Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Canadian Niagara Power Inc. – Port Colborne

EB-2007-0842

January 21, 2008

INTRODUCTION

Canadian Niagara Power Inc. – Port Colborne (CNPI – Port Colborne) submitted an application on October 29, 2007, seeking approval for changes to the rates that CNPI – Port Colborne charges for electricity distribution, to be effective May 1, 2008. The application is based on the 2008 Incentive Regulation Mechanism. On December 11, 2007, CNPI – Port Colborne 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 CNPI – Port Colborne.

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.

CNPI – Port Colborne proposes to reduce its RTR to reflect both the reduction in the Uniform Transmission Rate, and disposition of accounts 1584 and 1586. This results in an overall reduction of the RTR - Network Service Rate of 44.82%, and a reduction in the RTR - Line and Transformation Connection Service Rate of 3.61%.

Discussion and Submission

To derive their proposed RTR adjustments, CNPI – Port Colborne first calculated its wholesale transmission revenue requirement by identifying the IESO and Hydro One Networks Inc. transmission charges for the previous 24 months. Monthly averages were used to normalize the invoiced amounts. CNPI – Port Colborne then adjusted downward the wholesale transmission revenue requirement for the Network Service Charge and the Connection Service Charge by their respective percentage reduction in the Uniform Transmission Rates. Therefore, the revenue requirement for the Network Service Rate was reduced by 18.4%, and the revenue requirement for the Connection Service Rate was reduced by 5.2%.

The new wholesale transmission revenue requirement for the period of May 1, 2008 to April 30, 2009 was then further adjusted to reflect the disposition of accounts 1584 and 1586. CNPI – Port Colborne reports that as of October 31, 2007, account 1584 had a credit balance of $202,455, and account 1586 had a debit balance of $42,105, including interest in both cases. CNPI – Port Colborne also estimated that for the period of November 1, 2007 to April 30, 2008, account 1584 would have a credit balance of $98,170 and account 1586 would have a credit balance of $25,618. The totals of each account requiring disposition are therefore, a credit balance of $300,325 in the case of account 1584, and a debit balance of $16,487 in the case of account 1586.

The 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 discrete accounts.

As noted above, in its letter dated October 29, 2007, the Board directed each distributor to propose an adjustment to their retail transmission rates and disposition of the associated variance account balances. However, the Board may wish to consider whether the disposition of deferral and variance account balances should be dealt in aggregate rather than individually since some accounts may contain debit balances while others have credit balances. Disposing of all Retail Settlement Variance Accounts (RSVA) 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 deferral and variance accounts until such time as CNPI – Port Colborne applies to be rate rebased, which is scheduled to occur in 2009.

In addition, as noted above, CNPI – Port Colborne proposes to adjust retail transmission rates to reflect both the reduction in the Uniform Transmission Rate, and disposition of accounts 1584 and 1586. Staff notes that the Board typically deals with the clearance of deferral and variance accounts through rate riders that are not incorporated into the rate itself. Parties are invited to comment on the advantages and disadvantages of the rate rider approach.

BILL IMPACTS

Background

In its application, CNPI – Port Colborne reported that the bill impact for the Street Lighting Class may exceed 10% for certain consumption profiles due to the removal of the regulatory asset rate riders. In response to Board staff interrogatories, CNPI – Port Colborne clarified that a typical Street Lighting customer would experience a 16.2% increase in the monthly bill, but that with the proposed adjustments to retail transmission rates, the bill impact for a typical Street Lighting customer would be 13.7%. CNPI – Port Colborne also reported that it would be amenable to working with the Board to mitigate the rate impact for the Street Lighting class.

Discussion and Submission

Staff notes that if the Board were not to allow the disposition of the variance accounts as part of this rate adjustment process, the reduction in CNPI – Port Colborne's retail transmission rates would be less than that proposed by CNPI – Port Colborne. As such, the bill impact for a typical Street Lighting customer would be less than 16.2%, but greater than 13.7%.

Parties may want to comment on how the Board may consider rate mitigation measures to address the rate impact for the Street Lighting class since it would be in excess of the 10% threshold used in the 2006 EDR.

All of which is respectfully submitted.