

IN THE MATTER OF the *Ontario Energy Board Act*, 1998, being Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by the Niagara West Transformation Corporation to the Ontario Energy Board for an Order or Orders pursuant to section 78 of the Ontario Energy Board Act, 1998 for 2011 electricity rates for transmission transformation connection service.

**REPLY SUBMISSION OF NIAGARA WEST
TRANSFORMATION CORPORATION**

DELIVERED JULY 25, 2011

Introduction & Overview

1. The Ontario Energy Board (“OEB” or “Board”) recently granted a 20 year renewal of the transmitter license for Niagara West Transformation Corporation (“NWTC”), which is now seeking a rate order from the OEB regarding the transformation of electricity for its two customers, Grimsby Power Incorporated (“GPI”) and the former Peninsula West Utilities Limited (now part of Niagara Peninsula Energy Inc. – “NPEI”).
2. This reply will address certain arguments of the Board Staff and the two Intervenors. However, a lack of reply to a particular argument does not imply NWTC’s agreement. Further, this reply is not intended to summarize all of the evidence filed to date.
3. Board Staff and the Intervenors have addressed both rate issues and licensing matters. As this is a rate application, NWTC submits that the OEB should confine itself to the rate issues.
4. In raising licensing matters, certain broad, sweeping statements have been made regarding NWTC’s competence, which are unfair to NWTC and will be specifically addressed below. In the interim, NWTC has provided years of reliable service to its customers without complaint. Further, the rationale for the NWTC Transformer Station (the “Station”) is as pressing and vital today as it was when the OEB granted NWTC its first licence.

5. As indicated by Board Staff ¹ this is a rates case and the “chief task of the Board will be to establish the appropriate revenue requirement and set a just and reasonable rate.” NWTC agrees with Board Staff that if the OEB feels another process is warranted, it can be initiated. This is the preferred approach for any number of reasons, not the least of which is the procedural fairness it will afford all the parties, especially NWTC. Quite simply, a rates hearing is not the appropriate forum to discuss licensing issues, as the focus of the parties (certainly NWTC) is on the rationale for the hearing – rates.
6. For this reason, while NWTC disputes the broad criticisms in the IESO submission, it will not be addressing them in this reply.
7. By way of clarification, in its submission, the Independent Electricity System Operator (“IESO”), in setting out the background of NWTC, queried whether GPI still has an interest in NWTC.² While GPI, the LDC, has no ownership interest in NWTC, the Grimsby holding company, Niagara Power Inc., holds a 50% ownership interest in NWTC. The other half of NWTC is owned by Peninsula West Power Inc., the holding company for the former Peninsula West Utilities Limited.

Load Forecast and Revenue Requirement

8. NWTC agrees with Board Staff that the two key elements in setting an appropriate rate are the load forecast and the revenue requirement.³
9. The 2011 load forecast proposed by NWTC was 432,175kW. Board Staff requested that NWTC recalculate the forecast using a different approach, which yielded a “slightly higher” value of 435,343kW.⁴ NWTC is content with either value.

Revenue Requirement

Operating and Administration Expenses: Insurance

10. Board Staff expressed concern regarding an increase in the NWTC insurance premium and stated that NWTC has an onus to demonstrate the reasonableness of its proposed expenses.⁵

¹ Board Staff Submission, page 14

² IESO Submission, page 4

³ Board Staff Submission, page 5

⁴ Board Staff Submission, pages 5-7

11. In raising this concern, Board Staff referred to the Interrogatories and the Technical Conference; however, no mention was made of undertakings given at the Technical Conference. The response to undertaking JT1.2 contained a letter to Tony Quick, VP Administration, NWTC, from the NWTC insurer, The MEARIE Group (“MEARIE”), dated November 20, 2009, which, among other items, provided the rationale for the premium increase and demonstrated the diligence of NWTC in pursuing the increase in this expense item.
12. The November 20, 2009 letter stated that MEARIE had a “very difficult year from a claims perspective” and cited factors such as the age of insured transformers (more than half of the transformers insured by MEARIE are at least 30 years old). Due to the aggravating factors cited in the letter, MEARIE advised that “...most property Subscribers will see their rates increase by approximately 100%”. However, it also stated that “...our policy remains competitive and appropriate for your business.”
13. NWTC, like many electrical utilities in Ontario, insures with MEARIE for cogent business reasons, which include:
 - a. MEARIE is the only Canadian insurance supplier dedicated to the electricity sector;
 - b. MEARIE has superior knowledge of the electricity sector, governance, customers and owners;
 - c. Comprehensive product coverage not readily available in commercial markets;
 - d. Zero dollar deductible option for the Liability program;
 - e. Rates truly reflect member experience as there is no pooling of risk with other industries.

Operating and Administration Expenses: Regular Maintenance (Rondar)

14. Maintenance at the NWTC Station is undertaken by Rondar and was questioned by Board Staff interrogatory 5. At page 9 of its submission, Board Staff stated that “while the Rondar contract appears to be comprehensive, its cost variability from year to year is too high for rate stability.” It also provided a three line quote from the NWTC answer to interrogatory 5, which dealt with the cost increase between years two and three of the Rondar contract.

⁵ Board Staff Submission, page 8

15. However, a review of the entire answer to interrogatory 5 indicates that NWTC initially contracted with another maintenance supplier and was not particularly satisfied. NWTC changed providers by contracting with Rondar for 5 years, with a savings of 23% in costs. Also, Rondar has a local laboratory to conduct oil testing.
16. Inspection and testing related to the Station have been undertaken during the first 2 years of the Rondar contract. Year three of the Rondar maintenance contract (i.e. 2011) covers considerably more work and thus the contract cost is correspondingly higher. The interrogatory response then lists the eleven points of the 2011 maintenance program, which Board Staff considered “comprehensive”.
17. Board Staff concluded this section of its submission by speculating on the nature of NWTC and the volatility of the Rondar maintenance costs. NWTC is of the view that this is unhelpful. The responses to Board Staff interrogatories 5 and 12 demonstrate that NWTC:
 - a. was completely aware of the issue of maintenance costs and service value;
 - b. changed suppliers to benefit its customers by saving 23% in costs;
 - c. deferred more expensive portions of the contract to the third year of the contract thus saving money (due to the time value of money) and
 - d. obtained greater certainty regarding the work to be undertaken after the inspections conducted during the first two years of the Rondar contract.
18. NWTC is fully aware of its responsibilities regarding costs, in general, and maintenance costs in particular, and has taken appropriate steps to address this issue.

Operating and Administration Expenses: Monitoring

19. At page 9 of its submission, Board Staff referred to an interrogatory response⁶ and then questioned the increase in Hydro One costs to monitor the Station between 2007 and 2008.
20. While the submission noted the higher cost in the first sentence of the response, it did not refer to the second sentence, which states:

“This is a unique service that can only be provided by Hydro One which means it is a cost that is out of the control of NWTC.”

⁶ NWTC response to Board Staff Interrogatory 13(b).

21. Despite the fact that this is a cost item for a service which can only be provided by Hydro One (which does not share its business plan with NWTC), Board Staff continued by making reference to the Technical Conference and then expressed a concern regarding a “lack of basic information of that essential service.”
22. To support that assertion, Board Staff cited three points. However, the first and third points are essentially the same – the lack of documentation regarding the Hydro One services. But the purported lack of documentation does not detract from the fact that the service is essential and can be provided by only a regulated entity, Hydro One, which has done so since the inception of NWTC. Also, as indicated in the Hydro One email below, Hydro One is of the view that an “Operating Services Agreement” exists between the parties.
23. The second point cited by Board Staff related to the lack of information, available to the NWTC witnesses at the Technical Conference, for the increase in the Hydro One monitoring costs. Board Staff goes on to say that NWTC should have at least made an enquiry of Hydro One.
24. Such an enquiry was made. The Hydro One answer is contained in an email to NWTC dated July 15, 2007, which references the “Operating Services Agreement” for the “Operation of Niagara West MTS” and states that:

“The 2008 contract price of \$27,732 is calculated at 0.5 person hours per day for 365 days per year (15 hours per month), priced at our 2008 commercial labour rate for a Hydro One Controller of \$141/hour.

The increase is [sic] in the contract amount is solely attributable to the increase in the labour rate. The 2008 rate is consistent with other published Hydro One commercial rates which we have found to be comparable with the service factor. I have attached a copy of these rates for your information. The original rate of \$66 did not result in the recovery of our fully allocated costs.”

(See Hydro One email at Appendix “A” to this Reply Submission).
25. Ironically, any such costs from Hydro One are regulated by the OEB. Thus, if Hydro One is required to increase this cost by the OEB (or seeks a cost increase which is approved by the OEB), this must be passed on to NWTC, which has no recourse, as no other entity can provide this service.
26. NWTC notes that Hydro One did not express any concern regarding this expense item in its submission.

27. Board Staff concluded by referring to a lack of “attention to detail”. The fact that the witnesses at the Technical Conference in 2011 did not remember an email from 2007 related to a cost increase of approximately \$15,000 (for an \$8M facility) does not support such an adverse conclusion.

Cost of Capital

28. Board Staff stated it had no issue with the proposed deemed capital structure and cost of capital rates.
29. On page 11 of its submission, Board Staff indicated that it :
- “...has no issue with the capital structure, the proposed short term debt rate, the long term debt rate and the return on equity as it was applied for and clarified in the noted responses to Board Staff interrogatories 16, 17 and 18.”
30. In its submission, Hydro One suggested the actual capital structure of 80% debt and 20% equity should be used to determine the cost of capital for NWTC. In response to this submission, NWTC understands that it is the Board's long standing policy, at least in the case of distribution cost of service rate applications, that a deemed capital structure consisting of 56% long term debt, 4% short term debt and 40% equity should be used for the purposes of determining rates.
31. NWTC submits the Board should maintain this capital structure policy in the approved rate and recognize that NWTC is willing to accept a lower deemed return on equity ("ROE") in order to achieved the proposed rate of \$1.77 per kW.

Proposed Rate

32. As noted by Board Staff, NWTC is prepared to accept a lower ROE⁷. Board Staff went on to note that the Cost of Capital Report recognizes that a utility may seek a rate which is different from the amount derived by applying the standard formula.
33. Also, it noted that two utilities have approved rates which reflect less than full recovery of the allowed ROE. In addressing those two utilities, it noted that in one case there was a long historical relationship and in the other, a municipal policy to mitigate rates. Board

⁷ Board Staff Submission, page 11,12

Staff then stated that “absent unusual circumstances”, it urges caution in allowing a lower ROE over a lengthy period of time.

34. As has been noted in the NWTC Argument in Chief (and concurred in by Hydro One on the initial application in 2004), NWTC does represent an unusual circumstance. Further, there are long historical relationships between NWTC and its customers, as well as between the two customers themselves. Finally, NWTC and its customers are interested in rate structure, as highlighted by Board Staff:

“NWTC indicated that it preferred that its rate match the UTR so that its customers (i.e. NPEI and Grimsby Power) not receive a different price signal.”⁸

35. As addressed in the Technical Conference and elsewhere, NWTC will not have to attract new capital, so the lower ROE will not have a detrimental effect.

Stand Alone Rate vs UTR Participation

36. NWTC has requested a “stand alone” rate of \$1.77/kW. Board Staff indicated it has “no specific objection to this approach”.

37. On page 2 of its submission, Hydro One submits the NWTC reference price should be \$1.73 kW:

“As discussed at Technical Conference Transcript 52 – 54, if NWTC’s customers were receiving transformation service from Hydro One instead of effectively self-providing that service through NWTC, they would pay the pool rate of \$1.77, and the difference between the pool rate and Hydro One’s cost to provide service of \$1.73 would contribute to keeping the pool rate lower for all participants.”

38. It is NWTC’s view that this submission is unfounded. Based on information provided in response to Board staff 24 and assuming NWTC was part the UTR pool pricing methodology, the following table (which outlines how the unit rates by transmitter would contribute to the pool price) counters the assertion of Hydro One.

⁸ Board Staff Submission, page 11, 12

39.

Revenue Requirement				
Transmitter	Network	Line Connection	Transformation Connection	Total
FNEI	\$4,306,935	\$1,020,593	\$1,957,135	\$7,284,663
CNPI	\$2,727,030	\$646,211	\$1,239,202	\$4,612,443
GLPT	\$19,900,913	\$4,715,822	\$9,043,268	\$33,660,003
H1N	\$767,870,937	\$181,958,610	\$348,931,864	\$1,298,761,411
NWTC	\$495,851	\$117,499	\$225,322	\$838,672
All Transmitters	\$795,301,666	\$188,458,735	\$361,396,791	\$1,345,157,192
Total Annual Charge Determinants				
Transmitter	Network	Line Connection	Transformation Connection	
FNEI	187.120	213.460	76.190	
CNPI	583.420	668.600	668.600	
GLPT	4,019.797	2,939.425	1,057.605	
H1N	241,794.994	233,995.528	202,198.429	
NWTC	432.175	432.175	432.175	
All Transmitters	247,017.506	238,249.188	204,432.999	
2011 Uniform Transmission Rate (\$/kW)	3.22	0.79	1.77	

Transmitter Charges (\$/KW) (Transmitter Revenue Requirement/Transmitter Charge Determinants)			
Transmitter	Network	Line Connection	Transformation Connection
FNEI	23.02	4.78	25.69
CNPI	4.67	0.97	1.85
GLPT	4.95	1.60	8.55
H1N	3.18	0.78	1.73
NWTC	1.15	0.27	0.52
All Transmitters	3.22	0.79	1.77

40. This table suggests that if NWTC was part of the UTR pool pricing mechanism it would contribute to keeping the pool rate lower - even more so than Hydro One.
41. However, NWTC submits that having a stand alone proposal of \$1.77 per kW does not impact the pool since NWTC is not part of the pool and provides a price signal to its customers that is consistent with the price they would pay if service was provided from the pool.

42. Board Staff also referred to “larger implications” regarding the UTR rate and smaller transmitters and then went on to state that this is a broader question than Board Staff is able to deal with in the current proceeding.⁹
43. As indicated elsewhere, NWTC agrees with Board Staff regarding the breadth of this question and other licensing questions. This is a rate hearing only. Other proceedings can address broader questions as required by the OEB.

Other Issues

44. As indicated above, any non-rate issues (including the suggestions by Hydro One and IESO that NWTC be deemed a distributor), which the OEB wishes to address, are best left to another proceeding, which is fairer to all parties.
45. In saying this, NWTC does not wish to be misunderstood. NWTC is of the view that it is complying with its various obligations, including properly addressing issues related to incremental versus aggregate load.
46. Further, it is taking appropriate steps related to embedded generation by:
 - a. Issuing Connection Impact Assessments (“CIA”) in conjunction with CIA’s conducted by NPEI and GPI; and
 - b. Advising proponent that connection is not recommended (for the reasons stated in the Argument in Chief) and discussing accommodation (including Station modification costs) with proponents;all of which is pursuant to NWTC policy.
47. In addition, due to the discussions currently underway regarding an alternative business model for NWTC, many of the issues for consideration may end up being resolved.

Conclusion

48. Board Staff concluded by expressing concern about cost increases (singling out insurance and Hydro One monitoring fees) and the lack of NWTC enquiry regarding the increases in these costs.

⁹ Board Staff submission, page 13

49. NWTC is aware of its responsibilities (including those related to costs). It has made enquiries, investigated cost increases and provided reasonable explanations for these increases.
50. The OEB should approve the requested rate of \$1.77/kW.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 25th DAY OF JULY, 2011.

Original Signed by H.Reginald Watson

H. Reginald Watson
Caswell & Watson

APPENDIX "A"

Email from Hydro One (D. McKendrick) to NWTC (B Weber) dated July 15, 2007, re NWTC;
Operating Service Agreement – Operation of Niagara West MTS – 2008 Costs



Email.PDF