Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2008 ELECTRICITY DISTRIBUTION RATES

Canadian Niagara Power Inc. – Fort Erie

EB-2007-0839

January 21, 2008

INTRODUCTION

Canadian Niagara Power Inc. – Fort Erie (CNPI – Fort Erie) submitted an application on October 29, 2007, seeking approval for changes to the rates that CNPI – Fort Erie 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 – Fort Erie 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 – Fort Erie.

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 – Fort Erie 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 19.70%, and a reduction in the RTR- Line and Transformation Connection Service Rate of 1.06%.

Discussion and Submission

To derive their proposed RTR adjustments, CNPI – Fort Erie 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 – Fort Erie 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 – Fort Erie reports that as of October 31, 2007, account 1584 had a debit balance of $124,107, and account 1586 had a debit balance of $94,075, including interest in both cases. CNPI – Fort Erie also estimated that for the period of November 1, 2007 to April 30, 2008, account 1584 would have a credit balance of $146,053 and account 1586 would have a credit balance of $35,429. The totals of each account requiring disposition are therefore, a credit balance of $21,946 in the case of account 1584, and a debit balance of $58,646 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 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 – Fort Erie applies to be rate rebased, which is scheduled to occur in 2009.

In addition, as noted above, CNPI – Fort Erie 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 asked to comment on the advantages and disadvantages of the rate rider approach.

All of which is respectfully submitted.