Northern Ontario Wires (NOW)

2009 Electricity Rate Application

Board File No. EB-2008-0238

VECC's Interrogatories

Question #1

Reference: i) Exhibit 1/Tab 1/Schedule 5

a) Please confirm that NOW is not requesting any new deferral or variance accounts as part of this Application.

NOW is not requesting any new deferral or variance accounts.

Question #2

Reference: i) Exhibit 1/Tab 1/Schedule 13

a) Please describe NOW's corporate organizational structure (i.e., it parent and affiliates).

NOW ownership was/is as follows:

	Up to October 2008 (pending OEB approval)	Effective October 2008 (pending OEB approval)
Corporation of the Town of Cochrane	66 & 2/3%	100%
Corporation of the Town of Iroquois Falls	33&1/3%	Nil
TOTAL	100%	100%

The Town of Cochrane and the Town of Iroquois Falls have entered into an agreement whereby the Town of Cochrane has purchased the shares in NOW previously owned by the Town of Iroquois Falls. A MADD application currently sits before the Ontario Energy Board with respect to this agreement.

Northern Ontario Energy (NOE) is an affiliate of Northern Ontario Wires with the same ownership structure and changes identified above as NOW. The primary activity for NOE at this time is streetlight maintenance.

Cochrane Telecom Services (CTS) is a municipal division, 100% owned by the Town of Cochrane with a Services Board separate from the municipal Council. The primary activity of CTS is telecommunications, i.e.: local telephone and internet services.

Northern Ontario Wires Inc. has a services agreement with CTS. This services agreement provides for the provision of manpower and facilities as required by NOW. All non-management personnel working for NOW are provided through this agreement with CTS, i.e.: they are employees of CTS.

Question #3

Reference: i) Exhibit 1/Tab 1/Schedule 15

a) Please provide copies of all prior Board decisions regarding NOW's rates.

All NOW Board decisions back to market opening have been provided on a CD or were provided in electronic format via an email attachment to all interveners which also includes a copy of the Cost Allocation model and the CTS contract requested by Board Staff in IR # 8.

Question #4

Reference: i) Exhibit 1/ Tab 2/ Schedule 1, page 2

a) Please indicate the average monthly consumption used to illustrate the bill impacts for the "typical customer" in each customer class.

The average customer profiles are provided in Exhibit 8, Tab 1, Schedule 2, Page 3. Specifically, the profiles used are (monthly):

- Residential = 805 kWh
- GS < 50 kW = 2,320 kWh
- GS > 50 kW = 82,800 kWh and 209 kW
- Unmetered Load = 673 kWh
- Street Light = 49,402 kWh and 139 kW

b) If the 2009 rates do not include a smart meter rate adder, please recalculate the impacts assuming the current smart meter rate adder is continued.

The included impacts do include the current $0.26 per metered customer per month (applies to Residential, GS < 50 and GS > 50 customers). Board Staff IR # 19 deals with Smart Meters. NOW has changed the rider from $0.26 to $1.00 per metered customer per month via the BS IR # 19.

Question #5

Reference: i) Exhibit 2/Tab 2/Schedule 1
ii) Exhibit 2/Tab 3/Schedule 1

a) Please provide a schedule that for 2006, 2007, 2008 and 2009 sets out the capital additions by account.

See summary chart below:

Capital Additions by Account

		2006 Actual	2007 Actual	2008 Budget	2009 Budget
1805	Land		$ -	$ -	$ -
1808	Building & Fixtures		$ 29,099	$ 2,000	$ 200,000
1810	Leasehold Improvements	$ 4,919			$ 7,000
1820	Dist Stat Equip	$ 31,319	$ 39,347	$ 58,000	$ 10,000
1830	Poles,Towers,Fixtures	$ 24,996	$ 3,837	$ 29,750	$ 44,500
1835	O/H Conductors & Devices	$ 30,861	$ 74,390	$ 21,750	$ 35,500
1840	U/G Conduit		$ -	$ -	$ -
1845	U/G Conductors &Devices	$ 1,787	$ -	$ -	$ -
1850	Line Transformers	$ 4,646	$ 13,896	$ 18,500	$ 20,000
1855	Services	$ 20,308	$ 1,574		
1860	Meters	$ 18,598	$ 6,521	$ 10,000	$ 10,000
1920	Computer Hardware	$ 1,752	$ -	$ 39,665	$ 11,500
1925	Computer Software		$ -	$ 145,000	$ 7,500
1930	Transportation Equipment	$ 28,306	$ 221,551	$ 267,500	$ 25,000
1940	Tools, Shop, Equipment	$ 16,163	$ 7,457	$ 22,050	$ 20,000
1945	Measurement & Testing Equipment		$ -	$ -	$ -
1950	Power Operated Equipment			$ 1,000	$ -
1960	Misc. Equipment		$ 6,603	$ -	$ -
	TOTAL CAPITAL ADDITIONS excluding smart meters	**$ 183,655**	**$ 404,275**	**$ 615,215**	**$ 391,000**

b) Please explain why there a no capital contributions recorded (per page 4 of reference (i)). Does NOW apply the economic evaluation methodology as outlined in the Distribution System Code (Section 3.2.1) to proposed system expansions?

Due to the size of NOW and the economic realities in the area, growth requiring large customer driven system expansions are rare and not projected for 2008 or 2009. The values for contributed capital are estimated to be zero and historical results support this treatment. NOW does not see developments (subdivisions or commercial area) that would trigger system expansion and drive contributed capital in the bridge or test years.

Question #6

Reference: i) Exhibit 2/Tab 2/Schedule 3, page 4
ii) Exhibit 2/Tab 3/Schedule 2, page 2

a) Reference (i) indicates 2008 spending on transportation equipment of $267,500; while reference (ii) suggests the spending level is $240,000. Please reconcile and provide a full listing of the equipment purchases planned and their costs.

Reference i) from above is a description of total 2008 spend in the asset category ($267,500), and explains that the majority of the spend is for a new bucket truck and discusses the replacement of a pick-up truck as the balancing amount.

Reference ii) is a description of the projects above the materiality threshold calculated at over $30,000. As the pick-up truck replacement was not above the materiality threshold, this was omitted from reference ii).

The difference between the 2 references is the pick-up truck.

New Bucket Truck to replace 1982 Bucket Truck - $240,000
2008 Pick Up Truck to replace 1996 Pick Up Truck - $27,500

b) Is the transportation equipment that is being replaced fully depreciated? If not, have the remaining asset balances been removed from rate base?

As transportation equipment is depreciated at 10% and takes 10 years to depreciate both the 1982 truck and 1996 pick-up were fully depreciated prior to replacement.

c) Do the capital expenditures listed account for the salvage/resale value of the existing equipment?

Yes they do. Although the capital expenditures listed have a salvage / resale value of $0.

d) What options were considered in the replacement of NOW's customer billing system? On what basis was the North Star system determined to be the best match? Please provide the business case supporting North Star's selection.

Our evaluation process for selecting a replacement billing system consisted of identifying the systems available and familiar to the Ontario Deregulated Market and performing an extensive cost and services analysis. We investigate alternative systems including SAP and determined that the North Star System was better suited for our system needs and financial limitations. We also obtained various proposals for Hosting Services (i.e.: Olameter, Erie Thames, etc) and evaluated them accordingly. We concluded that bringing the Harris System in house was the better choice, economically and on service level requirements as well. We do not have a formal business case to support North Star's selection but can provide the following summary results from our evaluation:

Options	Annual Cost (including depreciation)
North Star system – On Site	$59,000
Erie Thames Services – Hosting	$69,000
Olameter – Hosting	$78,000

Question #7

Reference: i) Exhibit 2/Tab 2/Schedule 2, page 1
ii) Exhibit 2/Tab 2/Schedule 3, page 3

a) Capital spending on poles and wires increases from $51,500 in 2008 to $80,000 in 2009. Please describe the difference in program activity between the two years that leads to this increase and why the increased activity is required.

The increase is simply due to the fact that the 2009 planned capital work are bigger jobs and include upgrading of a longer section of system. This means more poles and transformers.

Question #8

Reference: i) Exhibit 3/Tab 3/Schedule 1, page 1

a) Where is the revenue from the SSS Admin Fee reported in this table?

For all years, the SSS Admin Fee revenue is reported as part of "Other Electric Revenues".

Question #9

Reference: i) Exhibit 3/Tab 1/Schedule 1, page 1
ii) OEB Staff IR #26

a) Please provide a schedule that shows the derivation of 2009 revenues by customer class (i.e., rates and volumes).

2008 Distribution revenue is comprised of the current fixed charges multiplied by the mid-year customer count value multiplied by 12 plus the current variable charge multiplied by the 2008 customer forecast. The calculations are provided below.

2008 Distribution Reveue Build-Up

	Customer Counts			Number of Bills	Fixed Rate (excl.Smart Meters)	Fixed Revenue	Annual kWh / kW	Variable Rate	Variable Revenue	Total Revenue
	2008	2007	Mid-year							
Residential	5,210	5,249	5,230	12	$ 16.33	$ 1,024,773	41,240,613	0.0108	$ 445,399	**$ 1,470,171**
GS < 50 kW	790	773	782	12	$ 21.45	$ 201,158	21,997,802	0.0102	$ 224,378	**$ 425,536**
GS > 50 kW	69	69	69	12	$ 208.23	$ 172,414	173,388	2.0476	$ 355,030	**$ 527,445**
Unmetered Load	15	15	15	12	$ 10.96	$ 1,973	121,104	0.0102	$ 1,235	**$ 3,208**
Street Light	1,737	1,737	1,737	12	$ 1.04	$ 21,678	5,014	3.3746	$ 16,920	**$ 38,598**
Total										**$ 2,464,958**

The 2009 distribution revenue is derived throughout the application and ends up at the $2,890,752 indicated in Exhibit 1, Tab 3, Schedule 2, Page 2. The specific allocation of revenue to customer class is based on the cost allocation methodology discussed in Exhibit 8. This is derived by the table below. OM&A, Amortization and PILS expenses can bee found @ Ex. 4, Tab 1, Sch. 1, Pg. 1. Return is calculated and can be found in the response to Interrogatory 18a) above. Revenue off-set can be found in Ex. 3, Tab 1, Sch. 2, Pg. 1.

Calculation of Revenue Requirement

	2006 EDR	2009 Test
OM&A	$2,029,551	$2,311,307
Amortization	$331,372	$404,740
Return	$381,627	$362,536
PILS	$59,377	$60,503
Revenue Offset	-$339,555	-$297,503
Base Revenue Requirement	$2,462,371	$2,841,584
Transformer Allowance		$49,168
Revenue Requirement		$2,890,752

Note: The 2009 revenue requirement by customer class is then allocated to fixed / variable rates based on Cost Allocation Model sheet O2 and 2009 load and customer forecasts.

Question #10

Reference: i) Exhibit 3/Tab 2/Schedule 1, page 1
ii) OEB Staff IR #24

a) Please provide a schedule that sets out:
- the kWh per customer for the Residential, GS<50 and GS>50 customer classes based on the Hydro One Weather Normalized data (per page 2, lines 29-30).
- The kWh per customer class for the Residential, GS<50 and GS>50 customer classes (for the same year) using NOW's weather normalization methodology.

Please see summary chart below, note the Hydro One average was based on a 2004 test year. NOW is providing the 2004 and 2009 proposed averages for comparison.

	Average Customer Usage		
	Hydro 1 2004	**NOW 2004**	**NOW 2009**
Residential	9,659	7,823	7,916
GS < 50 kW	26,387	30,965	27,845
GS > 50 kW	1,182,370	1,239,636	993,605

Comments on Chart:

1. Residential
   i. 2004 kWh were reported to Hydro One as approximately 51 million
   ii. For 2006 EDR and cost allocation purposes a value of around 41 million was utilized and is appropriate
   iii. If we use the same normalization factor from Hydro 1 (this may not be appropriate) the average 2004 values supplied by Hydro 1 would be 7,891
2. GS < 50 kW
   i. NOW utilized 2006 & 2007 results to estimate the 2009 average usage. As discussed in the application, we do not have any confidence in the 2004 statistics.
3. GS > 50 kW
   i. Again there are questions with the 2002 – 2005 statistics, NOW has utilized the 2006 & 2007 (as our confidence in these values is high) to estimate the 2009 average consumption for this class.

b) The IESO weather normalization methodology captures the weather impacts across the entire province and, in doing so, reflects not only the weather across the entire province and reflects the amount of weather sensitive load (e.g., space heating and space cooling) in each customer class. It appears that NOW's weather normalization methodology attempts to allow for this fact by applying a "NOW Adjustment Factor" to the IESO factor.
   - If not addressed in response to the Board Staff IR, please explain how the NOW Adjustment Factor is calculated and why it is the appropriate way to adjust for the differences between the province overall and NOW's weather sensitivity.
   - Why is it reasonable to assume that, for weather sensitive loads, the NOW adjustment factor is the same for each customer class?

The NOW Adjustment Factor, simply attempts to adjust the IESO factors for the specific amount of weather sensitive load within NOW service territory. The adjustment factor does not attempt to adjust the weather correction the IESO performed to a NOW specific value. The NOW adjustment factor was calculated from the Hydro One load data associated with the 2006 cost allocation filing.

NOW has uplifted the IESO weather correction by the ratio of total system load to NOW weather sensitive load as determined by Hydro One for cost allocation purposes.
The IESO weather normalization data is provided on a total basis as was the weather sensitive data from the Hydro One load work. As these values include all customer classes, a more details, class specific value was not available.

Question #11

Reference: i) Exhibit 3/Tab 2/Schedule 2

a) With respect to the Residential customer count how much of the annual change for 2007 and 2008 was due to the conversion of individually metered apartments to bulk metering?

None of the change from 2007 to 2008 Residential customer counts is a result of a conversion of individually metered apartments to bulk metering. The majority of the residential change between 2007 and 2008 is due to the demolishment of old multi-unit buildings or destruction by fire of multi-unit buildings.

b) For the GS<50 class please indicate how much of the change in customer count for 2007 and 2008 is due to:
   - Reclassification of accounts to GS>50
   - Introduction of bulk metering for apartments.

None of the change in GS<50 customer counts between 2007 and 2008 is the result of Reclassification of accounts to GS>50 or the introduction of bulk metering for apartments. There was a significant impact in 2006 counts as a result of these two reasons.

c) Under GS<50 there is reference to multi unit individually metered buildings converting to one meter.
   - Does this refer to the residential accounts discussed earlier (which would increase the GS<50 customer count), or
   - Is this individually metered GS<50 customers converting to bulk metering (which would decrease the GS<50 customer count).

The conversion of multi unit individually metered buildings to one meter occurred in early 2006 and both categories reflect the changes in terms of customer counts. (I.e.: One building = 40 residential units (and 40 residential accounts) converted to one meter now equals 1 GS<50 account.

d) The use of 2002-2007 data includes a number of year prior to the conversion of various apartments to bulk metering. The elimination of individual metering of certain multi unit apartments will impact the average use per residential customer. This does not appear to have been taken into account in the calculation. Please comment.

Our consumption forecast is based on an average of 2006 and 2007 (for non-residential consumptions) only due in part to the changes between categories resulting form conversion to bulk metering and the change of 13 accounts in early 2006 from GS<50 to GS >50. There was also concerns with our annual consumption figures for 2002 to 2004 as a result of delays in billing.

As discussed above, the switch to bulk metering was not a significant issue in NOW distribution territory. The 40 accounts referenced above represent less than 1% of the residential customer counts. While we do concede that this would create a difference, the reality is that less than 1% of customers would not have a recognizable impact on the class average usages. This affect is minimized as typically apartment customers have lower consumption profiles than the average residential customer. For discussion purposes, if we assume usage of 400 kWh per customer per month, the total annual usage for these 40 customers represents 192,000 kWh. If we remove these kWhs from the total for each year of 2002 to 2007 the new average usage is calculated at 7,886 kWh which is 30kWh less per year or 2.5 kWh per month per customer.

e) Using the data on page 4 please provide a schedule setting out the annual weather normalized use per residential customers for 2002 through 2007. If the values are generally trending upwards, why is it appropriate to use a simple average for the period in order to forecast 2008 and 2009?

See chart below:

	2002	2003	2004	2005	2006	2007
Class Usage	42,860,054	40,454,974	41,211,165	42,736,273	43,154,148	42,750,091
Customer Count	5,608	5,278	5,268	5,317	5,263	5,249
Avg. Consumption	7,642	7,665	7,823	8,037	8,199	8,144

A simple average of the above would add the average consumption of the 2002 to 2007 years and divide by 6 (resulting in 7,918 kWh per customer). NOW actually utilized the summation of all usage and all customer counts to get a weighted average usage (7,916 kWh per customer).

Weighting of years by any other means would be arbitrary and was deemed to be not appropriate by NOW.

Additionally, the average normalized usage in 2007 seems to be dropping. NOW does not know what triggered this event (maybe CDM), however, deemed it reasonable to use the full 6 year history period to drive the average for 2008 & 2009.

f) What is the current customer count (by customer class) based on the most recent month for which actual 2008 data is available?

See chart below:

Current Customer Count

	2009 Test	Nov 27/08 Current
Residential	5,200	5,214
GS<50	785	770
GS>50	69	71
Unmetered Scattered load	15	18
Street Lighting	1,737	1,737
	7,806	**7,810**

Question #12

Reference: i) Exhibit 4/Tab 1/Schedule 1

a) Please provide further details as to prioritization and risk-based decision making processes NOW used in developing its proposed OM&A expenses for 2008 and 2009.

In developing OM&A expenses, NOW identifies the needs of the organization from an administration/billing perspective and operations and maintenance perspective. The timing of an expenditure is determined primarily on the urgency of its need. This includes an assessment on the impact to the distribution system, considering reliability, efficiency and safety as well as costs. Annual operating cost budgets are also a factor in our prioritization of OM&A expenses. For example in 2008 we projected a higher than usual amount of non-recurring costs which have been removed from the 2009 forecast. Ideally, from a financial perspective we would have preferred to defer some of these costs to 2009 but they were assessed as being critical for 2008.

b) What are the key risks and priorities identified by the process and how do the planned expenditures address them.

As indicated above our key factors in setting OM&A work plans include system reliability and efficiency, safety and costs.

Question #13

Reference: i) Exhibit 4/Tab 2/Schedule 2, page 1

a) Please provide a schedule that sets out the main cost drivers (e.g. new/reduced requirements, annual inflation adjustments, etc.) for the year over year variance in total OM&A (excluding taxes and amortization) between the 2006 actuals and the 2009 forecast. In doing so, please separate out recurring from non-recurring factors.

See chart below:

Summary of 2006 to 2009 changes to OM&A (Cost Drivers)

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
OM& Expenses	$ 1,906,576	$ 2,137,464	$ 2,322,354	$ 2,311,307
Change between years		**$ 230,888**	**$ 184,890**	**$ (11,046)**
Signficant items in excess of $10,000				
Inflationary Factor		$ 50,000	$ 53,000	$ 57,000
Third Tranche CDM spending in excess of prior year costs reported		$ 23,000	$ (50,000)	
Prior Year Pole Rental adjustment		$ 33,000	$ 12,000	$ (28,000)
Lineman on sick leave in 2007		$ (38,500)	$ 38,500	
Dedicated NOW Management, return of full time CFO and increase shared staff time		$ 12,000	$ 30,000	
Temporary Billing Assistance for 4 months during conversion to new billing system				$ 10,500
Vehicle maintenance and repair costs increase, older vehicles resulting in significant repairs		$ 27,000	$ (10,000)	
Travel Costs Adjustment - 2007 less than typical year (details per rate application)			$ 20,000	
Regulatory Accounting (Variance) Interest		$ 10,443	$ 32,000	$ 4,000
2008 non-recurring items (details provide per rate application			$ 61,332	$ (56,332)
Prior Years Audit fees booked in 2007 - non-recurring			$ (12,000)	
Hydro One Load Profile in 2007 non - recurring			$ (4,500)	
Credit for overpayment of benefits (non-recurring)			$ 12,000	
Low Voltage Change - included in OM&A for recovery - 2006 only 6 months		$ 118,380		
TOTAL SIGNIFICANT ITEMS IDENTIFIED		**$ 235,323**	**$ 182,332**	**$ (12,832)**
Change between years		$ 230,888	$ 184,890	$ (11,046)
Unidentified Difference		$ 4,435	$ (2,558)	$ (1,786)

Question #14

Reference: i) Exhibit 4/Tab 2/Schedule 4, page 1

a) Does NOW own all of the assets (including tools, transportation equipment, computer hardware/software) used by the distribution business? If some assets are owned by Cochrane Telecom Services (or any other affiliate) please describe the basis on which any charges made to NOW for the use of such assets are determined. In particular, what cost of capital is attributed to the assets?

NOW owns all of its tools, transportation equipment and any computer hardware/software that is used exclusively by NOW. Computer and office equipment that is shared with CTS is owned by CTS and included in a rent calculation to NOW Inc. The rent calculation is essentially based on a percentage of actual costs to CTS. Actual costs include regular operation and maintenance costs such as utilities and maintenance calls/contracts as well as annual depreciation. Actual costs do not include cost of capital. This percentage charge out is based on an evaluation of the use of the various pieces or groups of equipment that are shared. The use of shared equipment is evaluated on an annual basis and the percentage adjusted accordingly.

The same applies for the office building and service centre building which is also owned by CTS and shared with NOW Inc.

CTS does not use NOW's assets.

Question #15

Reference: i) Exhibit 4/Tab 3/Schedule 3

a) Given NOW's projected 2008 ad 2009 spending on computer software, why are there no entries under class #12?

NOW has projected spending on computer software of $145,000 and $7,500 in 2008 and 2009 respectively. We have erroneously used the wrong CCA class for these additions.

As shown below, using the wrong CCA class has over estimated our revenue requirement by $7,831.85 to the following classes:

- Residential - $5,010.74
- GS < 50 kW - $1,540.94
- GS > 50 kW - $782.07
- Street Light - $460.24
- Unmetered - $19.86

Updated - Cost allocation results

Residential	63.23%	$1,822,851.02
GS < 50 kW	19.32%	$ 556,899.74
GS 50 to 4,999 kW	11.54%	$ 332,809.58
Street Lights	5.66%	$ 163,279.18
Unmetered	0.25%	$ 7,098.77
Total	100.00%	$2,882,938.29

Original - Cost allocation results

Residential	63.23%	$1,827,861.76
GS < 50 kW	19.32%	$ 558,440.68
GS 50 to 4,999 kW	11.54%	$ 333,591.65
Street Lights	5.66%	$ 163,739.42
Unmetered	0.25%	$ 7,118.63
Total	100.00%	$2,890,752.14

Question #16

Reference: i) Exhibit 6/Tab 1/Schedule 1, page 1
ii) Exhibit 6/Tab 1/Schedule 4

a) NOW is proposing an ROE of 8.68%. Does NOW accept that this value will be updated (using the OEB formula) based on the January 2009 Consensus Forecasts?

NOW does accept that this value will be updated in January 2009.

Question #17

Reference: i) Exhibit 7/Tab1/Schedule 1, page 2

a) The Schedule reports $50,217 in Property and Capital Taxes. Please provide a cross-reference as to the where in Exhibit 4 this expense is described. Is it something other than the income tax value which is addressed elsewhere in the Schedule?

The $50,217 is the 2009 Income Tax estimate (prior to tax gross-up). This value properly accounting for the tax gross up should be $60,503.

Along with the incorrect values, the originally filed schedule has two tax lines which is also incorrect. Please see revised revenue sufficiency / deficiency calculations below.

Determination of Net Utility Income

	Existing Rates	Proposed Rates	Revenue (Surplus) or Defficiency
Revenue Deficiency		$382,158	
Distribution Revenue	$2,459,426	$2,459,426	$0
Other Operating Revenue (Net)	$297,503	$297,503	$0
Total Revenue	$2,756,929	$3,139,087	$382,158
Costs and Expenses			$0
Distribution Costs	$1,672,302	$1,672,302	$0
Operation & Maintenance	$639,005	$639,005	$0
Depreciation & Amortization	$404,740	$404,740	$0
Deemed Interest	$156,415	$156,415	$0
Total Costs and Expenses	$2,872,463	$2,872,463	$0
Utility Income Before Income Taxes	-$115,534	$266,624	$382,158
Income Taxes	$60,503	$60,503	$0
Utility Income (loss) After Taxes	-$176,037	$206,121	$382,158

Rate Base	$5,480,429	$5,480,429
Equity Portion	43.3300%	43.3300%
Equity Component of Rate Base	$2,374,670	$2,374,670
Target Return on Equity	8.68%	8.68%
Return on Rate Base	$206,121.35	$206,121.35
Revenue Deficiency	-$382,157.95	$0.00

Reconciliation to Revenue Requirement (colour coded)

OM&A	$2,311,307
Amortization	$404,740
Return	$362,536
PILS	$60,503
Revenue Off-Set (Other operating revenue)	-$297,503
Base Revenue Requriement	**$2,841,584**
Transformer Allowance (input)	$49,168
Revenue Requirement	**$2,890,752**

b) Please explain the basis for the $42,218 values included for Income Taxes in the Schedule. It does not match the calculation provided in Exhibit 4.

As per response in part a) above, please see new revenue sufficiency / deficiency calculation. The income taxes reconcile to the 2009 taxes (grossed up) from Exhibit 4, Tab 3, Schedule 1, page 1.

c) Please explain the basis for the Interest expense value ($105,262) included in the Schedule. It does not appear to be based on the deemed debt and proposed cost of debt per Exhibit 6.

This was another error in the revenue sufficiency / deficiency calculations. The deemed interest in now included in the schedule.

d) Based on the responses to the foregoing and any other issues identified in responding to other parties interrogatories please provide an updated version of Exhibit 7/Schedule 1/Tab 1. In the update, please provide cross references for all changes.

See response in a) above. The changes were:

- Interest
  - Difference $51,153
  - Original ($105,262)
    - Based on actual interest not deemed
  - Updated ($156,415)
    - Based on deemed
- Taxes
  - Difference -$31,932
  - Original ($92,435)
    - Consisting of two entries
      - $50,217
      - $42,218
  - Updated ($60,503)
    - Calculated in Ex. 4, Tab 3, Sch 1

A reconciliation to the calculated revenue requirement found in various sections of the application.

Question #18

Reference: i) Exhibit 8/Tab 1/Schedule 2, page 1
ii) Exhibit 10/Tab 1/Schedule 1

a) Please confirm that 2006 rates, costs and load data were used in NOW's Cost Allocation run. If not, please explain what data was used.

NOW CA run 2 was completed using 2006 EDR data (actual load data is based on 2002 – 2004 actual consumption). The 2006 EDR was based on approximated 2006 costs (2004 with adjustments).

b) Please confirm that NOW is using the allocation of costs by customer class from its Cost Allocation run to determine the "2008 Distribution Revenue Requirement" (per Reference (i)) by customer class that reflects revenue to cost ratios of 100%.

The CA model provided the RC% and the distribution revenue by class. These two values were then utilized to calculate the 100% RC% and eventually the 102.7% RC for all classes with the exception of Street Light which was left at 70%.

c) Please complete the following schedules:

- kWh by Customer Class (delivered)

Customer Class (all)	Cost Allocation Filing		2009 Application	
	kWh	% of Total	kWh	% of Total
Residential	41,449,024	29.7%	41,161,457	30.8%
GS < 50 kW	29,264,110	20.9%	21,858,575	16.4%
GS > 50 kW	67,028,886	48.1%	68,558,740	51.4%
Unmetered	119,472	.1%	121,104	.1%
Street Light	1,538,235	1.1%	1,778,469	1.3%

- Customer/Connection Count

Customer Class (all)	Updated Cost Allocation Filing		2009 Application	
	# Customers/ Connections	% of Total	# Customers/ Connections	% of Total
Residential	5268	69.8%	5200	66.6%
GS < 50 kW	861	11.4%	785	10.1%
GS > 50 kW	55	.7%	69	0.8%
Unmetered	15	.2%	15	0.2%
Street Light	1351	17.9%	1737	22.2%

Note: utilized CA filing for 2nd table, was unsure of "Updated" wording.

d) Based on the results from part (c), please comment on the appropriateness of assuming that the revenue requirement proportions from the Cost Allocation run results are appropriate to utilize for setting 2009 rates.

Both the kWh and Customer Counts seem to align very closely with the CA results, compared to the 2009 application. As the cost allocation filing is the most recent OEB approved methodology for allocating costs, NOW feels that this is appropriate.

Question #19

Reference: i) Exhibit 10/Tab 1/Schedule 1, page 1

a) Please confirm that for purposes of NOW's Cost Allocation run:
   - The Revenues are based on distribution rates (excluding the discounts for transformer ownership allowance)
   - The Costs include the cost of the Transformer Ownership Allowance
   - The cost of the Transformer Ownership Allowance is allocated to all customer classes

Transformer ownership allowances (totaling $49,317) were entered in tab "I3 TB Data" in to cell F15, as instructed by the CA model to build up the approved revenue requirement. The costs are based on TB data that include the full cost of transforming power to utilization voltage.

b) Please provide the results of an alternative cost allocation run where:
   - The Revenues by class are based the rates reduced by the transformer ownership allowance where applicable
   - The Costs allocated exclude the "cost" of the Transformer Ownership Allowance.
     (Note: For purposes of the response please just file the revised Output Sheet O1)

Attempting to produce the results requested, caused errors in the CA model itself and NOW can not efficiently ensure that the calculations are performed correctly. Considering the three points above, NOW will not be providing the requested information.

Question #20

Reference: i) Exhibit 8/Tab 1/Schedule 2, page 2
ii) OEB Decision re: Wellington North's 2008 Rates (EB-2007-0693)

Preamble: On page 29 of the Board's EB-2007-0693 Decision the Board's Findings state:

> An important element in the Board's report on cost allocation was its express reservation about the quality of the data underpinning cost allocation work to date. The report frankly indicated that the Board did not consider all of the data underpinning the report to be so reliable as to justify the application of the report's findings directly into rate cases. For this reason, among others, the Board established the ranges depicted above and mandated the migration of revenue to cost ratios currently outside the ranges to points within the ranges, but not to unity. In short, the ranges reflect a margin of confidence with the data underpinning the report. No point within any of the ranges should be considered to be any more reliable than any other point within the range. Accordingly, there is no particular significance to the unity point in any of the ranges.

a) Given the Board's findings (as quoted above), why is it appropriate to propose that the Residential revenue to cost ratios be moved from 97.92% to more than 100% (i.e., 102.76%)?

NOW finds it appropriate to adjust all classes RC% as close to the 100% RC target as possible (weighing revenue stability, customer impact and the goal of reducing cross subsidization). The CA model and associated results are the best available at the time of filing. Following all OEB guidelines has provided the results and NOW believes that a zero cross subsidization base is the long term goal for all LDCs in the province. As the above quotation indicates no point in the range is reliable and picking and choosing to move other classes and not the residential class would be equally as arbitrary. Picking a uniform RC% as close to unity as possible will provide results within the margin of confidence for all classes.

b) Please provide the supporting schedules that show the derivation of Revenue Allocation %'s in step 3 (e.g., how was it determined that allocating 63.23 % of revenues to the Residential class would yield a revenue to cost ratio of 102.76%).

Please see table below.

Northern Ontario Wires
Rate Design - Revenue to Cost Ratios
Aug. 1, 2008
Verson 1

	Residential	GS < 50	GS 50 - 4,999	Street Light	Unmetered
2007 CA Revenue to Cost %	97.92%	107.25%	162.28%	26.02%	127.53%
Board Staff Min RC%	85.00%	80.00%	80.00%	70.00%	80.00%
Board Staff Max RC%	115.00%	120.00%	180.00%	120.00%	120.00%
2006 DRR	1,393,379	471,329	381,114	33,357	7,302
2006 Misc. Revenue	211,286	69,174	33,969	24,141	983
2006 Total Revenue	1,604,665	540,504	415,083	57,499	8,285

100% DRR Adjustment					
2006 Total Revenue	1,604,665.01	540,503.84	415,083.14	57,498.67	8,285.33
2006 Total Revenue @ 100% RC	1,638,812.02	503,980.60	255,785.46	220,960.84	6,496.90
2006 Total Revenue %	62.41%	19.19%	9.74%	8.41%	0.25%
2009 Total Revenue	1,958,988	602,444	305,759	264,130	7,766
less: 2009 Misc. Rev. Projection incl trans allowance)	185,120	60,608	(19,406)	21,152	862
2009 100% RC BRR	1,773,868	541,836	325,164	242,978	6,905
New BRR %	**62.41%**	**19.19%**	**9.74%**	**8.41%**	**0.25%**

Applied for Rate Design (Street Light @ 70% RC, everyone else @ 100% RC plus subsidization)					
Class Specific DRR %	100%	100%	100%	70%	100%
2006 Total Revenue @ 100% RC	1,638,812	503,981	255,785	220,961	6,497
Subdization				(66,288)	
Alloction of Subsidization	45,169	13,891	7,050	-	179
2006 Adjusted total Revenue	1,683,981	517,871	262,835	154,673	6,676
2006 Adjusted Total Revenue %	64.13%	19.72%	10.01%	5.89%	0.25%
2009 Total Revenue	2,012,982	619,048	314,186	184,891	7,980
less: 2009 Misc. Rev. Projection incl trans allowance)	185,120	60,608	(19,406)	21,152	862
2009 100% RC BRR	1,827,862	558,441	333,592	163,739	7,119
New BRR %	**63.23%**	**19.32%**	**11.54%**	**5.66%**	**0.25%**
Actual Applied for RC	**102.76%**	**102.76%**	**102.76%**	**70.00%**	**102.76%**

NOW will work through the residential class as an example.

The 2006 CA model produced the results at the top of the page indicating that total revenue of $1,604,665 (DRR plus Misc. Revenue) represents 97.92% of allocated costs for the residential class. The first step is to move the 2006 total revenue to 100% RC%. This is calculated by dividing the $1,604,665 by the 97.92% multiplied by 100%. The result is $1,638,812.02 (note minor differences due to rounding in the 97.92%). The same calculation is performed on all classes and derives a 100% RC% for all classes that reconciles to the LDC total revenue output from the CA model.

Secondly, a subsidization of $66,288 is calculated for the Street Light class (representing 70% of allocated costs). This subsidy is then split across the remaining customer classes based on the class by class share of the remaining revenue requirement.

The residential class is allocated $45,169 of the $66,288 (68.14%) based on the following chart:

	100% RC% Allocated Revenue	% allocation
Residential	1,638,812	68.14%
GS < 50 kW	503,981	20.96%
GS > 50 kW	255,785	10.64%
Unmetered	6,497	0.27%
Total	2,405,075	

The result is a total revenue requirement (2006 numbers) for the residential class of $1,683,981 which represents 64.13% of 2006 total revenue ($2,626,036).

This 2006 total revenue percentage is then used to allocate the 2009 total revenue ($3,139,087) of which the residential class is allocated $2,012,982.

2009 Misc. revenue is then allocated to customer classes based on the 2006 results (residential is allocated 62.22% or $185,120 of 2009 miscellaneous revenue) which draws down the base revenue requirement for the residential class for 2009 to $1,827,862 which represents 63.23% of the NOW total 2009 BRR ($2,890,752).

The 2009 residential total revenue (including subsidization) $2,012,982 is then compared to the 2009 non-subsidized value $1,958,988 to calculate the 102.76% RC%.

c) Please provide a schedule that sets out the derivation of the $2,890,753 value for the 2008 Distribution Revenue Requirement. Exhibit 7/Tab 1/Schedule 1 suggests a Distribution Revenue Requirement of $2,822,363.

Exhibit 7, Tab 1, Schedule 1 has been updated in VECC IR # 17 above. For ease of review the updated schedule has been reproduced in this response as well as the calculation of the revenue requirement.

Calculation of Revenue Requirement

	2006 EDR	2009 Test
OM&A	$2,029,551	$2,311,307
Amortization	$331,372	$404,740
Return	$381,627	$362,536
PILS	$59,377	$60,503
Revenue Offset	-$339,555	-$297,503
Base Revenue Requirement	$2,462,371	$2,841,584
Transformer Allowance		$49,168
Revenue Requirement		$2,890,752

Determination of Net Utility Income

	Existing Rates	Proposed Rates	Revenue (Surplus) or Defficiency
Revenue Deficiency		$382,158	
Distribution Revenue	$2,459,426	$2,459,426	$0
Other Operating Revenue (Net)	$297,503	$297,503	$0
Total Revenue	$2,756,929	$3,139,087	$382,158
Costs and Expenses			$0
Distribution Costs	$1,672,302	$1,672,302	$0
Operation & Maintenance	$639,005	$639,005	$0
Depreciation & Amortization	$404,740	$404,740	$0
Deemed Interest	$156,415	$156,415	$0
Total Costs and Expenses	$2,872,463	$2,872,463	$0
Utility Income Before Income Taxes	-$115,534	$266,624	$382,158
Income Taxes	$60,503	$60,503	$0
Utility Income (loss) After Taxes	-$176,037	$206,121	$382,158

Rate Base	$5,480,429	$5,480,429
Equity Portion	43.3300%	43.3300%
Equity Component of Rate Base	$2,374,670	$2,374,670
Target Return on Equity	8.68%	8.68%
Return on Rate Base	$206,121.35	$206,121.35
Revenue Deficiency	-$382,157.95	$0.00

Reconciliation to Revenue Requirement (colour coded)

OM&A	$2,311,307
Amortization	$404,740
Return	$362,536
PILS	$60,503
Revenue Off-Set (Other operating revenue)	-$297,503
Base Revenue Requriement	**$2,841,584**
Transformer Allowance (input)	$49,168
Revenue Requirement	**$2,890,752**

d) If the explanation to part (c) is the "cost" transformer ownership allowance credit then please undertake the following:
   - Explain why the distribution revenue for 2009 reported in Exhibit 3 are also $2,890,753.
   - Develop an alternative cost allocation and rate design where the cost of the transformer ownership allowance is only recovered from the GS>50 class (as part of the variable rate).

The transformer ownership allowance was not the issue.

e) Please provide the revenue allocation and revenue to cost ratios by customer class for an alternative Step #3 where:
   - The revenue to cost ratios for Residential and GS<50 are maintained at 97.92% and 107.25% respectively.
   - Street Lighting has a revenue to cost ratio of 50%.
   - Unmetered/Scatter Load has a revenue to cost ratio of 120%
   - The GS>50 ratio is reduced so the total revenue requirement is maintained.

Although NOW does not agree with this representation and still believes that the CA results should be utilized, please find information on the alternative scenario requested.

	RC %	BRR%	BRR
Residential	97.92%	59.95%	$ 1,733,050
GS < 50 kW	107.25%	20.25%	$ 585,495
GS > 50 kW	141.76%	15.66%	$ 452,836
Street Light	50.00%	3.84%	$ 110,913
Unmetered	120.00%	0.29%	$ 8,458
Total		100.00%	$ 2,890,752

Rate Impacts under this scenario

Class	Consumption kWh	Consumption kW	May 2008 Bill	May 2009 Bill	Difference $	Bill Impact %
Residential	250		$ 41.00	$ 43.40	$ 2.41	5.87%
	500		$ 64.24	$ 67.90	$ 3.66	5.70%
Average Customer	805		$ 94.85	$ 100.04	$ 5.19	5.47%
	1,000		$ 114.90	$ 121.07	$ 6.17	5.37%
	1,250		$ 140.61	$ 148.03	$ 7.42	5.28%
	1,500		$ 166.31	$ 174.99	$ 8.67	5.22%
	2,000		$ 217.72	$ 228.90	$ 11.18	5.14%
General Service Less Than 50 kW	1,000		$ 117.38	$ 125.92	$ 8.54	7.3%
	2,000		$ 218.69	$ 234.24	$ 15.55	7.1%
Average Customer	2,320		$ 251.15	$ 268.95	$ 17.79	7.1%
	5,000		$ 522.63	$ 559.20	$ 36.57	7.0%
	10,000		$ 1,029.19	$ 1,100.80	$ 71.61	7.0%
General Service 50 to 4,999 kW	25,000	50	$ 2,345.85	$ 2,319.38	$ (26.47)	-1.1%
	40,000	75	$ 3,593.36	$ 3,555.78	$ (37.58)	-1.0%
	50,000	100	$ 4,471.65	$ 4,422.96	$ (48.69)	-1.1%
Average Customer	82,800	209	$ 7,505.82	$ 7,408.53	$ (97.29)	-1.3%
	250,000	500	$ 21,478.06	$ 21,251.68	$ (226.38)	-1.1%
Unmetered Scattered Load - Avg Customer	673		$ 73.34	$ 103.92	$ 30.58	41.7%
Street Lighting - Avg Customer (579 connections)	49,402	139	$ 5,540.01	$ 7,647.24	$ 2,107.22	38.0%

Question #21

Reference: i) Exhibit 9/Tab 1/Schedule 6

a) Please reconcile the $445,367 revenue deficiency referenced on page 1 with the $362,937 value calculated in Exhibit 7.

The value of $445,367 was not updated from an earlier version of the application and is not reconcilable. As discussed in VECC IR # 17 & 20c a new version of Exhibit 7 has been reproduced and provided. For reference, the revenue requirement and rates applied for are correct, including the allocation of costs and the actual fixed & variable rate determination.

b) For all of the customer classes, there is a significant difference between the increases NOW is proposing for the fixed versus variable charges. Please provide additional rationale regarding the basis/derivation of the service charge and variable rate increases proposed for each customer class.

In general fixed charges were based on balancing current fixed charges (revenue & rate stability) while reaching to keep within the OEB Staff target of 120% of the ceiling calculated in the CA model.

- Residential - $17.50 (excluding $0.26 smart meter charge) is a little above the current $16.66 and within the 120% guideline
- GS < 50 kW - $23.00 (excluding smart meter charge) represents a small increase from the current $21.80 and is within the 120% ceiling guideline
- GS > 50 kW - $205.00 number close to 120% of ceiling, slightly lower than the current $209.32
- Street Light - $6.25 again, within the 120% of ceiling guideline
- Unmetered - $12.00 is slightly higher than the current $11.00 approved and a goal of leaving variable charges close to current rates.

As all classes with the exception of Street Light and Unmetered loads have rate impacts well below the 10% target, and impacts within classes are relatively flat (all around same level of increase / decrease) NOW proposes that the applied for fixed / variable split is reasonable when considering rate stability, revenue prediciatability, customer impacts and regulatory guidelines.

c) Please provide a schedule that sets out the 2009 fixed and variable billing determinants and revenues (dollar and %) by customer class based on current (approved 2008) rates. For purpose of the schedule please use: a) the monthly service charges excluding the smart meter rate adder. Also, if there are adders for the LV cost recovery in the variable rates, exclude them as well.

See summary table below.

	Fixed Revenue Determinents					Variable Determinents		Fixed Revenue	Variable Revenue	Total Revenue	Fixed %	Variable %
	2008 Count	2009 Count	Mid-Year Cunt	Months	2008 Rate	2009 Consumption	2008 Rate					
Residential	5210	5200	5205	12	16.33	41,161,457	0.0108	1,019,972	444,544	1,464,516	69.6%	30.4%
GS < 50 kW	790	785	787.5	12	21.45	21,858,575	0.0102	202,703	222,957	425,660	47.6%	52.4%
GS > 50 kW	69	69	69	12	208.23	173,388	2.0476	172,414	355,030	527,445	32.7%	67.3%
Unmetered	15	15	15	12	10.96	121,104	0.0102	1,973	1,235	3,208	61.5%	38.5%
Street Light	1737	1737	1737	12	1.04	5,014	3.3746	21,678	16,920	38,598	56.2%	43.8%
Total								1,418,739	1,040,687	2,459,426	57.7%	42.3%

Question #22

Reference: i) Exhibit 9/Tab 1/Schedule 8

a) Based on a recent 12 consecutive months of actual billing data, please indicate the percentage of total residential customers that:

- Consume less than 100 kWh per month
- Consume 100 -> 250 kWh per month
- Consume 250 -> 500 kWh per month
- Consume 500 -> 750 kWh per month
- Consume 750 -> 1000 kWh per month
- Consume 1000 –> 1500 kWh

See chart below:

Residential Customers	% of Total
less than 100 kwh	4.8%
100-250 kwh	12.2%
250-500 kwh	27.2%
500-750 kwh	22.6%
750-1000 kwh	13.6%
1000-1500 kwh	11.4%
1500kwh +	8.1%
TOTAL	**100.0%**