with the Notice of Application and Written Hearing, please find attached the Board Staff Submission in the above proceeding. Please forward the following to Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power and to all other registered parties to this proceeding.

In addition please remind Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power that its Reply Submission is due by February 18, 2011.

Yours truly,

Original Signed By

Daniel Kim
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

Canadian Niagara Power Inc. – Fort Erie & Eastern
Ontario Power

EB-2010-0070

EB-2010-0071

January 27, 2011

**Board Staff Submission
Canadian Niagara Power Inc. – Fort Erie & Eastern Ontario Power
2011 IRM3 Rate Application
EB-2010-0070
EB-2010-0071**

Introduction

Canadian Niagara Power Inc. (“CNPI” or the “Applicant”) is a licensed distributor of electricity providing service to consumers within two licensed service areas – Fort Erie and Eastern Ontario Power. Effective May 1, 2009 in proceedings EB-2008-0222 and EB-2008-0223, the Board approved the harmonization of electricity distribution rates for CNPI’s electricity distribution customers for its Fort Erie and Eastern Ontario Power service areas. While the distribution rates were harmonized, certain aspects that are specific to each service area, such as loss adjustment factors, transmission service rates and low voltage costs recovery, are separate maintained. Hence CNPI filed two applications with the Ontario Energy Board (the “Board”), received on November 8, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that CNPI charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism.

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by CNPI.

Board staff makes submissions on the following matters:

- Adjustments to the Revenue-to-Cost Ratios;
- Disposition of Deferral and Variance Accounts as per the *Electricity Distributors’ Deferral and Variance Account Review Report* (the “EDDVAR Report”);
- 2011 Retail Transmission Service Rates (“RTSR”) Adjustment Workform; and
- Smart Meter Funding Adder.

ADJUSTMENTS TO THE REVENUE-TO-COST RATIOS

Background

As directed by the Board's Decision in its 2009 cost of service proceeding (EB-2008-0222 and EB-2008-0223), CNPI adjusted the revenue-to-cost ratio for the Residential, Unmetered Scattered Load, Sentinel Lighting, Street Lighting and General Service < 50 kW rate classes to the closest boundary of the Board's policy. CNPI applied the net revenue from these customer rate classes to the General Service > 50 kW rate class.

Submission

Board staff submits that the proposed revenue-to-cost ratio adjustments are in accordance with the Board's findings in its EB-2008-0222/EB-2008-0223 Decision.

DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNTS AS PER THE EDDVAR REPORT

Background

For purposes of the 2011 IRM applications, the EDDVAR Report requires a distributor to determine the value of its December 31, 2009 Group 1 Deferral and Variance account balance and determine whether the balance exceeds the preset disposition threshold of \$0.001 per kWh using the 2009 annual kWh consumption reported to the Board. When the preset disposition threshold is exceeded, a distributor is required to file a proposal for the disposition of Group 1 account balances (including carrying charges) and include the associated rate riders in its 2011 IRM Rate Generator for the disposition of the balances in these accounts. The onus is on the distributor to justify why any account balance in excess of the threshold should not be cleared.

CNPI requested that the Board review and approve the disposition of the December 31, 2009 balances of Group 1 Deferral and Variance accounts for each of the Fort Erie and Eastern Ontario Power service areas as defined by the EDDVAR report.

In the Fort Erie service area, the total balance of the Group 1 accounts is a debit of \$824,712. CNPI has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2011. This amount results in a total claim per kWh of 0.002912. Debit balances are amounts recoverable from customers.

In the Eastern Ontario Power service area, the total balance of the Group 1 accounts is a credit of \$104,289. CNPI has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2011. This amount results in a total claim per kWh of (0.001710). Credit balances are amounts payable to customers.

CNPI proposed to dispose of its Group 1 account balances, from both service areas, over a one-year period.

CNPI proposed to dispose the global adjustment sub-account balance from all customers in the affected rate class.

Submission

Board staff notes that in CNPI's 2010 IRM Decision (EB-2009-0216 and EB-2009-0217), the Board was concerned about the difference between the amount sought for disposition and the balances reported in CNPI's Reporting and Record-keeping Requirements ("RRR") data. The Board decided to approve the disposition of December 31, 2008 Group 1 account balances and projected interest to April 30, 2010 as reported by CNPI, but not on a final basis. The Board directed CNPI that any adjustment to the 2008 Group 1 account balances be brought forward to the Board in CNPI's next rate proceeding.

Board staff notes that CNPI did not specifically address this matter in its current application. It is unclear to Board staff whether adjustments were made in relation to

the December 31, 2008 Group 1 account balances approved for disposition on an interim basis in CNPI's 2010 IRM application. Board staff requests that CNPI specifically address this matter in its reply submission.

With respect to the disposition of the global adjustment sub-account balance, the Board in its Decision and Order in CNPI's 2010 IRM applications (EB-2009-0216 and EB-2009-0217) agreed in principle with Board staff that a separate rate rider should apply to non-RPP customers to dispose of the global adjustment sub-account balance. The Board however acknowledged that CNPI does not readily have the billing capability to implement such a change. Considering CNPI's current billing constraints, the Board approved the disposition of the allocated global adjustment sub-account balance from all customers in the affected rate class. The Board however directed CNPI to further investigate and report to the Board in a proceeding no later than the rebasing proceeding, CNPI's projection of the costs that it would need to incur in order to accommodate the establishment of a separate rate rider to dispose of the global adjustment sub-account.

In response to Board staff interrogatory #5a (Fort Erie) and #4a (Eastern Ontario Power), CNPI indicated that it is currently updating the customer billing architecture within its customer service system to accommodate the Smart Meter Initiative and Time of Use billing. CNPI also indicated its intention to be capable of implementing a separate rate rider to dispose of the global adjustment sub-account coincident with this upgrade. CNPI anticipates that this upgrade to its customer billing system will be fully implemented no later than the first quarter of 2012.

With respect to the December 31, 2009 Group 1 account balances, Board staff notes that the principal amounts to be disposed as of December 31, 2009 reconcile with the amounts reported as part of the RRR. Board staff therefore submits that the amounts should be disposed on a final basis subject to the Board's determination regarding the December 31, 2008 Group 1 account balances. Board staff also submits that CNPI's

proposal to dispose of its Group 1 Account balances over a one-year period is in accordance with the EDDVAR Report.

SMART METER FUNDING ADDER

Background

CNPI is requesting an increase to its smart meter funding adder from \$1.00 to \$2.45 per metered customer per month. CNPI used a weighted average of its three service areas (i.e. Port Colborne, Fort Erie, and Eastern Ontario Power) to calculate the proposed smart meter funding adder of \$2.45 per metered customer per month. CNPI indicated its intention to seek approval for harmonized rates for its three service areas. As a result, CNPI is proposing a uniform smart meter funding adder for the three service areas. The calculation of the proposed average smart meter funding adder is found below:

Description	Fort Erie Amount	Port Colborne Amount	Gananoque Amount	Total Amount
Revenue Requirement - 2006	-	-	-	-
Revenue Requirement - 2007	-	-	-	-
Revenue Requirement - 2008	-	-	-	-
Revenue Requirement - 2009	116,308.21	71,919.94	\$ 6,624.76	194,852.91
Revenue Requirement - 2010	308,249.05	219,846.43	\$ 59,618.84	587,714.33
Revenue Requirement - 2011	342,740.89	273,398.85	\$ 163,430.06	779,569.80
Total Revenue Requirement	767,298.16	565,165.22	229,673.65	1,562,137.03
Smart Meter Rate Adder Collected	(386,723.43)	(228,198.98)	(86,730.58)	(701,652.99)
Carrying Cost / Interest	(12,091.33)	(7,266.57)	(2,699.56)	(22,057.47)
Proposed Smart Meter Recovery	368,483.39	329,699.67	140,243.51	838,426.58
2011 Expected Metered Customers	15,776	9,212	3,546	28,534
Proposed Smart Meter Rate Adder	1.95	2.98	3.30	2.45

CNPI is not seeking approval for capital and operating costs incurred to date or in 2011 in this application, but will track the revenues received from the funding adder and the actual costs incurred, in the established smart meter related deferral accounts for review and disposition in a subsequent application.

Submission

In response to Board staff interrogatory #7a (Fort Erie) and #6a (Eastern Ontario Power), CNPI confirmed that following a prudence review, the difference between the approved revenue requirement and the revenue collected through the smart meter funding adder, for each of CNPI's service areas, would either be collected or returned to affected ratepayers. When asked about the benefits of proposing a harmonized smart meter funding adder, CNPI indicated that since it intends to request harmonized rates in its next cost of service application, this proposal would contribute to stabilizing rates through the IRM period and into the next cost of service rate year.

Board staff notes that in the Fort Erie service area, CNPI's current bill impact for the Residential class using 800 kWh per month, with the smart meter funding adder of \$2.45 per metered customer per month, is an increase of 1.4%. However, if CNPI were to use the \$1.95 smart meter funding adder, which was calculated with the Smart Meter Rate Calculation Model, the bill impact would be an increase of 0.9%.

Board staff also notes that in the Eastern Ontario Power service area, CNPI's current bill impact for the Residential class using 800 kWh per month, with the smart meter funding adder of \$2.45 per metered customer per month, is an increase of 4.1%. However, if CNPI were to use the \$3.30 smart meter funding adder, which was calculated with the Smart Meter Rate Calculation Model, the bill impact would be an increase of 4.9%.

Board staff notes that all other things being equal, were the Board to approve the proposed \$2.45 smart meter funding adder, this would create excess revenue for the Fort Erie service area and a revenue shortfall for Eastern Ontario Power service area at the time that CNPI's smart meter variance accounts are being disposed of (presumably in CNPI's next cost of service application). This is so since Board staff understands that CNPI will continue to track its smart meter costs and revenue generated through the

smart meter funding adder in separate variance accounts for each of CNPI's service areas. As a result, Board staff submits that a service area specific smart meter funding of \$1.95 for the Fort Erie service area and \$3.30 for the Eastern Ontario Power service area would be more appropriate.

All of which is respectfully submitted