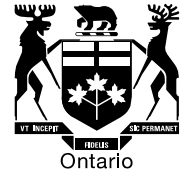


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BY EMAIL

February 4, 2011

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: Northern Ontario Wires Inc.
2011 IRM3 Distribution Rate Application
Board Staff Submission
Board File No. EB-2010-0103**

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 Northern Ontario Wires Inc. and to all other registered parties to this proceeding.

In addition please remind Northern Ontario Wires Inc. that its Reply Submission is due by February 24, 2011.

Yours truly,

Original Signed By

Lawrie Gluck
Analyst, Applications & Regulatory Audit

Encl.



ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

2011 ELECTRICITY DISTRIBUTION RATES

NORTHERN ONTARIO WIRES INC.

EB-2010-0103

February 4, 2011

Introduction

Northern Ontario Wires Inc. (“Northern Ontario Wires”) filed an application (the “Application”) with the Ontario Energy Board (the “Board”), received on November 19, 2010, under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the distribution rates that Northern Ontario Wires charges for electricity distribution, to be effective May 1, 2011. The Application is based on the 2011 3rd Generation Incentive Regulation Mechanism (“IRM”).

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 Northern Ontario Wires.

In the interrogatory phase, Board staff identified certain discrepancies in the data entered in the application model by Northern Ontario Wires. In response to Board staff interrogatories which requested either a confirmation that these discrepancies were errors or, an explanation supporting the validity of the original data filed with the Application, Northern Ontario Wires confirmed that they were errors and provided the corrected data. Board staff will make the necessary corrections to Northern Ontario Wires’ models at the time of the Board’s decision on the Application.

Board staff makes submissions on the following matters:

- Smart Meter Funding Adder;
- Deferral and Variance Account Disposition; and
- Request for New Service Charges.

Smart Meter Funding Adder

Background

Northern Ontario Wires completed the Smart Meter Rate Calculation Model (“Model”) found on the Board’s website. Northern Ontario Wires included the revenue requirement of the smart meters installed to date and the revenues collected from its current smart meter funding adder of \$1.00 per metered customer per month. The Model calculated a proposed smart meter rate adder of \$7.86 per metered customer per month. In its Manager’s Summary, Northern Ontario Wires indicated that it was concerned about the impact of such an adder on its customers. As an alternative, Northern Ontario Wires proposed a rate adder of \$5 per metered customer per month.

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

Submission

In Board Staff Interrogatory No. 1, Board staff asked Northern Ontario Wires to explain why its total smart meter capital costs per meter appeared to be high in comparison to other selected Ontario electricity distributors. Northern Ontario Wires explained that due to its size, remote location, and the distance between its service areas its capital cost and operating expenses are higher than urban and larger size distributors.

Board staff notes that the total bill impact attributable to this proposed change alone (keeping all other proposals in the 2011 IRM3 Rate Generator Model as filed) is 4% for the residential class. Board staff notes that the Board may wish to consider whether an impact of greater than 2% is appropriate given that the funding adder is only a temporary funding tool intended to bridge the gap leading up to the next rebasing application or standalone application involving a prudence review of incurred costs for installed smart meters. Board staff notes as an alternative, a \$3.00 per metered customer per month adder would lead to a bill impact of 2% for the residential class. However, it is further noted that the proposed \$5 per metered customer per month is already a significant reduction from the number calculated by Northern Ontario Wires using the Model. In its reply submission, Northern Ontario Wires may wish to identify any implications if a lower funding adder from the level applied for, were approved.

Deferral and Variance Account Disposition

Background

For purposes of the 2011 IRM applications, the Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (the "EDDVAR Report") requires a distributor to determine the total 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.

Northern Ontario Wires has requested that the Board review and approve the disposition of the December 31, 2009 balances of Group 1 Deferral and Variance accounts as defined by the EDDVAR report. The total balance of the Group 1 accounts, excluding the 1588 global adjustment sub-account is a credit of \$432,517. The balance in the 1588 global adjustment sub-account is a debit of \$188,271. The total balance for all Group 1 accounts is a credit of \$244,246, this balance results in a total claim per kWh of \$(0.001977), which exceeds the Board prescribed disposition threshold. Northern Ontario Wires has included interest, using the Board's prescribed interest rates, on these account balances up to April 30, 2011. Credit balances are amount refundable to customers while debit balances are amounts recoverable from customers.

Northern Ontario Wires has proposed to dispose of its Group 1 account balances over a one-year period.

Submission

With regard to its 2011 deferral and variance account balances, Board staff notes that there are no material differences between the principal amounts applied for disposition as of December 31, 2009 and the amounts reported as part of the Reporting and Record-keeping Requirements ("RRR"). Board staff therefore submits that the amounts should be disposed on a final basis. Board staff also submits that Northern Ontario Wires' proposal for a one year disposition period for its Group 1 account balances is in accordance with the EDDVAR Report.

Global Adjustment Sub-Account Disposition

Background

Northern Ontario Wires proposed to dispose of its global adjustment sub-account debit balance of \$188,271 as of December 31, 2009 including the applicable interest to April 30, 2011 by means of a separate rate rider that would prospectively apply to non-RPP customers.

Submission

Board staff notes that Northern Ontario Wires did not seek disposition of its Group 1 account balances in its 2010 application since the preset disposition threshold was not exceeded. Therefore, the disposition of the global adjustment sub-account was not an issue in that proceeding.

Board staff submits that Northern Ontario Wires' proposal to dispose of the global adjustment sub-account by means of a separate rate rider that would prospectively apply to non-RPP customers is consistent with previous Decisions from the Board in this regard. Therefore, Board staff has no issues with Northern Ontario Wires' proposal.

Request for New Service Charges

Background

Northern Ontario Wires requested the addition of the following three Customer Administration Service Charges;

- 1) Statement of Account - \$15
- 2) Account History - \$15
- 3) Request for Other Billing Information - \$15.

In response to Board staff interrogatory #4, Northern Ontario Wires stated that the establishment of these charges would allow it to offset administration costs associated with providing customers various account and billing information requested by the customer.

Submission

Board staff notes that all three of the service charges requested by Northern Ontario Wires are at the standard level included in the Board's 2006 Electricity Distribution Handbook (the "Handbook"). The level and type of charges being requested have therefore been previously approved by the Board. However, Board staff submits that an IRM application is not the appropriate venue to request adjustments or additions to a distributor's service charges. Notwithstanding the fact that the applicant has requested the default values from the Handbook, Board staff submits that in order for the Board to be in a position to make a determination on the reasonableness of this request, the distributor would need to undergo an examination of its cost and revenue forecasts to ensure that there is no duplication of cost recovery. Board staff concludes that this proposal should be addressed in Northern Ontario Wires next cost of service application, which is scheduled for 2013.

All of which is respectfully submitted.