Board Staff Interrogatories
2010 Electricity Distribution Rates
Essex Powerlines Corporation ("Essex")
EB-2009-0143

Rate Base

1. Ref: Exhibit 2 / Tab 1/ Sch. 1/ Attachment 1 – Working capital allowance

In the Rate Base Trend table, the Working Capital Allowance is $8,174,615. At Exhibit 1 / Tab 4/ Sch. 9/ page 3 the Allowance for Working Capital is indicated as $8,174,499. Please confirm which number is correct.

Capital Expenditures

2. Ref: Exhibit 2/ Tab 4 / Sch. 1– Capital Expenditures

Table 1

Year	2005	2006	2007	2008	2009 Bridge	2010 Test
Residential Expansion	$169,795	$108,856	$165,592	$17,359	$60,600	$60,000
Residential Secondary Services	$61,484	$213,634	$168,218	$52,833	$86,025	$86,025
Commercial Expansion	$34,308	$418,912	$427,020	$194,616	$161,440	$312,500
Commercial Secondary Services	$4,405	$34,249	$12,473	$31,161	$10,000	$10,000
Municipal Relocations	$25,015	$145,025	$393,482	$92,817	$134,500	$80,000
Capital Additions	$1,333,658	$2,672,803	$2,224,602	$2,869,046	$2,126,494	$2,401,091
General Capital	$71,781	$29,172	$185,937	$2,897,87	$504,886	$1,207,428
Total	**$1,700,446**	**$3,622,651**	**$3,577,324**	**$6,155,709**	**$3,083,945**	**$4,157,044**

a) To review Essex's expenditures, using the information provided in Exhibit 2/ Tab 4 / Sch. 1, Board staff prepared the above table. Please confirm that Essex agrees with the figures presented in Table 1. If Essex does not agree with any figures in the table, please explain why not and provide amended tables with a full explanation of all changes.

b) It appears that some of the assets were transferred from EPS to Essex in 2008. Please provide the total amount of the expenditures that were transferred from EPS to Essex in 2008.

Table 2

Year	2007	2008	2009 Bridge	2010 Test
Fixed Asset Continuity Statements (Exh.2/Tab 3/ Sch.3 /Att. 1) Gross Assets – Additions and Other	$3,615,257	$6,075,589	$3,204,200	$4,191,045

c) To review Essex's gross assets changes, using the information provided in Exhibit 2 / Tab 3 / Schedule 3 / Attachment 1, Board staff prepared the above table. Please confirm that Essex agrees with the figures presented in Table 2. If Essex does not agree with any figures in the table, please explain why not and provide amended tables with a full explanation of all changes.

d) Please explain the difference between Table 2 and the total amount in Table 1 for the years 2007 to 2010.

3. Ref: Exhibit 2 / Tab 4/ Sch.1/ Page 42 – General Capital

Please provide the breakdown of the assets that were transferred from EPS to Essex in 2008 by using the same table shown on page 42.

Load and Customer Forecasting

4. Ref: Exhibit 3 / Tab 1/ Sch. 2 – Weather Normalized Distribution System Load Forecast – 2010 Test Year

On Page 11, it states: "Residential and GS<50 attachments in 2009 and 2010 are expected to resemble the growth in 2008, which have moderated since mid-decade. The GS>50 class customer attachments are assumed to grow by 1 attachment per year in 2009 and 2010 (GS>50 and Intermediate class customer connections in Table 10 are exclusive of embedded distribution points). Street light attachments are assumed grow at half the rate seen in 2008, closer to the growth seen from 2005 – 2007. No change is assumed in Sentinel Lights or USL customer attachments."

Please provide supporting material (e.g. number of building permit requested, Town/Municipal population forecast) for the above assumptions related to customer/connection forecast for 2009 and 2010.

5. Ref: Exhibit 3 / Tab 1/ Sch. 2 – Weather Normalized Distribution System Load Forecast – 2010 Test Year – Embedded Distribution

On Page 9, it states: "As discussed earlier, there are six embedded distributor (ED) delivery points within the Essex Powerlines Distribution system, with a seventh added in May 2009. Through an agreement with Hydro One, four of these connection points (Boblo Island, Dalhousie,3rd Concession, and Robson Road as of May 2009) are considered as regular GS>50kW distribution customers. Three other points, Howard (Intermediate), West.-Texas, and Can.-Detroit (both GS>50 kW), do not receive volumetric charges for distribution, although do attract fixed distribution charges."

a) Please confirm whether all seven embedded distributor (ED) delivery points are connected to the Hydro One distribution system.

b) Please provide information regarding how long each ED relationship has existed.

c) On page 3 of the above reference, Essex provided Annual summary purchases and sales kWh for all the classes. Please explain why the ED class had zero kWh from 2003 to 2005 and only 3,783,151kWh in 2006 as compared to 49,000,902 kWh in 2007 and 51,782,830 in 2008.

d) Please explain why Howard (Intermediate), West.-Texas, and Can.-Detroit (both GS>50 kW) do not receive volumetric charges for distribution.

6. Ref: Exhibit 3 / Tab 1/ Sch. 2 – Weather Normalized Distribution System Load Forecast – 2010 Test Year – Weather Normalization Factors

On page 6, it states: "….we have adopted the use of class specific weather normalization factors derived from the load forecast for EnWin filed in their 2009 test year COS rebasing application".

a) Please describe the methodology used to derive the weather normalization factors.

b) Please advise what variables were used to derive the weather normalization factors.

Other Revenues

7. Ref: Exhibit 3 / Tab 3 / Sch. 3 – Interest and Dividend Income

Please provide the calculation of the Bank Deposit Interest for 2009 and 2010.

8. Ref: Exhibit 3 / Tab 3 / Sch. 4 – Revenue Offsets

In Exhibit 3 / Tab 3 / Sch. 1 / Attachment 2, Essex provided the forecast amounts for 2010 revenues from non-utility operations (account 4375) of $1,787,240 and expenses of non-utility operations (account 4380) of -$1,687,240. Please explain why the amounts for these two accounts were not included in the revenue offsets calculation for 2010.

Operating Expenses

9. Ref: Exhibit 4 / Tab 1 / Sch. 1 / Page 1 – Overall Cost Trends

The overall cost trends table shows the Distribution Expenses – Operation for 2006, 2007, and 2008 are $920,528, $964,840, and $864,444, respectively. In reference to the Board's 2006, 2007 and 2008 Yearbook of Electricity Distributors, the distribution related expenses for Operation for Essex were $804,728, $849,690 and $749,394 respectively. Please reconcile these amounts and explain the reason(s) for the differences.

10. Ref: Exhibit 4 / Tab 2 / Sch. 2 – IFRS

Essex estimated the project cost for IFRS to be $200,000, please provide an itemized cost breakdown of this cost and the timeline of this project.

11. Ref: Exhibit 4 / Tab 2 / Sch. 4 - LEAP

In the above reference, Essex stated that the amount of $25,000 is budgeted for 2010 Test Year for Low Income Energy Assistance Program. Please identify whether these amounts relate to existing or new program(s).

12. Ref: Exhibit 4 / Tab 6 / Sch. 1 / Page 1 - Purchase of Non-Affiliate Services

In the above reference, Essex provided 3 years of historical vendor purchases. Please provide forecasted purchases for Bridge year (2009) and Test year (2010).

13. Ref: Exhibit 4 / Tab 4 / Sch. 1 / Page 5 – Head Count and Compensation Analysis

On lines 11-12, it states: "New positions are required to be approved by the Senior Management Team and the Board of Directors Human Resources and Audit Committees."

Please advise whether Essex has received its approval for the new positions (Manager of Regulatory Affairs, Distribution Engineer and Special Customer Accounts Manager) from its Senior Management Team and the Board of Directors Human Resources and Audit Committees.

14. Ref: Exhibit 4 / Tab 2 / Sch. 5 / Page 1 – Charges related to GEGEA
Exhibit 4 / Tab 4 / Sch. 1 / Page 7-13 – Employee Compensation

Essex indicates that it has included two additional employees, one Distribution Engineer and one Special Customer Account Manager, to comply with the requirements of the Green Energy and Green Economy Act.

Please indicate the percentage of time that these two employees are expected to devote to Green Energy and Green Economy Act activities.

15. Ref: Exhibit 4 / Tab 5 / Sch. 1 – Shared Corporate Services

In the above reference, page 1 line 16 – 18, it states: "The charges from EPC to EPL are based on fully allocated costs plus 6% that is referred to in the Master Services Agreement as a mark up but represents a return on invested capital."

a) Please provide a copy of the Master Service Agreement between EPC (Essex Power Corporation) and EPL (Essex).

b) The evidence indicates that services provided to Essex are charged at a cost-based price plus a mark up. Did Essex or EPC conduct a transfer pricing study to determine the fully allocated cost?

c) If the answer to (b) is affirmative, please provide the results of the transfer pricing study.

d) Please explain how the mark up percentage was determined.

16. Ref: Exhibit 4 / Tab 5 / Sch. 1 – Affiliate Transactions

In the above reference, page 4 line 13 – 20, it states: "With this corporate change, services are provided in the opposite direction with EPL providing labour, materials and trucks to EPS for street light and traffic light maintenance, sentinel light maintenance and other third party services. The agreement attached as Exhibit 1, Tab 2, Schedule 4, Attachment 1 page 25-31, is for services provided by EPL to EPS for street light, traffic light and miscellaneous other line services that are charged based on fully allocated costs plus a return of 7.64%. The agreement was amended in 2009, Exhibit 1, Tab 2, Schedule 4, Attachment 1, page 32-38 for a change in the fully allocated costs."

a) Please provide more details about the amendment made in 2009 for the agreement between EPL (Essex) and EPS (Energy Power Services).

b) The evidence indicates that services provided to Energy Power Services are charged at a cost-based price plus a mark up. Did Essex or EPS conduct a transfer pricing study to determine the fully allocated cost?

c) If the answer to (b) is affirmative, please provide the results of the transfer pricing study.

d) Please explain how the mark up percentage of 7.64% was determined.

Depreciation and Amortization

17. Ref: Exhibit 4 / Tab 7 / Sch. 1 / Page 1 – Depreciation rates and Methodology

In the above reference, line 2 – 5, it states: “Essex Powerlines adheres to the 2006 Electricity Distribution Rate Handbook Appendix B, with the exception of the depreciation life for our service building. The service building included modification to an existing steel construction building so we are depreciating it over 25 years.”

a) Please provide justification to use 25 years as the depreciation life for the service building instead of 50 years as stated in the Rate handbook.

b) Please provide the percentage of the modification book value as compared to the book value of the entire service building.

c) Please provide the impact on the total 2010 depreciation expense amount if Essex used the depreciation life of 50 years for its service building.

PILs

18. Ref: Exhibit 4 / Tab 8/ Sch. 3/ Page 2 – Tax Rates

Effective July 1, 2010, Ontario’s small business income tax rate will drop from 5.5% to 4.5% and the surtax will be eliminated.

a) Please explain whether Essex has included these changes in tax rates in its PILs calculation and how it has interpreted the capital tax and income tax changes that will become effective on July 1, 2010 with respect to proration in 2010. Please include all relevant calculations.

b) If Essex has not already included the July 1, 2010 tax changes in its PILs calculation, please provide revised calculations reflecting the appropriate tax changes.

Cost of Capital

19. Ref: Exhibit 5 / Tab 1/ Sch. 1 / Page 1

The Board's short-term debt rate identified in the Cost of Capital Parameter Updates issued on February 24, 2009 is 1.33%. Please explain the rationale for using a short-term debt rate of 1.13%.

20. Ref: Exhibit 5 / Tab 1/ Sch. 2 / Page 1

Page 12 of Essex's 2008 Audited Financial statements (Exhibit 1 / Tab 4 / Sch. 2) provides the long term principal repayments for the next 5 years. Please confirm whether Essex has taken into account these repayments in its long-term debt calculation for 2010. Please provide a detailed response.

21. Ref: Exhibit 5 / Tab 1/ Sch. 2 / Page 1

At the above reference, Essex states that: "The fixed rate loan for $10,000,000 is being negotiated with either Infrastructure Ontario or a bank. The rate for this loan is estimated to be no more than 6%. It will either be a 20 year loan with Infrastructure Ontario or it could be a 10 year loan with a bank. This will be determined in the next few months."

a) Please provide any update, if any, regarding this $10 million fixed rate loan.

b) Please provide the details of the projects or programs that this $10 million loan will be used to finance.

22. Ref: Exhibit 5 / Tab 1/ Sch. 2 / Page 1

At the above reference, Essex states that: "The TD Bank/TD Securities loans are bankers acceptances from the TD Bank that are in an interest swap with TD Securities. The $3,000,000 loan is due to mature in 2013 and has overall rate of 7.05%. The $3,300,000 loan is due to mature in 2018 and has an overall rate of 5.94%."

On page 12 of Essex's 2008 Audited Financial statements (Exhibit 1 / Tab 4 / Sch. 2), the interest rate for the $3,000,000 was listed as 5.8% and the interest rate for the $3,300,000 was listed as 4.69%. Please explain the reason for the differences.

23. Ref: Exhibit 5 / Tab 1/ Sch. 2 / Attachment 2 / Page 2

At the above reference, Essex states that: "Essex Powerlines Corporation (EPLC) does not hold any Affiliate Debt Instruments. At the end of 2008, EPLC did have an intercompany payable to Essex Power Corporation for $1,320.537. The bulk of this payable amount was due to temporary cash advancement to EPLC that will be repaid in 2009 when other loan arrangements are completed. At the end of 2008, EPLC had an intercompany payable to Essex Power Services Corporation for $1,738,283. The bulk of this payable amount is the outstanding balance of the cost of the assets transferred (book value of approximately $3.1 million). No interest is being charged on these amounts."

Please explain how this intercompany payable to Essex Power Services Corporation of $1,783,283 is related to the proposed cost of debt.

Cost Allocation

24. Ref: Exhibit 7 / Tab 1/ Sch. 1 / Attachment 1 – 2010 Cost Allocation study – page 14

On page 14, line 6 – 7, it states: "Note that the total revenue to cost ratio for EPL-2010 is less than 100% because it represents the revenue to cost ratio for 2010 at current rates." On the same page, lines 12-14, it states: "Table 8 represents the revenue responsibility (i.e., allocation of the total revenue requirement to the rate classes) in each of the models. This revenue responsibility is presented in both dollar and percentage terms."

Please use the EPL-2010 revenue as stated in Table 8 to recalculate the revenue to cost ratio for EPL-2010 so that the total revenue to cost ratio for EPL-2010 is equal to 100%.

25. Ref: Exhibit 7 / Tab 1/ Sch. 1 / Attachment 1 – 2010 Cost Allocation study – page 11-13 – 2010 Essex CA Model

a) Please provide a Cost allocation study in which all the data (i.e. demand and customer data) for Embedded distribution delivery points are included as a separate class and recalculate the revenue to cost ratio for all the classes. (Please ensure the total revenue to cost ratio is equal to 100%.)

b) Please confirm for the new calculated revenue to cost ratio as indicated in (a) whether Essex would want to propose new revenue to cost ratios in the Test year for the embedded distributor class.

Rate Design

26. Ref: Exhibit 8 / Tab 2/ Sch. 1/ Attachment 1 – Fixed/Variable Revenue Split

a) Please confirm whether the existing rates are based on 2009 approved rates, and if not then which rates were used.

b) If the answer to (a) is negative, please provide a revised fixed and variable revenue split based on 2009 approved rates.

c) Please explain why the monthly fixed charge for General Service 3,000 to 4,999kW has been reduced from $4,059.65 to $2,113.87.

Loss Factors

27. Ref: Exhibit 8, Tab 3, Sch. 3, Page 1-2

On page 1, lines 16-17, it states: "EPL calculated its weighted average supply facility loss factor by summing energy delivered at each of its 12 supply points."
For all the points of supply under Essex's four service territories please identify how many points are supplied by Hydro One transmission and how many points are supplied by Hydro One distribution system.

28. Ref: Exhibit 8, Tab 3, Schedule 3, Attachment 1

a) If Essex is fully embedded in the Hydro One distribution system, i.e. 100% of Essex's supply points are fed by Hydro One distribution, please explain why Essex did not use a SFLF of 1.0340 (3.4% losses) to account for losses upstream of EPL's distribution system, i.e. at the point of supply to Hydro One distribution and within Hydro One's distribution system.

b) If Essex is partially embedded within the Hydro One distribution system, i.e. some of Essex's supply points are fed by Hydro One distribution while the balance are fed by Hydro One transmission, please reconfirm that the weighted average SFLF was calculated by factoring in a SFLF of 1.0340 (3.4% losses) to account for supply losses related to the component of Essex's distribution system that is embedded within the Hydro One distribution system.

c) Please populate row 'A1' in the table provided in the above reference such that the ratio of kWh values provided in rows 'A1' and 'A2' are consistent with SFLF value provided in row 'H'. With respect to populating row 'A1', please note:

   i. If directly connected to IESO controlled grid, kWh pertains to the virtual meter on the primary or high voltage side of the transformer at the interface with the transmission grid. This corresponds to the "With Losses" kWh value provided by the IESO's MV-WEB. This corresponds to the higher of the two kWh values provided by MV-WEB.

   ii. If fully embedded within a host distributor, kWh pertains to the virtual meter on the primary or high voltage side of the transformer at the interface between the host distributor and the transmission grid. For example, if the host distributor is Hydro One, kWh from the Hydro One invoice corresponding to "Total kWh w Losses" should be reported. This corresponds to the higher of the two kWh values provided by the Hydro One invoice.

iii. If partially embedded, kWh pertains to sum of the above.

29. Ref: Exhibit 8, Tab 4, Schedule 4, Attachment 1 Page 3

a) Essex proposed the Total Loss Factor (TLF) for Secondary and Primary metered customers greater than 5,000 kW of 1.0602. Please explain the reason for proposing TLF values for such customers when Essex does not appear to have any large user customers as indicated by zero values provided in both rows 'B and 'E' in the table in the Exhibit 8 / Tab 3 / Sch. 3 / Attachment 1.
b) Essex proposed the TLF values for Secondary and Primary metered customers less than 5,000 kW of 1.0602. Please explain the reason for proposing the same TLF value for Primary and Secondary customers, as this would ignore the Primary Metering Adjustment of 0.99 which accounts for assumed 1% losses in the primary to secondary transformer.

Bill Impacts

30. Ref: Exhibit 8, Tab 4, Schedule 4, Attachment 1 & 2

Essex provided bill impacts resulting from the proposed rate changes in the above reference.

a) Please confirm whether the bill impacts calculation is based on current rates (2009) or not.

b) If the answer to (a) is negative, please correct the bill impacts calculation as shown in Exhibit 8/ Tab 4/ Schedule 4/ Attachment 1 & 2.

Deferral and Variance Accounts

31. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Page 1 – Recovery period

In the above reference, Essex states: "The amount to be disposed of is the audited principal balances as of December 31, 2008 plus interest forecasted to April 30, 2010. The proposed method of recovery is allocated to rate classes on the basis of the applicable cost drivers over a one-year period." However in Exhibit 1 / Tab 1/ Sch. 3 / Page 3, Essex requested approval to dispose of the Deferral and Variance Account balances over a four-year period. Please clarify what recovery period Essex is requesting for disposition.

32. Ref: Exhibit 9 / Tab 2 / Sch. 1 – Accounts 1588

a) On October 15, 2009, the Board's Regulatory Audit & Accounting group issued a bulletin related to Regulatory Accounting & Reporting of Account 1588 RSVAPower and Account 1588 RSVAPower Sub-account Global Adjustment.

Please confirm whether or not Essex plans on making any changes to its filing with respect to Account 1588.

b) Please identify separately, the balance associated with the Global Adjustment sub-account in Account 1588 Power, as of December 31, 2008 for the principle balance and April 30, 2010 for carrying charges.

c) Please provide an allocation of the December 31, 2008 balance of the Global Adjustment sub-account (plus interest to April 30, 2010) based on the 2008 kWhs for non-RPP customers.

d) Please calculate a separate rate rider for the recovery of the proposed Global Adjustment balance using the allocated amounts in (c) and the 2010 non-RPP consumption data (kWh or kW as applicable) as the billing determinant.

33. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Attachment 1 – Accounts requested for Disposition – Account 1525

In the above reference, Essex shows an amount of $2,175,088 for account 1525 in 2009. However, this amount is not recorded in the Continuity Schedule (Exh9/Tab1/Sch2/Attachment1). This amount is also shown in Essex's Audited Financial Statements as of Dec. 31, 2008, under Deferred Charges.

a) Please clarify if this amount is for a regulatory asset account. If so, did Essex receive Board approval to record what appears to be Intangible Assets in account 1525?

b) Please provide a breakdown of the components that are included in this account.

c) Although Essex is not proposing disposition of this account in its application at this time; can Essex provide precedent to include such costs in the regulatory asset account 1525?

34. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Attachment 1 – Accounts requested for Disposition – Account 1562

In the above reference, Essex shows an amount of $157,430 for account 1562 for disposition. However, under Exhibit 9 / Tab 2 / Sch. 1 / Page 1, Essex stated that Essex is **not** requesting the disposition of account 1562 – Deferred PILs. Please confirm that Essex is not requesting disposition of Account 1562 at this time.

35. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Attachment 1 – Accounts requested for Disposition – Account 1518

In the above reference, Essex shows an amount of $6,657 for account 1518.

a) Please state the amount reported to the Board for account 1518 in Essex's 2008 annual filing pursuant to RRR 2.1.7.

b) Please reconcile the two amounts if different and confirm which amount is correct for disposition.

36. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Attachment 1 – Accounts requested for Disposition – Account 1565 & 1566

In the above reference, Essex shows an amount of $23,834 for account 1565 and -$23,834 for account 1566.

a) Please confirm whether Essex is requesting to dispose account 1565 and account 1566.

b) If the answer to (a) is affirmative, please explain why Essex believes these two accounts need to be disposed in the light of the fact that these two accounts are tracking accounts and would offset each other.

37. Ref: Exhibit 9 / Tab 2 / Sch. 1 / Attachment 1 – Accounts requested for Disposition – Account 1565 & 1566

The 1565 account balance as of December 31, 2008 is shown as $23,834. Staff notes that the 2008 CDM annual report filed by Essex states that the total approved CDM expenditure is $756,304 and Essex has spent $755,591.16.

a) Please explain why the balance in account 1565 (and the corresponding offsetting balance in 1566) is not equal to the difference between the actual spending and the approved CDM amount as stated in the 2008 CDM annual report.

b) Please provide a schedule showing all entries in accounts 1565 and 1566 from their inception to December 31, 2008 that includes a summary of the total debit and credit balances at each year-end.

c) Please confirm that all entries made in accounts 1565 and 1566 are consistent with the accounting procedures in Article 220 of the Accounting Procedures Handbook and the Board's FAQs dated December 2005.

Smart Meters

38. Ref: Exhibit 9 / Tab 3 / Sch. 2 / Attachment 1 – Smart Meter Revenue Requirement calculation 2010

Please provide Essex's views, with reasons, as to whether it considers it appropriate to update the proposed smart meter revenue requirement calculation based on cost of capital parameters, tax rates, and other findings in the Board's decision on this Application.

General

39. Ref: Responses to Letter of comment

Following publication of the Notice of Application, has Essex received any letters of comment? If so, please confirm whether a reply was sent from Essex to the customer. If confirmed, please file that reply with the Board. If not confirmed, please explain why a response was not sent and confirm if Essex intends on responding. If so, please file that response with the Board.