

November 7, 2008

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
26th Floor
Toronto, Ontario
Attn: Ms. Kirsten Walli
Board Secretary

Dear Ms. Walli

**Norfolk Power Distribution Inc.
2009 Incentive Regulation Mechanism (IRM) Rate Application
OEB File No. EB-2008-0201**

Norfolk Power Distribution Inc. is pleased to submit to the Ontario Energy Board (“OEB”) its 2009 Incentive Regulation Mechanism (IRM) Rate Application, in compliance with the following:

- Report of the Board on 3rd Generation Incentive Regulation for Ontario Electricity Distributors, issued July 15, 2008
- 3rd Generation Incentive Regulation for Electricity Distributors Issuance of Supplemental Report of the Board, issued September 17, 2008
- Guideline – Retail Transmission Service Rates, issued October 22, 2008
- Guideline – Smart Meter Funding and Cost Recovery, issued October 22, 2008

Further to the Board’s RESS filing guidelines, an electronic copy of our full application will be submitted through the OEB e-Filing Services. Two hard copies of the application will be sent by courier.

We would be pleased to provide any further information or details that you may require relative to this application.

Yours truly,



Alvin E. Allim
Manager of Finance



Norfolk Power Distribution Inc.

2009 Incentive Regulation Mechanism (IRM)
Rate Application

EB-2008-0201

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Introduction

Norfolk Power Distribution Inc. (Norfolk Power) is pleased to submit to the Ontario Energy Board (“OEB”), its 2009 Incentive Regulation Mechanism (IRM) distribution rate application, in compliance with the OEB letter dated September 17, 2008 that directs the company to file its distribution rate application by November 7, 2008. The September 17th letter was accompanied by the OEB’s Supplemental Report on 3rd Generation Incentive Regulation for Ontario’s Electricity Distributors. The Report detailed the Board’s determination of the values for the productivity factor, the stretch factors, and the capital module materiality threshold for use in 3rd Generation IRM. It also sets out the Board’s determination on the issue of tax changes in relation to the Z-factor and includes filing requirements to guide a distributor in the preparation of their rate applications for the 2009 rate year. Information that is provided in the IRM Model will not be repeated in this summary.

Price Cap Adjustment

Under the 3rd Generation IRM plan, Norfolk Power’s distribution rates for 2009 have been adjusted for two factors: a price escalator and an X-factor. The OEB has determined that GDP-IPI – for final domestic demand is to be used as the price escalator for the 3rd Generation IRM. For 2009, the OEB expects Norfolk Power to use, as a proxy, the current value of 2.10% in its application. The IRM Model includes this proxy as a reasonable estimate of the index result. Norfolk Power understands that when the final 2008 data are published by Statistics Canada in late February 2009, the OEB will adjust the inflation index in Norfolk Power’s rate application model, to ensure this final published number is used to adjust rates.

The OEB approved X-factor, has two components: the productivity factor and the stretch factor. The productivity component of the X-factor is intended to be the

external benchmark which all firms are expected to achieve. The stretch factor component of the X-factor is intended to reflect the incremental productivity gains that firms are expected to achieve. The productivity factor and the stretch factor for the 3rd Generation IRM is 0.72% and 0.40%, respectively. The X-factor is applied to reduce the upward adjustment resulting from the GDP-IPI value.

As the result of the federal government announced in an Economic Statement on October 30, 2007 that the federal income tax rates for corporations would be reduced effective January 1, 2008. The 2009 price cap will be adjusted to reflect the new income tax rates. A federal tax rate adjustment of -0.2% is applied to the 2008 rates to address the change in federal income tax rates.

The price cap adjustment will be applied to the Service Charge and Distribution Volumetric Rate (including low voltage charges for embedded distributors), net of existing rate adders and rate rebalancing adjustments as determined necessary by the Board. The price cap adjustment will not be applied to Rate Riders, Retail Transmission Service Rates, Wholesale Market Service Rate, Rural Rate Protection Charge, Standard Supply Service – Administrative Charge, Specific Service Charges, Allowances¹, Retail Service Charges or Loss Factors.

Smart Meter Funding and Cost Recovery

The decision from the Board, dated May 26, 2008, with respect to smart meter funding in Norfolk Power's 2008 Electricity Distribution Rate application, were as follows:

“While the Applicant is still not authorized to deploy smart meters within its service area, the Board considers it prudent to permit the Applicant to collect an increased amount by way of smart meter rate adder in anticipation of that authorization. In the Board's view, increasing the rate adder to \$1.00 per meter going forward will provide the Applicant with funds to support its initial rollout and to avoid rate shock when that occurs, and the

¹ Transformation and primary metering allowances and any other allowances the Board may determine.

Board so orders.”

Norfolk Power provides the following information to the Board with respect to smart meters:

- the estimated number of meters to be installed in the 2009 IRM rate year is 17,745 units
- the estimated costs per installed meter is \$114.19 and in total, \$2,026,261
- Norfolk Power does not anticipate purchasing smart meters or advanced metering infrastructure (“AMI”) whose functionality exceeds the minimum functionality adopted in O. Reg. 425/06. However, Norfolk Power is considering adding remote disconnect and/or load limiting capability to a limited number of meters. The additional cost would be approximately \$70 per meter
- Norfolk Power has not incurred costs associated with functions for which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07

Norfolk Power supports the direction of the Ministry of Energy with respect to the implementation of the Smart Meter program and clearly intends to install smart meters in the 2009 IRM rate year (see attached letter from Util-Assist). Therefore, Norfolk Power is requesting the \$1.00 standard smart meter funding adder to continue in the 2009 IRM rate year.

Revenue to Cost Ratios and Cost Allocation

Norfolk Power submits the following proposal to change the 2009 rates in regards to moving the Revenue to Cost ratios as directed by the OEB in its Decision on 2008 rates dated May 26, 2008 (the "Decision").

In its Decision on Revenue to Cost Ratios, the Board accepted Norfolk Power's proposal to re-balance rates to yield ratios of: Streetlights to 54.3% and Sentinel lights to 47.0%, with the remainder in 2 equal increments in 2009 and 2010 to reach the bottom of the target range of the respective classes. The resulting revenue to cost ratios are outlined in Table 1.

Table 1
2008 Revenue to Cost Ratios

Rate Class	Cost Allocation Study (%)	Proposed by Norfolk Power and Accepted by the Board (%)
Residential	103.8	102.6
GS < 50 kW	96.0	99.1
GS > 50 kW	102.5	98.8
Street Lights	30.7	54.3
Sentinel Lights	19.6	47.0
Unmetered Scattered Load	98.5	100.7

Table 2 outlines the information that supports the revenue to cost ratios from the Cost Allocation Study shown in Table 1.

Table 2
Proposed Revenue to Cost Ratios

Rate Class	Revenue	Cost	Revenue/ Cost Ratio (%)
	A	B	A/B
Residential	\$5,923,902	\$5,709,486	103.8
GS < 50 kW	\$1,805,078	\$1,879,686	96.0
GS > 50 kW	\$1,589,026	\$1,550,295	102.5
Street Lighting	\$58,636	\$191,082	30.7
Sentinel Lighting	\$11,157	\$56,923	19.6
USL	\$21,138	\$21,469	98.5

The following outlines the steps taken by Norfolk Power to adjust rates to reflect the revenue cost ratios as per the Board's Decision for Norfolk Power's 2008

rates. Table 3 outlines the split of revenue by rate class assuming revenue at existing rates (i.e. 2007 rates applied to 2008 forecasted customers and volumes).

Table 3
Split of revenue at existing rates for the 2008 rate application

Rate Class	Revenue Split (%)
Residential	63.8
GS < 50 kW	18.4
GS > 50 kW	17.1
Street Lighting	0.5
Sentinel Lighting	0.1
USL	0.2
Total	100.0

When the above revenue splits were applied to the approved base revenue requirement of \$11,075,379 the resulting revenue by class assuming these splits is outlined in Table 4.

Table 4
Revenue Split assuming revenue at existing rates

Rate Class	Revenue
Residential	\$7,061,555
GS < 50 kW	\$2,036,159
GS > 50 kW	\$1,892,696
Street Lighting	\$56,156
Sentinel Lighting	\$8,853
USL	\$19,961
Total	\$11,075,379

For the purposes of evaluating and moving the revenue to cost ratios in accordance with the Board's Decision, Norfolk Power assumed the above split of revenues would have the same level of subsidization or over recovery as the cost

allocation study indicated. For example, it was assumed that the Street Lighting class revenue of \$56,156 was only recovering 30.7% (i.e as per Table 2) of the costs to service this class, since there had not been any adjustments to revenue for the results of the cost allocation study.

In order to adjust the revenue in accordance with the Board's Decision the revenue in Table 4 was divided by Revenue Cost Ratio in Table 2 and multiplied by the resulting percentage from the Decision as outlined in the Table 1. The resulting revenue by rate class is shown in Table 5.

Table 5
Revenue Split with change to Revenue Cost Ratios as per Decision

Rate Class	Revenue
Residential	\$6,999,229
GS < 50 kW	\$2,106,142
GS > 50 kW	\$1,828,666
Street Lighting	\$99,602
Sentinel Lighting	\$21,275
USL	\$20,465
Total	\$11,075,379

For example, Sentinel Lighting revenue in Table 4 is \$8,853 and it is assumed this class revenue had a revenue cost ratio of 19.6% as per Table 2. In accordance with the Board's Decision, Norfolk Power moved the revenue cost ratio to 47% as per Table 1. This means the new revenue for Sentinel Lighting is \$8,853 divided by 19.6% times 47% or \$21,275.

In order to adjust the 2009 rates in accordance with the Board's Decision on revenue cost ratios using the same method as explained above, Table 6 outlines the proposed percentage changes to base rates

Table 6
Proposed Percentage Change to Base Rate for 2009 Rates

Rate Class	Approved 2008 Base Revenue	Approved 2008 Revenue Cost Ratio (%)	Proposed 2009 Revenue Cost Ratio (%)	Proposed Change to Base Revenue	%Change to Base Rates
	A	B	C	D = (A/B * C) - A	A/B
Residential	\$6,999,229	102.6	102.3	(\$19,697)	(0.28%)
GS < 50 kW	\$2,106,142	99.1	99.1	0	0.00%
GS > 50 kW	\$1,828,666	98.8	98.8	0	0.00%
Street Lighting	\$99,602	54.3	62.2	\$14,491	14.54%
Sentinel Lighting	\$21,275	47.0	58.5	\$5,206	24.47%
USL	\$20,465	100.7	100.7	0	0.00%
Total	\$11,075,379			0	

Table 7 and 8 provide the change to the base rate monthly service charge and volumetric charge to be included in Sheet D1.2 of Norfolk Power's 3GIRM Rate Generator model

Table 7
Change to Base Rate Monthly Service Charge

Rate Class	Base Rate Monthly Service Charge	%Change to Base Rate	\$Change
	A	B	A * B
Residential	\$20.91	(0.28%)	(\$0.06)
GS < 50 kW	\$49.33	0.00%	\$0.00
GS > 50 kW	\$242.37	0.00%	\$0.00
Street Lighting	\$1.60	14.54%	\$0.23
Sentinel Lighting	\$4.90	24.47%	\$1.20
USL	\$26.33	0.00%	\$0.00

Table 8
Change to Base Rate Volumetric Charge

Rate Class	Base Rate Monthly Service Charge	UOM	%Change to Base Rate	\$Change
	A		B	A * B
Residential	\$0.0198	kWh	(0.28%)	(\$0.00006)
GS < 50 kW	\$0.0145	kWh	0.00%	\$0.0000
GS > 50 kW	\$3.8907	kW	0.00%	\$0.0000
Street Lighting	\$5.6166	kW	14.54%	\$0.8167
Sentinel Lighting	\$12.2817	kW	24.47%	\$3.0053
USL	\$0.0155	kWh	0.00%	\$0.0000

Revenue/Cost Summary

Norfolk Power understands that the above method is not consistent with the method used in the 2009 OEB 3GIRM Supplementary Filing Module to adjust base rates for additional changes to revenue cost ratios. However, Norfolk Power submits the method outlined in this submission is another valid method to change revenue cost ratios. This method essentially assumes the 2007 rates, not the revenue, was either over or under contributing to the cost of providing service to the class to the same degree as the rates used to determine revenue in the cost allocation model. The method outlined in the submission takes into consideration changes to number of customers and volumes since the cost allocation study was completed but assumes the over or under contribution of 2007 rates to costs was at the same level as the rates used in the cost allocation study.

Retail Transmission Rates

On August 28, 2008, the Ontario Energy Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new Uniform Transmission Rates (UTR) for Ontario transmitters, effective January 1, 2009. With the change in the UTRs, there is a need to adjust the rates charged by distributors for the corresponding retail transmission service. Norfolk Power provides the following calculations of its proposed retail network service charge (Table 9), retail line connection service charge and transformation connection service charge (Table 10 and 11).

Table 9
Proposed Retail Network Service Charge

Network Service Charge	Current Rate	Proposed Rate
Residential	\$0.0044	\$0.0049
GS<50kW	\$0.0040	\$0.0045
GS>50kW	\$1.6462	\$1.8322
USL	\$0.0040	\$0.0045
Sentinel	\$1.2478	\$1.3888
Street Lights	\$1.2416	\$1.3819

Note: As per G-2008-0001, the Board approved an increase of 11.3% for the Network Service Rate

Table 10
Calculation of Weighted Average Increase for Line Connection Charge and Transformation Connection Charge

	As per Power Invoice from IESO: Line Connection Charge	As per Power Invoice from IESO: Transformation Connection Charge	TOTAL
Nov-07	\$18,539.57	\$15,850.45	\$34,390.02
Dec-07	19,196.24	16,228.80	35,425.04
Jan-08	19,691.25	15,362.62	35,053.87
Feb-08	20,274.17	15,399.65	35,673.82
Mar-08	18,833.39	14,401.45	33,234.84
Apr-08	18,045.15	13,660.85	31,706.00
May-08	16,035.02	12,902.54	28,937.56
Jun-08	22,190.49	16,405.90	38,596.39
Jul-08	22,122.05	17,019.31	39,141.36
Aug-08	21,455.94	16,731.12	38,187.06
Sep-08	21,158.58	18,717.86	39,876.44
	<u>\$217,541.85</u>	<u>\$172,680.55</u>	<u>\$390,222.40</u>

Connection (\$217,541.85 / \$390,222.40)*18.6%	10.4%
Transmission (\$172,680.55 / \$390,222.40)*0.6%	0.3%
Weighted Average Increase	<u>10.6%</u>

Note: As per G-2008-0001, the Board approved an increase of 18.6% for the Line Connection Service Rate and 0.6% for the Transformation Connection Service Rate. However, since these two rates are combined into a single retail rate to the customer, it is necessary to derive an overall increase of the two rates based on a weighted average.

Table 11
Proposed Retail Line Connection Charge and Transformation Connection Charge

Connection and Transmission Service Charge	Current Rate	Proposed Rate
Residential	\$0.0044	\$0.0049
GS<50kW	\$0.0039	\$0.0043
GS>50kW	\$1.5469	\$1.7109
USL	\$0.0039	\$0.0043
Sentinel	\$1.2209	\$1.3503
Street Lights	\$1.1959	\$1.3227

Conclusion

The proposed 2009 distribution rates for Norfolk Power are shown in Sheet N1.1, 2009 Tariff Sheet of the IRM Model and the resulting bill impacts are shown in sheet O2.1. The bill impact for a residential customer in Norfolk County with a monthly electricity consumption of 1000 kWh, will decrease by 1.0% or \$1.37 per month before GST.

We would be pleased to provide any further information or details that you may require relative to this application.

All of which is respectfully submitted,

(original signed)

Alvin E. Allim
Manager of Finance

October 20, 2008

Office of Consumer and Regulatory Affairs
Ontario Ministry of Energy & Infrastructure
880 Bay Street, 3rd Floor
Toronto, ON M7A 2C1

Attn: Usman Syed, Senior Advisor

Re: Status of Smart Meter Procurement

On behalf of Niagara Erie Power Association (NEPA) group of utilities, this letter is in response to your request for the status of each of the NEPA utilities' respective Smart Meter Procurements. The NEPA group includes the following utilities:

- Brant County Power Inc.
 - Brantford Power Inc.
 - Canadian Niagara Power Inc.
 - Grimsby Power Incorporated
 - Haldimand County Hydro Inc.
 - Horizon Utilities Corporation
 - Niagara-on-the-Lake Hydro Inc.
 - Niagara Peninsula Energy Inc.
 - Norfolk Power Distribution Inc.
 - Welland Hydro Electric System Corp.
- The NEPA group has entered into negotiations with Sensus, their number one vendor selected through the London Hydro RFP process.
 - The NEPA group is in the process of finalizing negotiations and expect to have a signed contract in January 2009.
 - The NEPA group is scheduled to deploy all required meters between March 2009 and July 2010.

I trust this addresses the information requested. If there is anything else you require, please do not hesitate to contact Util-Assist at 905.967.0770.

Yours truly,



James Douglas
President