



ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Northern Ontario Wires Inc.

EB-2007-0853

January 14, 2008

INTRODUCTION

Northern Ontario Wires Inc. (“NOW”) submitted an application on October 30, 2007, seeking approval for changes to the rates that NOW charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On November 16, 2007, NOW filed an addendum proposing adjustments to its retail transmission service rates.

The purpose of this document is to provide the Ontario Energy Board (the “Board”) with the submissions of Board staff after its review of the evidence submitted by NOW.

RETAIL TRANSMISSION SERVICE RATES ADJUSTMENT

Background

In its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates (RTR) and disposition of the associated variance account balances in its 2008 Cost of Service or Incentive Rate Mechanism application, as applicable.

NOW proposes to reduce its RTR — Network Service Rate by 18.4% and its RTR — Line and Transformation Connection Service Rate by 5.2% for all its rate classes. NOW also proposes to dispose of the balance in variance account 1586 including accumulated interest as of December 31, 2006 (a credit of \$1,077,166) over a four-year period from May 1, 2008, to April 30, 2012.

Discussion and Submission

To derive their proposed RTR adjustments, NOW calculated the percentage decrease in the wholesale transmission rates resulting from the Board Rate Order dated October 17, 2007 (EB-2007-0759). Since the Wholesale Network Rate decreased by 18.4%, NOW is proposing that the RTR — Network Service Rate also be reduced by 18.4%, for all customer rate classes. The percentage reduction in the combined Wholesale Line Connection Rate and Transformation Connection Rate is 5.2%, which is the basis for NOW proposing that the RTR — Line and Transformation Connection Service Rate be reduced by 5.2% for all customer rate classes.

NOW writes that they erroneously under-reported the balance of account 1586 (RSVA Retail Transmission Connection Charge) in their “2006 Application” with the implication that the account “still remains in a significant credit position.” They propose to dispose of the credit balance of \$1,077,166 as at December 31, 2006 (which includes a provision for interest up to December 31, 2006) over a four-year period starting May 1, 2008. Board staff notes that, based on NOW’s unaudited RRR filing, the balance of account 1586 as at December 31, 2006, is a credit of \$863,186 (including interest up to December 31, 2006). It is not clear why those figures are inconsistent.

NOW proposes that the resulting rate reduction to dispose of account 1586 be embedded within the newly proposed RTR — Line and Transformation Service Rate. NOW also mentions that a four-year repayment period is being proposed “since the balance in this account has been accumulating since 2002.” Board staff notes that the inclusion of this variance account disposition within the newly proposed RTR — Line and Transformation Service Rate reduces this rate further by approximately 47%. Board staff also notes that an omission with regard to the kWh consumption of the Unmetered Scattered Load in the calculation of the rate rider resulted in a rate rider of \$0.0000/kWh for this rate class.

Usual practice for disposing of variance and deferral accounts in the electricity sector is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year. The disposition of deferral and variance account balances are also generally dealt with in aggregate rather than clearing a single account.

The Board may wish to consider whether the disposition of deferral and variance account balances should be dealt with collectively rather than individually since some accounts may contain debit balances while others have credit balances. For instance, the balance in account 1588 (RSVA — Power) as at December 31, 2006, is a debit of \$1,174,969, more than offsetting the credit as at December 31, 2006, in account 1586. Disposing of all RSVA accounts at the same time would minimize fluctuations in amounts refunded to or collected from customers through deferral and variance account disposition. Given that one of the intents of the Incentive Regulation Mechanism was to provide a streamlined process for setting rates, the Board may wish to consider waiting for the review of the disposition of all RSVA accounts until such time as NOW applies to be rate rebased, which is scheduled to occur in 2009.

Were the Board to consider the proposed disposition of account 1586 in this application, the interest calculation should be adjusted coincident with the clearance of the accounts. Moreover, the Board typically disposes of these accounts through a rate rider and not embedded in the rate itself. Finally, Board staff does not understand why a credit balance accumulated over a four-year period requires that it be disposed over the same four-year period. The Board could consider how the disposition period could be used to mitigate adjustments to rates over time.

All of which is respectfully submitted.