

**Board Staff Supplemental Interrogatories
2009 Electricity Distribution Rates
Northern Ontario Wires Inc. (NOW)
EB-2008-0238**

OPERATING COSTS

Other Interest Expense

- 1. Ref: E4/T2/S1 – OM&A costs table, E/6/T1/ S3 – Cost of Debt table
Board staff IR #3, #12, #41 (a)**

In response to Board staff IR #3 and #12, NOW explained that it has included the following amounts in OM&A:

Other Interest Expense

IESO Letter of Guarantee Fee (\$525/month)	\$ 6,300
Regulatory Interest (on Variance Accounts)	50,943
Truck Loan Interest - Digger Truck (purchased in 2007)	11,000
Truck Loan Interest - Bucket Truck (purchased in 2008)	13,214
Customer Deposit Interest Expense	<u>6,119</u>
	\$ 87,576

- a. Please explain the nature of the interest charges identified above for the truck loans and the variance accounts.
- b. Please confirm that the trucks in question are included in rate base.
- c. If so, please confirm that as all other rate base items, NOW will be earning a return on the capital investment to purchase the trucks, which return includes both the deemed equity return and the deemed interest on the debt portion.
- d. If so, does NOW agree that including the truck loan interest amounts in “Other Interest Expense” would lead to double recovery of the interest expense? If not, please explain.
- e. Please confirm whether or not the variance account balances provided in response to Board staff IR #41 a) includes the \$50,943 amount shown above for regulatory interest on variance accounts.

- f. If so, does NOW agree that including the \$50,943 amount in “Other Interest Expense” would lead to double counting once the variance accounts are disposed?

Impacts of proposed change to NOW’s governance structure

**2. Ref: E4/T2/S4/p1 – Shared services table, Board staff IR #8,
EB-2008-0339 – MAADs application by the Town of Cochrane**

On October 17, 2008, the Town of Cochrane, which currently owns 67% of the shares of both NOW and its street lighting affiliate Northern Ontario Energy (NOE), applied under section 86 (2) of the OEB Act to acquire the remaining shares of both NOW and NOE from the Town of Iroquois Falls. The purchase price is \$1M. Notice of Application was issued on January 12, 2009. The deadline for submissions on the application is ten days from the last publication date.

The Town of Cochrane currently owns 100% of Cochrane Telecom Services (CTS), which provides all labour and certain facilities services to NOW (with the exception of five management personnel recently transferred from CTS to NOW).

In response to Board staff IR#8, NOW indicated that CTS is the only affiliate from which NOW purchases significant services and that there are no corporate services allocated to NOW.

- a. Please confirm whether or not the status of the activities as described by NOW in response to Board staff IR #8 changes once the proposed transaction in the MAADs case is completed and the new governance structure is implemented, assuming Board approval.
- b. If NOW or its affiliates are planning changes to shared services or corporate cost allocation, as a result of the share purchase, if approved, please identify what they are and the purpose for the changes.
- c. Please identify any impacts on any other aspects of the subject rate application, such as cost of debt, capital structure, debt / equity, etc.

Revision to NOW’s Regulatory Costs Claim

**3. Ref: E4/T2/S1/p2 – OM&A Costs Table, E4/T2/S6 – Purchase of Services,
Board staff IR #11**

In response to Board Staff IR #11, NOW indicated that it will add \$5,000 in Intervenor costs in its final submission in this application. NOW realized that it had not included

any costs for Intervener activities in its original filing. In reviewing other 2008 cost awards NOW estimated \$15,000 in costs from intervenors. NOW stated that it will be including \$5,000 as an annual cost, in the final submission for this application.

With respect to the regulatory related costs NOW is proposing to recover in 2009, it is unclear which expense items are for the full amount and which costs are amortized.

In terms of the annual rate application costs, it appears that NOW records those in another account under Purchases of Services. All regulatory costs to be recovered in 2009 should be recorded in account 5655, Regulatory Expenses.

It is also unclear whether the \$24,000 included for RDI consulting in 2009 as “purchased services” is the total cost of the 2009 rate application, or if it is 1/3 of the total amount amortized over three years (i.e. 1/3 of about \$72,000).

- a. Please confirm that NOW is (i) requesting an increase in 2009 regulatory expenses in account 5655 from \$17,875 to \$22,875, (ii) that this \$5,000 increase equates to 1/3 of \$15,000 in projected Intervenor costs related to the 2009 rates proceeding, and (iii) that the \$17,875 pertains only to OEB quarterly and annual fees.
- b. Please provide a schedule itemizing all the regulatory related costs, including consultant and legal, that NOW proposes to recover in its 2009 revenue requirement (including costs that have not been included under Account 5655); the schedule should (i) identify the account number the itemized costs are recorded in and (ii) indicate whether the amount to be recovered in 2009 is the full amount or an amortized portion (e.g. the first year of a three year amortization period).
- c. If certain costs related to the 2009 rates proceeding are not amortized please explain why such amounts are not amortized over three years as per NOW's approach to Intervenor costs for 2009.
- d. Please explain whether or not NOW's regulatory costs should be amortized over four years rather than three in light of the Board's determination in its July 14, 2008 *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* that the plan term for 3rd generation incentive regulation will be fixed at three years (i.e. rebasing year plus three years).

- e. Please explain why NOW does not appear to be conforming to the described treatment as outlined in the Board's *Accounting Procedures Handbook*, Article 220, Account 5655 (p.183-184).

RATE BASE, SMART METERS AND PILS

Capital Expenditures

4. Ref: Board Staff IR #2, SEC IR #6

NOW's capital expenditures and annual depreciation for 2003 to 2009 are shown in the table below. For 2003 to 2006, NOW's capital spending was significantly less than its annual depreciation expense. Beginning in 2007, NOW's capital spending is close to annual depreciation.

Year	Capital Expenditures	Annual Depreciation Expense	Capex / Depreciation
2003	\$ 63,390	\$ 371,004	17.1%
2004	\$ 113,179	\$ 372,597	30.4%
2005	\$ 167,266	\$ 363,348	46.0%
2006	\$ 183,655	\$ 329,835	55.7%
2007	\$ 404,275	\$ 337,216	119.9%
2008 bridge	\$ 615,250	\$ 363,270	169.4%
2009 forecast	\$ 391,000	\$ 404,740	96.6%
Total	\$ 1,938,015	\$ 2,542,010	76.2%

- a. In response to Board staff IR#2 and SEC IR#6, NOW indicated that it's capital spending for 2003 to 2006 was significantly less than its annual depreciation expense. In response to SEC IR#6, NOW stated that it "had to limit its capital expenditure from 2003 to 2006 for financial reasons". Please explain what NOW means by this statement. How has NOW's situation changed from 2007 onwards?
- b. In response to Board staff IR #2, NOW stated that it "is continually inspecting and assessing its system to determine deteriorating components that require maintenance or replacement." Staff notes that NOW's proposed 2009 capital expenditures are in line with its 2009 annual depreciation expense. Does NOW foresee that it will eventually have to undertake a significant rehabilitation of its network?

- c. Based on information that NOW has from its regular assessment of its system, does NOW believe that if it maintains its capital spending at the levels of its annual depreciation expense going forward, that this will be sufficient to maintain system replacement and reliability?
- d. What role, if any, does NOW's low growth in customers or load, contribute to it being able to maintain and operate its distribution system safely and reliably, while under-spending on capital for a number of years?

PILs Rate Adder

5. Ref: E4/T3/S1 – Tax Calculations, Board staff IR#20, VECC IR#15, #17c

In response to Board staff IR#20, NOW provided the table below identifying the annual amounts for Other Additions and Other Deductions used in calculating Income Taxes.

	Other Addition		Other Deduction	
	Value	Details	Value	Details
2006 Approved	\$ 131,461	Deemed interest to be recovered (calculated by OEB Tax Model)	\$ 205,891	Anticipated Interest (from OEB 2006 Tax model)
2006 Actual	\$ 131,461	Deemed interest	\$ 101,338	Actual Interest
2007 Actual	\$ 127,037	Deemed Interest	\$ 103,161	Actual Interest
2008 Bridge	\$ 143,906	Deemed Interest (short & long term combined)	\$ 114,122	Forecast interest expense
2009 Test	\$ 156,466	Deemed Interest (short & long term combined)	\$ 105,262	Forecast interest expense

- a. Please explain why NOW is using actual interest for “Other Deductions” but deemed interest for “Other Additions”. As per the 2008 Cost of Service applications, these were not allowable adjustments to the PILs proxy. For reference, see the October 27, 2008 Erie Thames Decision and Order (EB-2007-0928) where on page 13 the Board stated:

Interest expense additions and deductions should not be included in the PILs tax calculations, since this does not comply with the Board's method.

Would NOW be willing to remove the adjustments?

- b. In response to VECC IRs #15 and #17, NOW referred to several changes / corrections that it has made to the calculation of its PILs proxy. In response to VECC IR #17 d), NOW shows an “updated” PILs adder of \$60,503. Yet, this amount is the same as in the original filing. In addition to the corrections related to part a) above for Other Additions and Deductions, please identify and explain any other changes or corrections that NOW has made to the calculation of the PILs proxy. Please provide updated calculations as per E4/T3/S1 to S3 identifying any changes made and the reasons for those changes and an updated PILs proxy.

Smart Meter Costs

6. Ref: E1/T1/S6 – Draft Issues List, Board staff IR#19, 41, SEC IR#2, VECC IR#4b

In its original application, NOW indicated that it had not included any smart meter costs in its application. However, in response to Board staff IR #19 b) and VECC IR #4 b), NOW confirmed that its proposed rates included the currently approved \$0.26 rate adder.

In response to Board staff IR #19, NOW revised its smart meter funding request by adjusting its smart meter adder from \$0.26 to \$1.00 per metered customer per month. NOW confirmed that it is approved for smart meter spending under the London Hydro RFP.

NOW stated that full recovery for smart meters when installation is completed (expected in 2009) would be \$4.05 per month per metered customer. NOW indicated that it will be installing 6,140 meters at an estimated total cost of meters installed to be \$1,468,196. Minimum functionality only.

In a schedule provided in response to SEC IR #2 b), NOW indicated that it will have incurred \$31,427 in smart meter operating costs from 2007 to December 31, 2008. Since NOW only just became authorized to engage in smart metering activity, it is unclear what these costs represent.

- a. Please confirm the date that NOW became authorized to engage in smart meter activity under the London Hydro RFP.
- b. Assuming that NOW only just became authorized under the London Hydro RFP recently, please explain why NOW shows OM&A costs for 2007 totalling \$15,850, and 2008 costs of \$15,577.
- c. Please explain the nature of these costs and why they are treated as OM&A costs being recorded in Account 1556 (and subject to future review and disposition).

LOAD AND REVENUE FORECAST

2009 Revenue Forecast

7. Ref: E3/T1/S2/p1 – Summary of Operating Revenue Table, E1/T3/S2/p2 – Pro Form Statement of Income for 2009, Board staff IR#26, VECC IR#9

Both Board staff and VECC requested that NOW provided a derivation of its forecasted distribution revenue for 2009. In response, NOW showed a derivation for 2008 but not 2009. NOW indicated that “the 2009 distribution revenue is derived through the application and ends up at the \$2,890,752 indicated in Exhibit 1, Tab 3, Schedule 2, page 2”. Staff notes that this reference is for the 2009 pro forma statements. The above number is the requested revenue requirement for 2009.

Please produce a derivation of the 2009 distribution revenue build up in a format similar to what NOW produced for 2008 in response to Board staff IR #26.

COST ALLOCATION, RATE DESIGN AND VARIANCE ACCOUNTS

2009 Low Voltage Costs

8. Ref: E2/T4/S1/p3 – Working Capital Calculation by Account, Board staff IR #34 b), c)

Hydro One recently received their 2008 Cost of Service decision which approved updated LV rates for its embedded distributors.

NOW's response to Board staff IR# 34 c) derives an estimate of LV cost based on updated LV rates @ \$175k, in place of \$219k as per the application. NOW's response to Board Staff IR# 37 c) calculates rate adders that would recover \$219k. NOW offers to update the rate adder when a new cost forecast is calculated.

- a. Total LV billing demand for 2007 is 46,224.48 kW. This amount multiplied by the Hydro One rate for HVDS(low) @ \$3.797 per kW comes to approximately \$175k. The forecast cost is \$219k, and is based on these same quantities. Please confirm that there is some other cost component in addition to the rate for HVDS(low). (For example, was the Shared Line rate also applicable, at a rate of \$0.633 and a cost of approximately \$40k?)
- b. The revised cost forecast includes the updated rate for HVDS(low) which is \$2.66 per kW, and a new fixed charge of \$188 per delivery point. If the Shared Line rate was charged by Hydro One in 2007 (i.e. if confirmed in part a), please update the forecast in Board staff IR#34 c) to include the updated rate for Common ST line (approved at \$0.58 per kW).

9. Ref: E9 / T1 / S8 – Rate Impacts, Board staff IR # 38 b), VECC IR #21 b)

In NOW's rate impact calculations, it is evident that the proportion of revenue from the fixed charge would decrease for the Residential class, because the Monthly Service Charge would be increased by 6.6% while the volumetric rate would be increased by 65.5%. The same is true for the GS<50 kW class, where the increases would be 6.7% and 53.3% respectively. For the GS 50-4999 class, the opposite would occur, because the Monthly Service Charge is decreased by only 1.9% while the volumetric would be decreased by 54.0%.

The Monthly Service Charge is higher than the ceiling in the cost allocation filing, and the Board's usual approach in the 2008 Decisions was to leave the proportions unchanged from the status quo in this situation.

- a. In response to Board staff IR#38 b), NOW states that “the rationale for the proposed fixed charge was based on a goal to keep fixed charges relatively close to current fixed charges approved”. Please explain the rationale that a relatively small change in all monthly service charges is desirable.
- b. Please explain why such a small change is a goal for fixed charges, rather than applying equally to both fixed and variable charges.

Retail Transmission Service (RTS) Rates

10. Guideline G-2008-0001 - Electricity Distribution Retail Transmission Rates, Board staff IR #40 c), #41 a)

The response to Board staff IR# 40 c) includes a new calculation of RTS rates to reflect the Uniform Transmission Rates (wholesale) that come into effect January 1, 2009. The proposed RTS rates match the change in the wholesale rates but will not halt the persistent growth of the variance account balances 1584 and 1586. The balances as of December 31, 2007 are negative \$87,347 and negative \$1,431,220 (these balances include interest to April 30, 2009). The Board’s guidelines on RTS rates states, “The pattern over time of the amounts being recorded in these accounts can guide the distributor as to what adjustments may be needed to maintain the balance of the deferral accounts at a reasonable level.” (page 3, second paragraph)

- a. Please confirm that the proposed RTS rates are designed to reflect the most recent changes in the Uniform Transmission Rates (UTRs), and that the 2008 changes in RTS rates were designed to reflect the change in UTRs in November 2007.
- b. Please confirm that neither change in RTS rates was designed to correct the tendency for NOW’s RTS rates to over-collect (i.e. surpluses identified in response to Board staff IR#40 a) of approximately \$70k over two years when passing through each of Network and Connection cost).
- c. Please submit revised RTS rates that addresses the tendency in NOW’s RTS rates to over collect.

Deferral and Variance Accounts

11. Ref: Board staff IR #41 a), b)

NOW has not requested disposition of any deferral or variance accounts. In Board staff IR #41 b), staff asked NOW to calculate a rate rider for each class based on clearing

most non-RSVA accounts, but NOW did not do so. NOW provided only the total projected variance balance as at April 30, 2009 (\$655,945 credit).

- a. Account 1571 (Pre-Market Opening Energy Variance) was cleared in 2006 EDR when NOW received final approval for its variance account balances to December 31, 2004 plus interest to April 30, 2006. For account 1571 the approved principal balance that was disposed was \$263,662 and interest approved was \$25,487. The full principle and interest balances approved were transferred to account 1590, Regulatory Assets recovery account at that time as per the Board's instructions. However, NOW's continuity schedule shows an additional interest balance of \$50,975 that has remained in account 1571. There is no explanation as to what this amount represents or whether NOW expects to recover this amount when all of its variance accounts are disposed. The 2006 Regulatory Assets recovery model (filed by NOW in response to Board staff IR #41) does not show this amount. Please explain what the \$50,975 represents and confirm if NOW expects to recover this amount.
- b. Is there a reason based in a Board Decision or direction that allowed NOW to revise its interest calculations for account 1571?
- c. For account 1580 (RSVA – Wholesale Market Service Charges), NOW is showing a balance of negative \$296,878. Please describe the costs that are recorded in account 1580. Does NOW have an estimate in percentage terms of how much its revenues have exceeded its costs in an average month or year?
- d. Account 1590, Recovery of Regulatory Asset Balances: In its continuity schedule, NOW forecasts transactions in 2008 to be negative \$480k. This appears to be the recoveries in 2008 flowing from the 2006 EDR approved rate riders. However, these rate riders ceased to apply effective May 1, 2008. For comparison purposes, the amount of recoveries recorded for the entire 2007 calendar year were \$322,910 (cell AB44). Please explain why NOW is forecasting such a large recovery amount for the 2008 stub period (Jan 1 to Apr 30).
- e. Please provide a response to the part of Board staff IR #41 b) that refers to rate riders.
- f. Please calculate an alternative set of rate riders that would dispose the net balance of the accounts identified in part e) above plus all RSVA accounts, 1580, 1582, 1584, 1586, 1588 and 1550.

Transformer Ownership Allowance

12. Ref: Board staff IR #38 a) - NOW's cost allocation model – Information Filing, VECC IR#19

In VECC IR #19, VECC requested an alternative run of the cost allocation model in which the “cost” of the transformer ownership allowance would be omitted from the allocation, because the model (in its original run) incorrectly allocated the cost only amongst those classes that receive service through distributor-owned line transformers.

NOW failed to produce the requested output, with the explanation that errors were caused in the model when NOW attempted this modification.

Please note that the Board, in its decision, may require NOW to produce revenue to cost ratios that exclude both the costs and revenues related to transformer ownership allowance. If this is the case, NOW must have the ability to produce these ratios accurately. Please expand on what happened when NOW attempted to respond to VECC's request for a new run of the Cost Allocation model, and explain why NOW believes that the outcome may not be reliable.

Rural or Remote Electricity Rate Protection

13. Ref: E9/T1/S5 – Proposed Rate Schedule for 2009, Board's December 17, 2008 Letter to All Licensed Electricity Distributors and Retailers Re: Rural or Remote Electricity Rate Protection

In its December 17, 2008 letter, the Board announced a change to the RRRP rate from 0.10 cents per kWh to 0.13 cents per kWh. The Board also directed all distributors that have current rate applications before the Board to submit the Board's December 17, 2008 letter as an update to their evidence along with a request that the RRRP change in their tariff sheet be revised to 0.13 cents per kWh effective May 1, 2009. As of this date, NOW has not updated its application for this change.

Does NOW wish to update its application to reflect the change to the RRRP rate?