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Vice President and Chief Regulatory Officer
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BY COURIER

April 1, 2009

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

**EB-2008-0232 – Hydro One Remote Communities 2009 Distribution Rate Application –Reply Argument to Nishnawbe-Aski Nation**

I have attached three (3) copies of the updated reply argument of Hydro One Remote Communities Inc. (HORCI) that was filed on March 19, 2009. This update includes Appendix A which is HORCI's reply to the Nishnawbe-Aski Nation (NAN) submission that was filed on March 25, 2009.

An electronic copy of the complete argument, including the attached Appendix, has been filed using the Board's Regulatory Electronic Submission System (RESS) and the proof of successful submission slip is attached.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

c. EB-2008-0232 Intervenors

# ONTARIO ENERGY BOARD
# IN THE MATTER OF the Ontario Energy Board Act, 1998; AND IN THE MATTER OF an Application by Hydro One Remote Communities Inc. for an Order or Orders approving rates for the distribution of electricity.

## Argument of the Applicant

### A. INTRODUCTION

The Applicant is Hydro One Remote Communities Inc., a subsidiary of Hydro One Inc. The Applicant, which will hereinafter be referred to as "Remotes" is an Ontario corporation with its head office in Toronto and operations center in Thunder Bay. The Applicant is an integrated generation and distribution company licensed to generate and distribute electricity within 20 isolated communities in northern Ontario. As noted in the evidence, Remotes is a unique distributor and is exempt from a number of the legal and regulatory requirements imposed on most distributors[1] in Ontario.

Remotes is 100% debt-financed and operates as a break-even business[2]. There is no return on equity available to the shareholder and any differential between revenues and expenses is captured in the Rural and Remote Rate Protection (RRRP) variance account.[3]

### B. APPROVALS AND ORDERS SOUGHT

Remotes has applied to the Ontario Energy Board (the "Board"), pursuant to section 78 of the Ontario Energy Board Act, 1998, for an Order or Orders as follows:

1. **Annual Revenue Requirement**

   In the November 28, 2008 update to the prefiled material, Remotes sought approval of a revenue requirement of $42,500 thousand for the Test Year 2009, of which $14,655 thousand was proposed to be recovered through customer rates leaving $27,845 thousand to be recovered from Rural and Remote Rate Protection (RRRP). As a result of the updated cost of capital parameters issued by the Board on February 24, 2009, the revised revenue requirement will be $42,550 thousand, an increase of $50 thousand, of which $14,655 is proposed to be recovered through customer rates (unchanged from the updated evidence) and $27,895 is to be recovered from RRRP.

2. **Recovery of Variance Account**

   In the November 28, 2008 update to the prefiled material, Remotes sought approval to recover through RRRP rates the December 31, 2008 forecast balance of $4,013 thousand in the Rural and Remote Rate Protection Variance Account. An audited actual balance for December 31, 2008 now being available, Remotes requests

[1] Exhibit A-5-1, p1
[2] Exhibit A-2-1,p1
[3] Exhibit A-2-1,p4

recovery of that balance of $3,381 thousand. This balance would be added to the above-noted $27,895 thousand for recovery from all electricity users in the grid-connected part of the Province, for a total of $31,276 thousand in RRRP. Remotes is requesting the $31,276 thousand in RRRP to be established effective January 1, 2009.

**3. Approval to Retain Variance Account**

Remotes seeks approval to retain the Rural and Remote Rate Protection Variance Account to mitigate risks related to increased costs and to recover the existing deficit balance. Remotes expects to report on this variance account annually, and will request any required change in the RRRP amount annually. Please see Section C.5 below.

**4. Approval of Rates**

Remotes seeks approval of rates for residential, general service and standard A customers. The proposed rates continue to encourage conservation with the inclining block structure, originally established in 2006.

The current and proposed rates for each customer class are set out in Exhibit G1 of the Applicant's Prefiled Evidence, as revised November 28, 2008.

Remotes notes that Board Staff and Intervenors have not opposed the level of OM&A requested. Concerns raised by Board Staff and Energy Probe with respect to specific items will be dealt with individually below.

## C. REPLY TO BOARD STAFF SUBMISSIONS

**1. Scheduling of Capital Expenditures**

i) Board Staff noted that 2008 system improvement expenditures were reduced from $318,000 included in the original filing to $125,000 in the evidence update filed on November 28, 2008, and that 2009 expenditures were unchanged. Board staff commented that it is not clear to them what system improvements have been reduced for 2008 and why no system improvements were reduced in 2009[4].

In reply, Remotes notes that the response to Board Staff interrogatory 5[5] indicated (in the table on page 4) that the $193 thousand in reduced 2008 spending for Distribution System Improvements in the update compared with the original filing was due to several small projects which were delayed due to resourcing limitations and delays in completing Asset Condition Assessments.

The reasons for the resourcing limitations were explained in the response to Board Staff Interrogatory 5[6]. In 2008, Remotes' Distribution group had significant employee turnover. Two managerial positions which oversaw the distribution capital

[4] Staff Submissions, p. 3
[5] Ex. H, Tab 1, Schedule, page 4
[6] Ex. H, Tab 1, Schedule 5

program were vacant for an extended period due to difficulty in hiring replacements. As this group has 8 full-time staff positions, this represented a 25% staff vacancy rate which impacted the department and contributed to program delays. These positions have now been filled and the department does not anticipate delays in the completion of their work in 2009.

The resourcing problem, along with a large amount of unplanned recoverable connection work, led to a delay in the execution of the Asset Condition Assessment program. It is anticipated that this program will be completed early in 2009 and will lead to the ability to achieve the 2009 requested capital program.

Remotes also notes that System Improvement work is required for ongoing reliability and safety of the distribution system as prescribed by Section 4.4 of the Distribution System Code, and ESA Reg. 22/04. Remotes believes that the $481 thousand budgeted for distribution system improvements[7] is required to achieve this objective.

ii) Board staff has invited Remotes to comment on how it intends to complete the 2008 and 2009 planned expenditures and whether some need to be postponed[8]. Staff's concern is premised on the number of incomplete 2008 projects that could flow into 2009.

Remotes submits that capital programs and projects are subject to re-prioritization within any year due to changing circumstances. Expenditures that were initially planned for 2008 may be carried out in 2009 if they are assessed at a higher priority than other 2009 projects, planned and unplanned. However, Remotes submits that while the specific projects undertaken may change somewhat, it does not expect that the amount of capital spending requested in 2009 will be materially affected. Remotes also notes that due to the additional staff recently hired, as discussed above and further at p. 4 of Exhibit H, Tab 1, Schedule 5, part (c), and also commented on by Board Staff, it has addressed the resource limitations that have resulted in capital programs being deferred and accomplishments limited in recent years. Remotes believes as a result that the increased capital expenditures budgeted for 2009 are achievable.

Finally, Remotes notes that the impacts of any variances in capital spending are captured in the RRRP variance account through, for example, lower asset-related expenses such as interest and capital taxes. In this way ratepayers are held harmless from the effects of these variances over time.

**2. 2008 Tax Forecast**

Board staff has invited Remotes to provide a tax forecast for 2008 and comment on whether there will be a loss for the 2008 year[9].

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[7] Ex. D2, Tab 2, Schedule 1
[8] Staff Submissions, p. 4
[9] Staff Submissions, p. 5

It is anticipated that Remotes will have a taxable loss of $4.8 million for the 2008 tax year. This amount will be carried forward and applied against taxable income of future years. Remotes will have 20 years to utilize the losses before they expire. Any amount applied against future income will be recorded as a credit to Remotes' RRRP Variance Account. As a result, ratepayers will be held harmless from the difference between the tax provision of $223 thousand included in Remotes' 2009 test year revenue requirement and any income tax credit arising from a taxable loss actually incurred.

## 3. Cost of Capital Parameters

Short Term and Long Term Debt

The Board has recently updated its Cost of Capital Parameters in a letter dated February 24, 2009. The 2009 short term and deemed long term rates for use in the 2009 rate year cost of service are 1.33% and 7.62%, respectively. Board staff submitted that Remotes should use the revised rates in its cost of capital calculation[10]. Board Staff also invited Remotes to confirm that it is seeking a weighted average cost of 6.07% for its long-term debt.

As set out in the prefiled evidence[11], Remotes assumed that the deemed short term and deemed long term debt rate for the test year would be updated in accordance with the Board's December 20, 2006 Cost of Capital Report upon receiving a final decision in this case. Remotes therefore agrees with Board Staff to update these rates per the Board's updated Cost of Capital Parameters issued on February 24, 2009. As indicated earlier in this Reply, Remotes' revenue requirement has been revised to include updated cost of capital parameters.

In Remotes' update of evidence on November 28, 2008, the cost of capital calculation in Exhibit B1, Tab 1, Schedule 1 was not changed as the impact was considered immaterial. Remotes believes this evidence should now be updated to include the change in the cost of deemed short and long term debt as suggested by Board Staff and for the change in rate base as shown in the November 28, 2008 update. The revised 2009 Cost of Capital Table is shown below.

| **Particulars** | **($000s)** | **%** | **November 28 Update** | | **February 24, 2009 Parameters** | |
|---|---|---|---|---|---|---|
| | | | **Cost Rate (%)** | **Return ($000s)** | **Cost Rate (%)** | **Return ($000s)** |
| Deemed short-term debt | 1,213 | 4.0 | 4.47 | 54 | 1.33 | 16 |
| Third Party long-term debt | 23,000 | 75.8 | 5.60 | 1288 | 5.6 | 1,288 |
| Deemed long-term debt | 6,113 | 20.2 | 6.19 | 378 | 7.62 | 466 |
| Total | 30,326 | 100.0% | | $1,720 | | $1,770 |

[10] Staff Submissions, p. 6
[11] Ex. B1, Tab 1, Schedule 1, Section 3.0

As the table indicates, the revision to the Cost of Capital Parameters results in a $50 thousand increase in total return, from $1,720 thousand to $1,770 thousand. This in turn causes an increase in revenue requirement, from $42,500 thousand requested in the November 28, 2008 update to $42,550 thousand currently.

Remotes confirms that it is seeking a weighted average cost of 6.02%[12] for its long term debt, not 6.07% as set out in Board Staff's submission. The details of the calculation are included in the footnote below.

**4. Smart Meters[13].**

Board staff has asked for clarification as to whether the $32,000 included in the capital program for smart meters is a new request or has been previously approved[14].

Board staff has further noted that Remotes has added $16,000 to the rate base to recover Smart Meter costs. Board staff submits that Remotes should include all smart meter related expenditures in the appropriate deferral accounts[15], rather than add it to ratebase.

Board staff also invited Remotes to provide clarity on the source of the $32,000 that it intends to spend in 2009 related to smart meters and its rationale for including the expenditure in the rate base[16].

The planned expenditure of $32,000 on smart meters is a new request, and has not been previously approved. As noted in the evidence[17], the smart (digital) meters Remotes is installing use less functionality than the smart meters being installed as part of the provincial smart meter regime in grid-connected communities. Remotes submits that this makes its "Smart Meter" program more akin to a meter replacement program involving enhanced meters than the implementation of a true Smart Meter Program. At this time, Remotes' smart (digital) meters are deployed as conventional meters, and Remotes requests that they be treated as conventional meters for ratemaking purposes.

**5. Deferral and Variance Accounts**

Board staff submitted that for its next rebasing the Board should require Remotes to provide subtotals for the various factors that contribute to the overall balance in the RRRP Variance Account as shown below. In addition, Board staff submitted that the "Operations, maintenance and administrative expense" should be broken out to show

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[12] (1288+466) / (23000+6113) = 6.02%
[13] See also section D. 3, below, with respect to Remotes' response to Energy Probe's concerns re Smart Meters.
[14] Staff Submissions, p. 8
[15] Staff Submissions, p. 8
[16] Staff Submissions, p. 8
[17] Ex. H, Tab 1, Schedule 12 d

what amounts in this category are directly attributable to bad debt[18].

Board staff proposed the following categories[19]:

- Fuel Expense
- Operations, maintenance and administrative expenses
- Depreciation
- Asset removal expense
- OPEB amortization
- Financing charges
- Capital tax

Remotes acknowledges Board Staff's concern regarding the transparency of this account. Currently, the RRRP variance account is bundled with Remotes' long-term LAR liability in USofA account 2320. Remotes believes that increased transparency can be achieved by designating a separate USofA account for the RRRP balance. To ensure that changes in the balance in the account are also transparent, Remotes proposes filing an annual reconciliation for the account. The reconciliation, based on audited actuals, would be filed for the purposes of clearing the variance. The reconciliation would show the opening balance in the account, the transactions in the major categories listed by Board Staff as well as for other categories (such as Income Taxes), and the resulting closing balance. Remotes believes that a reconciliation such as this would achieve the level of transparency desired without adding undue administrative burden. An illustrative example of the proposed annual filing using 2008 audited actuals is included as Appendix 1.

## D. REPLY TO ENERGY PROBE SUBMISSIONS

### 1. Generation OM&A

Energy Probe has suggested that Remotes' sole concern in offering the offset cost of diesel generation for power generated from renewable sources is to maintain its breakeven objective as a not for profit provider of electricity resources[20].

This is not the case. As set out in Remotes' responses to interrogatories, these renewable energy developments are expected to provide community benefits and cost savings in three areas[21]:

- Reduced emissions as per Remotes' Voluntary Emissions Reduction Strategy;
- Reduced future energy arrears based on the increase in local employment and other income associated with the developments; and

[18] Staff Submissions, p. 10
[19] Staff Submissions, p. 11
[20] Energy Probe Final Argument, para. 8
[21] Ex. H, Tab 2, Sched. 7, p. 1

- Increased local resource capacity being available to reduce Remotes' future cost of operations.

**2. Development Costs of Renewable Energy**

i) Energy Probe has submitted that entering into a contract for renewable energy at the avoided cost of diesel generation is not prudent and does not protect the interest of the province's ratepayers. Energy Probe suggests that Remotes should explore other mechanisms for supporting renewable sources of generation[22].

As pointed out in Remotes' responses to interrogatories[23], in order to make these projects sustainable, a higher cost for the energy produced is required. Remotes believes that short term (5 year) Power Purchase Agreements at or near the cost of diesel generation will help to facilitate these projects and drive down the consumption of diesel fuel.

The initiatives to purchase renewable energy at the avoided cost of diesel generation are intended as a short term startup solution only. In the longer term it is expected that renewable energy will be purchased within a price range reflective of its production cost and market value. Remotes is currently working with OPA to develop a program and pricing for the longer term.

ii) Energy Probe has submitted that Remotes' status as a not-for-profit provider of electricity does not exempt it from the obligation to control costs or to develop strategies to minimize RRRP costs over the long term[24].

Remotes agrees with this submission wholeheartedly. Remotes has in fact aggressively developed and implemented such strategies. Remotes has focused on trying to attain efficiencies in the following areas of its operations:

- Fuel transportation and fuel contracting
- Generation automation and remote controls SCADA
- Improved Diesel Station Efficiency Standards
- Conservation and Demand Management

Remotes' initiatives in these areas are set out in detail in Exhibit H, Tab. 1, Schedule 24 and Exhibit H, Tab 1, Schedule 18.

iii) Energy Probe has questioned why Remotes would not require an equity position or other consideration for its costs incurred in assisting the development of renewable energy projects[25].

[22] Energy Probe Final Argument, para. 9
[23] Ex. H, Tab 1, Sched. 20, p. 1
[24] Energy Probe's Final Argument, para. 10
[25] Energy Probe's Final Argument, para. 12

Remotes notes that these projects are small and in remote areas. To this point they have not (and likely will not) attract interest from third-party developers. As such, the local First Nations are the only viable proponents for these small-scale generation displacement projects; however, they generally do not have the funds to pay for the development of these projects without Remotes' assistance.

As indicated in the response to Energy Probe's interrogatory 7 (Exhibit H, Tab 2, Schedule 7(a)) Remotes' policy with respect to taking equity positions in these projects is under development. Remotes notes that entering into an equity position could require the creation of separate corporate entities to hold title. Considering the size of these projects, the administrative burden that would be involved in Remotes taking an equity position would likely be out of proportion to any return that Remotes might achieve.

iv) Energy Probe has submitted that Remotes should develop innovative strategies that allow local residents to acquire skills that would permit more involvement by them in the building, operating and maintaining of the community power system[26].

Remotes agrees with Energy Probe and submits it has done just that. It has developed innovative strategies to engage local residents. These initiatives are described in detail in Remotes' response to the interrogatories filed by NAN[27].

**3. Smart Meters**

i) Energy Probe has suggested that converting these communities to Smart Meters is not cost effective and that Remotes should investigate opting out of the Province's Smart Meter plan.[28]

Because all Ontario electricity distributors are moving toward smart (digital) meters, mechanical meters are becoming obsolete and will not be supportable in the future[29]. Accordingly, it has become difficult to find suppliers who are willing to maintain and calibrate mechanical meters according to Industry Canada standards. Remotes has fewer than 3,400 meters in total. Sustainment costs for these mechanical meters would become prohibitive over time, particularly as Remotes would need to source the meters and the meter calibration services from outside of Ontario. As a result, Remotes is planning to install smart (digital) meters over the next three years, as meters are replaced.

[26] Energy Probe's Final Argument, para. 14
[27] Ex. H, Tab 3, Sched. 1, pages 2 and 3 (Also Ex. C1, Tab 3, Sched. 1)
[28] Energy Probe's Final Argument, para. 15
[29] Ex. H, Tab 1, Schedule 11

Remotes also notes, as discussed earlier in the reply to Board Staff's submissions[30], that Remotes' "Smart Meter" program is more akin to a meter replacement program involving enhanced meters than the implementation of a true Smart Meter Program. As such, Remotes has already chosen to limit its participation in the provincial program based on its own assessment of need to-date.

Remotes plans to monitor and assess the results of Hydro One Networks' smart meter implementation program in rural Northern Ontario. Remotes believes that it may be possible to reap some benefits from these digital meters and from the fact that the meters can communicate. During 2009, Remotes plans to monitor and assess the results of Hydro One Networks' implementation of smart meters in rural Northern Ontario, and to enable the communications if there are indeed benefits from doing so.

**4. Deferral and Variance Accounts**

Energy Probe has expressed concerns about the transparency of the Variance Accounts in similar terms to those set out at page 10 of the Board Staff submissions.[31]

Remotes has addressed these concerns above in its response to Board Staff's Final Argument.

***ALL OF WHICH IS RESPECTFULLY SUBMITTED***

[30] Section C. 4, *supra*
[31] Energy Probe's Final Argument, para. 16

# Appendix 1

**Hydro One Remote Communities Inc.**
**Variance Account Reconciliation**
**For the year ended Dec. 31, 2008**

| | | | Revenues and Expenses Audited Actuals |
|---|---|---|---|
| ***RRRP Variance Opening Balance*** | ***Jan. 1/2008*** | **$** | **(1,464,080)** |
| ***Revenue*** | | | |
| Energy | | | (13,209,823) |
| RRRP Subsidy | | | (21,096,996) |
| Other - External | | | (490,654) |
| **Total** | | | **(34,797,473)** |
| ***Costs*** | | | |
| OM&A | | | 12,215,623 |
| Bad Debt | **Note 1** | | (233,904) |
| Fuel | | | 23,502,198 |
| Depreciation (includes removals) | | | 2,976,450 |
| Amortization of OPEB Regulatory Asset | | | 328,915 |
| Amortization of Environmental Asset | | | 1,029,196 |
| Interest | | | 1,292,775 |
| Income Tax Provision (includes capital taxes) | | | (1,468,714) |
| **Total** | | | **39,642,539** |
| **Net (Income)/Loss [change in RRRP]** | | | **4,845,066** |
| ***Ending Balance RRRP VA*** | ***Dec. 31/2008*** | **$** | **3,380,986** |

*Note 1 - Bad debt recovery of $233,904 represents reversal of provision from prior year due to signed long term payment arrangements and vigorous residential collections.*
*Note 2 - Depreciation includes $385,747 in asset removal expense*

# Appendix A

## Response of the Applicant to the Final Argument of The Nishnawbe Aski Nation

## INTRODUCTION

Hydro One Remote Communities Inc. filed its Final Argument on its 2009 rate application, EB-2008-0232, on March 19, 2009. This is Appendix A to that Final Argument, to address the concerns raised by The Nishnawbe Aski Nation ("NAN") in its Final Argument submitted March 25, 2009. Without reiterating what Remotes has already stated in its Final Argument, Remotes makes the following additional submissions in response to the Final Argument of NAN:

**1. NAN states that the 4.4% rate increase for 2009, which Remotes advises is the average increase for grid connected customers approved by the Board in 2008, based on existing applications is too high and should be reduced to 2%**

NAN has expressed concerns over the proposed 4.4% rate increase to Remotes customers. Remotes notes that the proposed increase to customer rates is not predicated on the increase in its cost of service, but rather is based on the average 2008 over 2007 distribution rate increases for Ontario LDC's approved by the Board in 2008. This methodology is consistent with the methodology approved by the Board for Great Lakes Power Limited rates in EB-2007-0744 on October 30, 2008.

The cost of providing electricity to remote communities in its service territory has always been shared among government, province-wide ratepayers through RRRP and ratepayers within Remotes' service territory. Remotes would like to stress that customer rates in its service territory have increased only once since 1993, in 2002. This compares to other LDC customers, who have had multiple rate increases over the same time period which cumulatively amount to more than the single 4.4% increase proposed for Remotes' customers. The proposed 4.4% increase represents an increase of less than 1% per year since that increase in 2002. Remotes also notes that while the proposed increase to its customers is 4.4%, the increase to the RRRP requirement is 31.8%.

**2. NAN has submitted that, in addition to the RRRP, other means should be employed by Remotes to reduce or control its costs. Those measures could include a greater investment in conservation and demand management programs, greater use of winter roads to truck diesel fuel into communities, increased storage of diesel fuel in Remotes communities, the installation of computerized fuel management systems on generators, and so on.**

Remotes has already undertaken these initiatives[1] and is committed to continue to explore means to reduce costs. Past savings associated with these initiatives have already been built in to the 2009 test year forecast of expenses.

**3. NAN has also submitted that Remotes could re-examine its administrative costs with a view to introducing cost cutting measures at that level. In most organizations, management oversight costs can be reduced by more effective scheduling of site visits, reducing the number of persons needed to perform specific tasks and, where appropriate, by outsourcing.**

Remotes notes that there is no evidentiary basis for NAN's claim. Remotes further states that it is and has been finding efficiencies in all aspects of its operations on an ongoing basis[2].

**4. NAN states that distribution line work for Remotes is often performed by Hydro One Networks and that there may be a "bump up" or premium charged for services**

[1] Ex. H. Tab 1, Scheds. 18 and 24; Ex. H, Tab 1, Sched. 22, p. 2; Ex. C1, Tab 2, Sched. 2, p. 7-8
[2] Ex. H. Tab 1, Sched. 24, p. 2

**rendered by Networks to Remotes. If that is indeed the case, some consideration should be given to eliminating any such premium because, in NAN's submission, it is inconsistent with the objective that Remotes should not be operating at a profit. If profits are being made by Networks for services rendered to Remotes, then it means that Remotes may be paying more for the cost of a service which it should be paying or, alternatively, providing on its own account.**

There is no evidentiary foundation for this allegation. There is in fact no such premium. The price for services provided to Remotes by Hydro One is based on fully allocated costs using the methodology mandated by the Board in the Affiliate Relationships Code[3]. In addition, Hydro One's fully allocated costs are derived using the methodology developed by R.J. Rudden, which was reviewed and endorsed by the Board in RP-2005-0020/EB-2005-0378, EB-2006-0501 and EB-2007-0681.

**5. NAN has submitted that "a modest investment in the alternative measures, as described above, would likely reduce the need for Remotes to increase its rates by the 4.4% for 2009, and thereafter."**

Remotes believes that it has taken all reasonable steps to make its operations efficient, and points out that the measures described by NAN are actions already being taken. Remotes notes that its revenue requirement has increased since 2006, when it was last approved by the Board. Remotes' previous rate submission was based on a 2006 test year using 2004 actual results. As a result, there is a 5 year timing difference between test years. This timing lag must be kept in mind when making comparisons.

The increases to revenue requirement are driven largely by costs beyond Remotes' control such as increases in diesel fuel cost[4]. In fact, diesel fuel prices are still anticipated to be

[3] Ex. A. Tab 8, Sched. 3, p. 7
[4] Ex. H. Tab 1, Sched. 44, p. 2; Ex. A, Tab 3, Sched. 1, Page 6

more than 50% higher in 2009 than 2004 actual levels[5] and 20% greater than 2006 approved levels[6], despite the recent reduction in price.

6. **NAN states that "on the issue of rising diesel fuel prices, NAN notes that Remotes initially identified such prices as one reason in support of the proposed 4.4% rate increase. However, when NAN indicated in its interrogatories that diesel fuel prices (which spiked during the Summer months of 2008) had declined precipitously in late 2008, Remotes, in its answers to NAN's interrogatories, downplayed the impact of diesel fuel increases in its request for a rate increase."**

Remotes submits that the characterization that it "downplayed the impact of diesel fuel increases" in its response to NAN's interrogatories is unfair and misrepresents the evidence. In response to NAN interrogatories with respect to fuel costs, Remotes provided factual responses to the questions as required[7]. As pointed out above, Remotes notes that, despite the decline in fuel prices in late 2008, fuel costs are expected to be 20% higher in 2009 than the level approved by the Board in 2006.

**7. NAN states that "Remotes also stated that any savings to be realized from the decline in diesel prices during late 2008 should be applied first to reduce the amount to be drawn from the RRRP for 2009 as opposed to the rates to be charged to its customers. It is NAN's submission that the significant decline in diesel prices during late 2008 should be used to reduce the proposed rate increase from 4.4% for 2009 to a lower percentage, instead of being used simply to reduce any draw on the RRRP to defray the costs of generating and distributing power in remote communities."**

[5] Ex. A. Tab 3, Sched. 1, p. 7
[6] Ex. C1. Tab. 2, Sched. 2, page 2 shows actual fuel costs of $18.6 million in 2006. Ex. C2 Tab 7 Sched. 1, p. 2, line 5 shows a variance of $703,000 above budget between actual and approved fuel costs for 2006. Approved fuel costs for 2006 were therefore $17.905 million ($18,600,000 - $705,000). The projected 2009 fuel costs as shown at Ex. C1. Tab. 2, Sched. 2, page 2 of $21.469 million therefore represents an increase of 20.9% over the $17.903 million Board approved 2006 estimate.
[7] Ex. H, Tab 3, Sched. 2, p. 2, line 31

As set out in Section 1 above, Remotes is not proposing to increase rates based on the increase in underlying costs, but instead to make rate adjustments based on the Ontario LDC average increase in rates, calculated in a manner consistent with O.Reg 442/01 and as approved by the OEB in EB-2007-0744. The increase in costs is far greater than the proposed 4.4% increase in customer rates, even after reflecting the lowered 2009 diesel fuel price forecast. Thus, the proposed rate-making methodology did not change customer rates as a result of the decline in the fuel price forecast in the updated evidence.

**8. NAN submits, that on the issue of arrears, NAN believes that the arrears which have arisen on an annual basis -- regardless of whether they relate to residential users or Standard A customers – indicate a general problem that the rates currently being charged to consumers in Remotes communities are simply too high for the residents in those communities to bear. It is therefore submitted that increasing rates by 4.4% in 2009 would simply add to the problem of arrears and put undue economic pressure on consumers in Remotes communities.**

As noted in Remotes' response[8] to NAN's interrogatories, Remotes does not believe that there is a direct link between customer arrears and rate increases. Remotes considers that changes in the level of arrears are driven by a number of factors including the strength of the customer relationship, the frequency and timing of customer contact regarding collections, customer knowledge of the consequences of non-payment, and customer financial circumstances. Remotes asks the Board to consider that, contrary to NAN's argument, there has been a reduction in arrears, both for Residential and Standard A customers, every year since 2006[9]. During this period, Remotes has worked effectively with customers and communities. Remotes reminds the Board that Standard A customers are government-

[8] Ex. H. Tab 3, Sched. 9, p. 2
[9] Ex. H, Tab 3, Sched. 1, pages 3 and 4

funded facilities[10] and these customers receive an electrical cost subsidy from Indian and Northern Affairs Canada to support the payment of electricity bills[11].

**9. NAN states that it "is somewhat surprised that Remotes has advised in its Reply that: '*The initiatives to purchase renewable energy at the avoided cost of diesel generation are intended as a short term startup solution only. In the longer term it is expected that renewable energy will be purchased within a price range reflective of its production cost and market value. Remotes is currently working with the OPA to develop a program and pricing for the longer term.*' NAN and other communities currently served by Remotes are relying on continued support under the RRRP (or a similarly constituted program) to facilitate their development and transitioning to renewable energy sources. Without long-term support from the RRRP or a similar program, such transitioning may not be possible."**

NAN appears to have misinterpreted Remotes' response to Energy Probe's interrogatory. Remotes is working with the OPA to ensure that there is support for long-term contracts in its service area. As indicated earlier[12], Remotes is working with OPA to develop the pricing for these projects. RRRP funding for Remotes' communities is a separate matter. In any event, pricing of future renewable energy projects is not something the Board is being asked to approve in this application.

***ALL OF WHICH IS RESPECTFULLY SUBMITTED***

[10] Ex. A, Tab 3, Sched. 1, p. 6
[11] Ex. H. Tab 2, Sched. 3, p. 1, part c)
[12] Argument of the Applicant filed March 19, 2009, p. 7, line 19