

Newbury Power Inc.

January 14, 2009

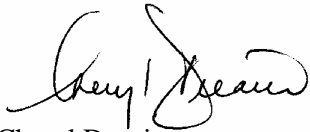
Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Re: EB-2008-0196 Newbury Power Inc. 2009 Incentive Rate Mechanism Application

Dear Ms. Walli:

Please find enclosed Newbury Power Inc. responses to the Board staff's Interrogatories on 2009 2GIRM.

Yours truly,



Cheryl Decaire
Co-ordinator of Regulatory and Rates
(519) 352-6300 ext 405
Email: cheryldecaire@ckenergy.com

CC: Jim Hogan, Chief Financial and Regulatory Officer

Question #1

Ref. D1.1 K-factor Adjustment Worksheet

The following is extracted from Newbury Power Inc.'s ("Newbury") response to Board Staff Interrogatories Question #5 from the 2008 IRM application EB-2007-0864.

Question #5

Ref.: 2008 Model, Sheet 6 (K-factor Derivation)

A review of your 2006 Board Approved EDR Model indicates that the Rate Base is "\$211,883"; however your 2008 models does not reflect this.

Answer:

The incorrect 2006EDR Final model was used to calculate the k-factor in the 2008 IRM. After receiving the final approved 2006EDR model, the rate base should be \$211,883. An updated model was created to reflect the correct figures; the name of the file is "Newbury_APPL_2008IRMrevised_20080204.xls"


- a. Newbury acknowledged that the 2008 calculation of the k factor was incorrect. Please provide an explanation why Newbury continue to use the incorrect rate value of \$215,209 and other related values in the 2009 k factor calculation.
 - b. Please provide a correct k factor calculation and confirm that Newbury agrees that the final k factor adjustment amount should be -0.2%.
-


Answer:

- a) Newbury has acknowledged that the input of the rate base and other related values is incorrect in the 2009 IRM.

An updated model is provided, named
"Newbury_APPL_2009IRMrevised_20090108.xls"

- b) The K factor from the adjusted values is -0.2%, the sheet has been provided on the next page.


Ontario Energy Board
 Commission de l'énergie de l'Ontario
2nd Generation Incentive Regulation Mechanism



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Bill Impact on Generator

K-Factor Derivation Worksheet
 Please enter the required information into the green-shaded cells.

Capital Structure Transition

Size of Utility (Rate Base)		Small (\$100M)		Med-Small (\$100M-\$250M)		Med-Large (\$250M-\$1B)		Large >\$1B	
Year		Debt	Equity	Debt	Equity	Debt	Equity	Debt	Equity
2007		50.0%	50.0%	50.0%	50.0%	60.0%	40.0%	60.0%	40.0%
2008		50.3%	49.7%	57.5%	42.5%	60.0%	40.0%	62.5%	37.5%
2009		56.7%	43.3%	60.0%	40.0%	60.0%	40.0%	60.0%	40.0%
2010		60.0%	40.0%	60.0%	40.0%	60.0%	40.0%	60.0%	40.0%

Cost of Capital parameters

ROE **A** 9.00% (Board Approved 2006 EDR Model, Sheet 3-2, Cell E32)

Debt Rate **B** 7.25% (Board Approved 2006 EDR Model, Sheet 3-2, Cell C25)

Rate Base **C** 211,853 (Board Approved 2006 EDR Model, Sheet 3-1, Cell F21)

Size of Utility **D** Small

Deemed Capital Structure

	Debt	Equity
2006	B1 50.0%	E2 50.0%
2008	P1 51.5%	P2 48.5%
2009	P1.2 56.7%	P2.2 43.3%

Based on C, copies the deemed D/E from row "2007" of the table
Based on C, copies the deemed D/E from row "2008" of the table
Based on C, copies the deemed D/E from row "2009" of the table

Cost of Capital

	Debt	Equity	Weighted Average Cost of Capital
2006	G 8.125%	H 11.25%	I 9.375%
2008	M 8.10%	N 11.00%	O 9.30%
2009	HT 8.91%	HT 10.91%	HT 9.91%

= (B1 X B) + (E2 X A)
= (P1 X B) + (P2 X A)
= (P1.2 X B) + (P2.2 X A)

Return on Rate Base

	Debt	Equity	Weighted Average Cost of Capital
2006	J 17.21549%	K 17.21549%	L 17.21549%
2008	J 17.30513%	K 17.30513%	L 17.30513%
2009	JT 16.96736%	K 16.96736%	L 16.96736%

= C X G / 100
= C X H / 100
= C X HT / 100

Distribution Expenses and Revenue Requirement (before PILs)

Distribution Expenses (other than PILs) **K** 60,000 (Board Approved 2006 EDR Model, Sheet 4-1, Cell F15)

Base Revenue Requirement **L** 75,248 (Board Approved 2006 EDR Model, Sheet 5-5, Cell F27)

Transformer Allowance Credit **M** - (Board Approved 2006 EDR Model, Sheet 6-3, Cell "Total" in Row R126)

Revenue Requirement (before PILs)

	Debt	Equity
2006	N 10,735,904	O 16,525,131
2008	N 10,735,904	O 16,525,131
2009	O2 16,797,065	O2 16,797,065

= J X K
= J X K
= JT X K

Target Net Income (EBIT)

	Debt	Equity
2006	P1 9,054,743	P2 9,054,743
2008	P1 9,054,743	P2 9,054,743
2009	P1.2 9,207,851	P2.2 9,207,851

= I - P2
= J - P2
= JT - P2.2

Interest Expense

	Debt	Equity
2006	P2 7,680,765	P2 7,680,765
2008	P2 8,187,693	P2 8,187,693
2009	P2.2 8,709,981	P2.2 8,709,981

= C X (B X B1 / 100)
= C X (B X P1 / 100)
= C X (B X P1.2 / 100)

PILs

Tax Rate **A** 15% (Board Approved 2006 PILs Model, Sheet "Test Year PILs, Tax Provision", Cell D14)

Large Corporation Tax Allowance (if applicable) - grossed up **G** - (Board Approved 2006 PILs Model, Sheet "Test Year PILs, Tax Provision", Cell D21)

OCT (Rate Base less \$10,000,000 X 0.30%) **T** - (Board Approved 2006 PILs Model, Sheet "Test Year PILs, Tax Provision", Cell D25)

PILs Allowance **U** - (Board Approved 2006 PILs Model, Sheet "Test Year PILs, Tax Provision", Cell D33)

Taxable Income

	Debt	Equity
2006	AC 10,735,904	AD 16,525,131
2008	AC 10,735,904	AD 16,525,131
2009	AD.1 16,797,065	AD.1 16,797,065

= AC + (Q1 - P1) * (R / 100)
= AC + (Q1.2 - P1) * (R / 100)

Federal Tax (grossed up)

	Debt	Equity
2006	V 1,610,386	W 2,478,770
2008	V 1,610,386	W 2,478,770
2009	W 2,478,770	W 2,478,770

= AC * (R / 100) / (1 - R / 100)
= AD * (R / 100) / (1 - R / 100)
= AD.1 * (R / 100) / (1 - R / 100)

Base Revenue Requirement Adjustment (including PILs)

Revenue Requirement (less LCT) **V** 8,125,518 (LCT is removed as it was removed in from rates in 2007 EDR)

	Debt	Equity
2006	V 8,125,518	W 12,399,613
2008	V 8,125,518	W 12,399,613
2009	W 12,399,613	W 12,399,613

= N + V + T
= O + W + T
= O2 + W + T

Base Revenue Requirement (plus transformer allowance credit)

(Transformer allowance credit needs to be added onto revenue requirement for full rate recovery - similar to LCT calculation in 2007 EDR)

	Debt	Equity
2006	Z 79,461.03	Z 79,461.03
2008	Z 79,461.03	Z 79,461.03
2009	Z 79,461.03	Z 79,461.03

= L + M
= Z + (Y - X)
= Z + (Y2 - X)

Difference

	Debt	Equity
2006	A2 122.56	A2 122.56
2008	A2.2 120.07	A2.2 120.07

= A2 - Z
= A2.2 - AA1

K-factor

	Debt	Equity
2006	A8 0.25	A8 0.25
2008	A8 0.25	A8 0.25

= A2 / Z
= A2.2 / AA1

D1.1 K-Factor Adjustment Worksheet

Question #2

Ref. J2.3 LV Wheeling

Newbury is requesting that the 2008 Low Voltage rate rider with the sunset date of April 30, 2009 be continued until 2014.

In addition page 2 of Newbury's Manager Summary under the heading of "Low Voltage Rider" Newbury states:

"MPDC is currently purchasing NPI and will not be rate basing until 2014 therefore, NPI is requesting that the low voltage rider will be in effect until this time."

- a) Please provide an explanation why Newbury believes it should continue to collect the Low voltage rate rider beyond April 30, 2009.
-

Answer:

Low Voltage Charge activity for NPI

Hydro One 2006 EDR

From the Ontario Energy Board Decision on Hydro One amend Distribution Tariff effective May 1, 2006 has approved a Shared Low Voltage Line charge. As stated in the amendment "the LV rates will be applied to your actual monthly peak loads per delivery point starting 1st. Previous LV charges accumulated in the Regulatory Asset accounts were based on 1999 historical load per delivery point.

The approved LV rates are as follows:

<u>Description</u>	<u>Pervious Rate</u>	<u>New Rate</u>
Shared LV Line Charge	\$.56/kW/month	\$.63/kw/month

As stated above the rate that Newbury is requesting for Low voltage is the on going cost from Hydro One not additional cost above the monthly expenses from Hydro One.

NPI 2006 ER application

Newbury had applied for low voltage adjustment of \$22,171 as a Tier 1 adjustment in the 2006EDR application (EB-2005-0392 Tab 3 Schedule 3-1).

In the 2006EDR decision (EB-2005-0392 May 1, 2007 page 4) Newbury was approved for the Tier 1 adjustment as an annual recovery as stated:

“Newbury Power included in its application recovery of ongoing Low Voltage (“LV”) charges that Hydro One Networks will be levying on Newbury Power for Low Voltage wheeling distribution services provided to Newbury Power.”

“The Board notes that this estimate reflects Hydro One Networks’ current approved LV rate of \$0.56/kW. The Board further notes that Hydro One Networks has applied for an LV rate of \$0.63/kW in its 2006 rate application RP-2005-0020/EB-2005-0378, and the Board has approved this rate.”

“The Board is of the view that Newbury Power’s rates should reflect the LV rates authorized by the Board for the host distributor. Accordingly, the Board has revised the amount for LV charge recovery in Newbury Power’s revenue requirement.”

NPI rate mitigation process in 2006 EDR

In Newbury Rate Mitigation Plan (EB-2006-0392 May 14 2007 page 2) the low voltage charge had been deferred due to the overall impact on the customer rates being over the 10% threshold, as stated

“NPI must reduce the revenue requirement in order to meet the 10% customer impact threshold. Therefore, NPI is proposing to defer the recovery of the Low Voltage charges and the Regulatory Assets.”

NPI 2008 IRM to implement the rate mitigation plan approved in 2006 EDR

As stated in the Management Summary (EB-2008-0196) Newbury Power Inc. (“NPI”) will have an ongoing low voltage expense of approximately \$22,167 this expense is not a one time event. The following was extract from NPI Management Summary:

“NPI 2006 EDR application (EB-2006-0392) had indicated that the annual Hydro One expense will incur of approximately \$22,167 which are not currently incorporated within volumetric charge. Therefore, NPI is proposing to continue with a low voltage rider to accommodate for the on going charge. In order to protect the customers and the NPI there still will be a deferral account to track the variance of the low voltage cost. MPDC is currently purchasing NPI and will not be rate basing until 2014 therefore, NPI is requesting that the low voltage rider will be in effect until this time.”

In NPI 2008 IRM (EB-2007-0556) Low voltage charges were approved by the Board in their decision effective May 1 2008 and ending April 30 2009 but these are ongoing annual cost.

Summary

NPI has demonstrated above that through the rate setting process over the past few years they will be charged from Hydro One for LV services, therefore NPI is proposing to continue with the low voltage rate rider until 2014 rate rebasing and any variances will be recorded in a deferral account to protect the customers and ensure NPI is not over recovering.

Question #3

Ref. J1.1 Smart Meters Rate Adder
Guideline – Smart Meter Funding and Cost Recovery G-2008-002 Newbury
Manager Summary

Newbury is requesting to increase the current smart meter rate adder from \$0.25 to the implementing distributor rate of \$1.00.

Page 9 of the “Smart Meter Funding and Cost Recovery” guideline states:

An implementing distributor that applies for an “implementation” funding adder should include, as part of the application, evidence that the distributor is authorized to conduct smart meter activities in accordance with applicable law. The thirteen “named” distributors (those identified in paragraphs 3 and 5 or covered by paragraph 6 of section 1(1) of O. Reg. 427/06 and those whose service areas are identified as priority installation by O. Reg. 428/06) are not required to provide further evidence of authorization. Distributors that are authorized by virtue of paragraph 8 of section 1(1) of O. Reg. 427/06 will need to provide evidence demonstrating that their smart meters were procured pursuant to and in compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc.

Currently Newbury is not legally entitled to claim membership in the thirteen ‘named’ distributors. Alternatively Newbury has not filed evidence with respect to compliance with the August 14, 2007 Request for Proposal issued by London Hydro Inc. Newbury’s Managers Summary states:

NPI is requesting to increase the monthly smart meter service charge for metered customers from \$0.25 to \$1.00 per month per meter customer; the proposal is to minimize the rate impact in 2010 after full deployment in 2009. NPI is being purchased by Middlesex Power Distribution Power (“MPDC”) Merger, Amalgamation, Acquisition and Divestitures (MAAD) application EB-2008-0350 is before the Board, who is named in the regulation 427/06, and will be installing smart meter for NPI customers in 2009.

- a) How would Newbury propose the Board to proceed should the MAAD application not be complete before the Board’s target decision release date of March 20, 2009, as noted in the Boards Letter of Acknowledgement, November 7th, 2008?
-

Question #3 continues

Answer:

Newbury is recommending that the following format for the smart meter rider,

If the MAAD application decision is completed before 2009 IRM decision then we request that the smart meter rate be \$1.00.

If the MAAD application decision is after 2009 IRM decision then we request that the smart meter rate be \$0.25

Question #4

Ref Rural or Remote Electricity Rate Protection (“RRRP”)

By letter dated December 17, 2008, the Board informed the electricity distributors of the approval it has given to the IESO regarding the level of charge the IESO may apply to its Market Participants for the Rural or Remote Electricity Rate Protection (RRRP) program. In that letter, the Board stated: “Distributors that currently have a rate application before the Board shall file this letter as an update to their evidence along with a request that the RRRP charge in their tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.”

- a) If Newbury has not done so, please file the required addition to the evidence as outlined in the December 17th letter.
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Answer:

The letter is attached and will be email to the Board Secretary.

Newbury Power Inc.

January 8, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge St, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: May 1, 2009 IRM Rate Filing / EB-2008-0196 / Rural or Remote Electricity Rate
Protection Adjustment**

Pursuant to the Board's instructions in its letter of December 17, 2008, Newbury Power Inc. hereby submits the Board's letter, which is attached to this request, as an update to our evidence of Newbury Power Inc. previously filed May 1, 2009 Rate Adjustment Application. Newbury Power Inc. respectfully requests that the RRRP charge in its proposed tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.

We enclose two (2) hard copies of this request.

Newbury Power Inc. will forward this request for adjustment via e-mail to boardsec@oeb.gov.on.ca.

If there are any questions, please contact me at the number below.

Yours truly,



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Coordinator Regulatory and Rates
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