

## **PART THREE. SUMMARY OF BOARD DECISIONS**

### **I. Consensus Issues**

#### **Cost of Capital**

1. The Board is satisfied that the proposals contained in the Amended Application with respect to NP's cost of capital, including a common equity component of 45% and regulated return on common equity of 8.95%, will provide NP with the opportunity to earn a just and reasonable return on rate base that will enable NP to maintain its creditworthiness, as required by legislation and consistent with the provision of least cost reliable power.

#### **Average Rate Base and Return on Rate Base**

2. The Board is satisfied that NP's forecast 2008 rate base of \$812,212,000 has been calculated properly in accordance with established practice and appropriately incorporates proposed changes associated with the transition to the Asset Rate Base Method. The Board will require NP to continue to file, as part of its annual return, information relating to changes in deferred charges, including pension costs.
3. The Board will approve NP's proposed rate of return on rate base for 2008 of 8.37%, within a range of 8.19% to 8.55%.

#### **Proposed 2008 Test Year Revenue Requirement**

4. The Board accepts the 2008 test year revenue requirement, including the proposed amortizations for the regulatory deferrals and reserves, as proposed in the Amended Application. The Board will require NP to file a new depreciation study related to plant in service as of December 31, 2010.

#### **Automatic Adjustment Formula**

5. The Board will approve the proposed change to the Automatic Adjustment Formula to reflect the full adoption of the Asset Rate Base Method for calculating rate base and the continued use of the Automatic Adjustment Formula to set rates for not more than three (3) years following the 2008 test year.

#### **Demand Management Incentive Account**

6. The Board will approve the proposed Demand Management Incentive Account to replace the existing Purchased Power Unit Cost Variance Reserve. NP will be required to provide a report on the operation of this account with its next general rate application setting out any recommendations for changes if necessary.

### **Energy Supply Cost Variance**

7. The Board will approve the proposed change to the Rate Stabilization Clause to provide for the recovery of the Energy Supply Cost Variance through the Rate Stabilization Account for the period 2008 to 2010.

### **Cost of Service Study, Methodology and Rate Design**

8. The Board is satisfied that NP's COS Study and methodology and the Marginal Cost Study are appropriate to be used in establishing 2008 customer rates.
9. With the exception of the Basic Customer Charge for Domestic Customers, which is specifically addressed as one of the contested issues in this Decision and Order, the Board will approve the rate design proposals set out by NP in the Amended Application.

### **Amendments to Rules and Regulations**

10. The Board will approve the proposed changes to Regulations 9(b) and 9(c) and to Regulation 10(d).

## **II. Contested Issues**

### **Inter-Corporate Relationships and Transactions**

11. The Board will order NP to file a fair market value determination for insurance services provided by NP to its Fortis affiliates with an appropriate charge-out rate to be recommended.
12. The Board will not order a retainer fee be charged to Fortis for the availability of NP executives and senior management, as proposed by the Consumer Advocate.
13. The Board accepts the Consumer Advocate's proposal with respect to the development of a formal inter-affiliate Code of Conduct for NP. To that end the utilities and the Consumer Advocate will be invited to participate in a process to be established by the Board to address this matter.

### **Regulatory Reliability and Service Standards**

14. The Board will not at this time require the establishment of a formal Distribution and Reliability Service Standard as proposed by the Consumer Advocate. When the CEA reliability and performance standards have been finalized and accepted for use in regulatory settings, NP will be required to report to the Board as to how these standards could be incorporated into the existing regulatory framework.

**Productivity Allowance**

15. The Board will not order a reduction in NP's forecast 2008 test year operating costs to the level forecast for 2007, as proposed by the Consumer Advocate.

**Basic Customer Charge for Domestic Customers**

16. The Board will not direct NP to reduce the Basic Customer Charge for Domestic Customers by \$1.00, as proposed by the Consumer Advocate.

**Coordination of Safety Communications**

17. The Board will not direct NP at this time with respect to coordination with Hydro on safety communication, as proposed by the Consumer Advocate.

**Energy Efficiency Messaging to Customers**

18. The Board will not direct NP with respect to the manner of its energy efficiency messaging to customers, as proposed by the Consumer Advocate.

**eBills Promotion**

19. The Board will not direct NP to provide financial incentives to customers who opt to receive their bills electronically, as proposed by the Consumer Advocate.

**Vacancy Adjustment in Forecast Labour Costs**

20. The Board will direct NP to include, as part of its next general rate application, detailed information concerning the method used to forecast its test year FTEs and labour expense, as well as an explanation of the assumptions used to determine the forecast vacancies.

**Pole Management Practices**

21. The Board will not direct NP at this time with respect to its pole management practices.

**Proposed Federal Corporate Tax Rate Reduction**

22. The Board will direct NP to create a deferral account to true-up the income tax expense for the 2008 test year and for subsequent years until its next general rate application to reflect proposed corporate tax changes announced by the Federal Government on October 30, 2007, with the disposition of account balance, if any, to be subject to a further Board Order.

**International Financial Reporting Standards**

23. NP will be directed to provide updates as part of its quarterly reports to the Board as to the status of the AcSB's considerations of this matter.

**Retail Customer Rate Review**

24. NP will be directed to provide updates as to the progress of the retail customer rate review as part of its quarterly reports to the Board.

**Final Rates**

25. The Board will approve the final rates for Domestic and General Service Customers and Street and Area Lighting as set out by NP in Schedule A of its Amended Application, to be effective January 1, 2008.

**Next GRA/Reporting**

26. NP will be required to file its next general rate application by June 30, 2010 using a 2011 test year.

**III. COSTS**

27. NP shall pay the expenses of the Board arising from this Application, including the expenses of the Consumer Advocate incurred by the Board, pursuant to Sections 90(2) and 111 of the *Act*.

**PART FOUR. BOARD ORDER****IT IS THEREFORE ORDERED THAT:****RATE BASE AND RATE OF RETURN**

1. NP's proposed forecast average rate base for the 2008 test year of \$812,212,000, calculated in accordance with the Asset Rate Base Method, is approved.
2. NP's proposed rate of return on average rate base for the 2008 test year of 8.37% in a range of 8.19% to 8.55% is approved.

**RATES, RULES AND REGULATIONS**

3. The rates proposed by NP are approved as set out in Schedule A of this Decision and Order, effective for consumption on and after January 1, 2008.
4. The changes to the Rules and Regulations proposed by NP are approved and NP shall file with the Board, within 30 days of this Order, NP's Rules and Regulations revised to reflect changes to:
  - i. the Rate Stabilization Clause to provide for the recovery through the Rate Stabilization Account of the Energy Supply Cost Variance incurred through to the end of 2010, as set out in Schedule B of this Decision and Order;
  - ii. Regulation 9(b) and 9(c) to permit charges for temporary connections, special facilities and relocations to be added to customer bills, as set out in Section C of this Decision and Order; and
  - iii. Regulation 10(d) to increase the rejected payment fee, as set out in Schedule C of this Decision and Order.

**AUTOMATIC ADJUSTMENT FORMULA**

5. NP's proposed use of the Automatic Adjustment Formula, changed to reflect the adoption of the Asset Rate Base Method for calculating rate base, to establish the rate of return on rate base for three years following the test year is approved, unless otherwise directed by the Board.
6. NP shall, unless otherwise directed by the Board, apply no later than November 30<sup>th</sup> in each year for the application of the Automatic Adjustment Formula to the rate of return on rate base and for a revised Schedule of Rates, Tolls and Charges effective January 1 in each year following.
7. NP shall, unless otherwise directed by the Board, file its next general rate application with the Board by June 30, 2010 with a 2011 test year.

**ACCOUNTING TREATMENT AND POLICIES**

8. NP's proposed amortizations are approved with effect from January 1, 2008 as follows:
  - i. Amortization over a three-year period of:
    - a) \$16,446,000 of 2005 unbilled revenue;
    - b) \$4,087,000 in revenue related to municipal tax timing reconciliation;
    - c) \$11,586,000 in deferred 2006 and 2007 depreciation costs;
    - d) \$1,147,000 in deferred 2007 replacement energy costs associated with the Rattling Brook Hydro Generating Plant refurbishment;
    - e) the \$1,342,000 balance in the Purchased Power Unit Cost Variation Reserve Account; and
    - f) \$1,250,000 in recovery of hearing costs.
  - ii. Amortization over a five-year period of the \$6,800,000 balance in the Degree Day Component of the Weather Normalization Reserve.
9. NP's proposal to adjust the depreciation expense to amortize the accumulated reserve variance of \$700,000 over the four-year period 2008-2011 is approved.
10. NP's proposal to use the depreciation rates as recommended in the 2006 Depreciation Study is approved.
11. NP's proposal to adopt the accrual method of accounting for income tax related to pension costs is approved.
12. NP's proposal to continue using the cash basis for recognizing expenses for other employee future benefits is approved.
13. NP's proposal to discontinue the Purchased Power Unit Cost Variation Reserve Account and establish the Demand Management Incentive Account is approved, as set out in Schedule D of this Decision and Order.
14. NP's proposal to create a deferral account to true-up the income tax expense for the 2008 test year and subsequent years until its next general rate application to reflect the proposed 2008 corporate tax changes announced by the Federal Government on October 30, 2007 is approved, with the disposition of the account balance, if any, to be subject to a further order of the Board.
15. NP shall file with the Board, no later than December 31, 2011 a new depreciation study related to plant in service as of December 31, 2010.

**REPORTING**

16. NP shall, unless otherwise directed by the Board, file with the Board, on or before March 31, 2008, a fair market value determination for insurance services recommending an appropriate charge-out rate.
17. NP shall, unless otherwise directed by the Board, report to the Board within 90 days of the finalization of the CEA reliability performance indicators as to the incorporation of these standards into the existing regulatory framework for NP.
18. NP shall, unless otherwise directed by the Board, as part of its next general rate application include detailed information concerning the method used to forecast its test year FTEs and labour expense, as well as an explanation of the assumptions used to determine the forecast vacancies.
19. NP shall, unless otherwise directed by the Board, as part of its next general rate application include a report on the operation of the Demand Management Incentive Account.
20. NP shall, unless otherwise directed by the Board, provide an update as part of its quarterly reporting to the Board on the status of the AcSB's considerations of the transition to IFRS.
21. NP shall, unless otherwise directed by the Board, provide an update as part of its quarterly reporting to the Board on the progress of NP's retail customer rate review.
22. NP shall, unless otherwise directed by the Board, file as a part of its annual return to the Board, information relating to changes in deferred charges, including pension costs.
23. NP shall, unless otherwise directed by the Board, file:
  - i. With its annual return, a modified schedule calculating the embedded cost of debt for the reporting year to identify specifically the causes of variations in the actual embedded cost of debt from the cost forecast for the test year; and
  - ii. With its annual return, where in a year the actual rate of return on equity is greater than 50 basis points above the calculation of cost of equity for the same year, a report explaining the circumstances and facts contributing to the difference.

**HEARING COSTS**

24. NP shall pay the expenses of the Board arising from this Application, including the expenses of the Consumer Advocate incurred by the Board.