

Board Staff Interrogatories

2010 IRM3 Electricity Distribution Rates COLLUS Power Corporation (“COLLUS”) EB-2009-0220

Z Factor Adjustment – Loss of revenue from Customer reclassification

1. Ref: Cover Letter -Z Factor Rate Rider Application Component

Table 1 below was prepared by Board staff to summarize the COLLUS claim for revenue recovery from November 1, 2009 to April 30, 2013.

Table 1

Summary of COLLUS Claim						
	From	To	Stub Period	Annual	TOA	Total
November 1, 2009	April 30, 2010		\$ 66,410			\$ 66,410
May 1, 2010	April 30, 2011			\$ 181,768	\$ 25,200	\$ 206,968
May 1, 2011	April 30, 2012			\$ 181,768	\$ 25,200	\$ 206,968
May 1, 2012	April 30, 2013			\$ 181,768	\$ 25,200	\$ 206,968
			<u>\$ 66,410</u>	<u>\$ 545,304</u>	<u>\$ 75,600</u>	<u>\$ 687,314</u>

- Please confirm that the Table 1 summarizes the total revenue loss claimed by COLLUS.
- Please confirm that COLLUS intends to file a Cost of Service application for rates effective on May 1, 2013.

2. Ref: Manager’s Summary -Z Factor Adjustment Page 8 Para. 12

In the above reference, COLLUS indicates that in the meeting of September 16, 2009 the Large Use Customer (“Subject Customer”) requested to be re-classified as General Service Greater Than 50 kW (“GS>50kW”) effective November 1, 2009. A Table A-1 “Subject Customer Statistics” is provided. A redacted letter from the Subject Customer is included Appendix A-2 as additional evidence.

- Please confirm that the Subject Customer was re-classified as GS>50 kW as of November 1, 2009.
- The Table A-1 has estimates for September and October 2009. Please provide an updated table for billed actual data for these months. If the data is not available, please explain why.
- Please confirm that the Subject Customer is billed on 90% Kva consistently as shown on Table A-1.
- For purpose of estimate COLLUS proposes to use 3,500 kW and 1,750,000 kWh as reduced load and consumption. On what basis has

COLLUS calculated this estimate? Did COLLUS utilize any modeling tools to conclude that this estimate is reasonable? Has COLLUS considered weather normalization or other factors in constructing this estimate.

3. Ref: Manager's Summary -Z Factor Adjustment Appendix A-2

A redacted letter from the Subject Customer is included Appendix A-2 as evidence. The letter identifies that the Subject Customers has significant overcapacity in North American operations and has shut down two of four operations for an indefinite period of time.

- a) Has the Subject Customer provided any further information from the date of the letter to further define "indefinite period of time"?
- b) Has the Subject Customer advised of any change in the situation for its largest customer's plant closures subsequent to the date of the letter?
- c) Is COLLUS management aware of media announced changes in the Subject Customer's production subsequent to this letter?
- d) Has COLLUS management set up any periodic review process to follow-up changes to the Subject Customers operations in future?
- e) Has COLLUS conducted a review of potential load changes for other customers in the GS>50 kW and Large User rate classes?
- f) Is COLLUS aware of any customer that has or may be re-classified as a Large User in the foreseeable future?

4. Ref: Manager's Summary, p. 11 Eligibility Criteria - Causation

COLLUS discusses its reasons for believing that its claim meets the Board's criteria for Z-factor recovery. COLLUS notes that the causation criterion is defined as "Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived." COLLUS states that it believes its claim meets this criterion because:

"COLLUS submits that the reduction of load by the Subject Customer and the resulting reduction in distribution revenue is a single event clearly outside of the Large User load base upon which rates for 2009 and the 3GIRM periods have been set."

- a) Please further discuss this claim in light of the statement made on page 35 of the *Report of the Board on 3^d Generation Incentive Regulation for Ontario's Electricity Distributors* of July 14, 2008 that: "The Board has determined that the eligibility criteria are sufficient to limit Z-factors to events genuinely external to the regulatory regime and beyond the control of management and the Board."

- b) Please state whether or not COLLUS believes that the loss of the Subject Customers load is genuinely external to the regulatory regime and if so why? If not, please explain what criteria COLLUS believes the Board should use to determine what level of large customer load loss is normal business risk, and what level is external to the regulatory regime?
- c) Z-factor treatment usually applies during the Incentive Regulation plan term. Please explain why COLLUS is seeking Z-factor treatment for a period (i.e. November 1, 2009 to April 30, 2010) that was included under COLLUS' 2009 Cost of Service application. In COLLUS' view, does that amount to a single-issue retroactive (or out of period) ratemaking request.

5. Ref: Manager's Summary, p. 12 Eligibility Criteria – Materiality

COLLUS identifies the following as a concern for the applicant as a result of the Subject Customer's reduction in load.

“COLLUS requires the revenue loss that it proposes to be recovered in order to ensure that the required finances are provided to us to make the approved investment in capital, operation and maintenance approved in our 2009 rate application.”

- a) Please identify what capital or operating programs may have to suffer or be foregone if the lost revenues are not recovered. How much discretionary spending room is included in the 2009 Board approved revenue requirement?

6. Ref: Manager's Summary, p. 13 Prudence

COLLUS notes the following under the topic of Prudence.

“The prudence definition outlined above implies that the distributor must have incurred unforeseen costs that must be properly supported.”

On July 22, 2009 the Board issued an update of Chapter 3 of the Board's "Filing Requirements for Transmission and Distribution Applications" (the "Filing Requirements"). Section 2.3.3 discusses Z-factor Filing Guidelines.

A distributor must submit evidence that the costs which were incurred meet the three eligibility criteria outlined above.

- *A distributor must notify the Board by letter to the Board Secretary of all Z-factor events. Failure to notify the Board within six months of the event will result in disallowance of the claim.*

- *A distributor must apply to the Board for any cost recovery of amounts recorded in the Board-approved deferral account claimed under Z-factor treatment. This will allow the Board and any affected distributor the flexibility to address extraordinary events in a timely manner. Subsequently, the Board may review and prospectively adjust the amounts for which Z-factor treatment is claimed.*
 - *The Board requires that any request for a Z-factor will be accompanied by a clear demonstration that the management of the distributor could not have been able to plan and budget for the event and that the harm caused by the event is genuinely incremental to its experience or reasonable expectations.*
- a) Please explain how certain COLLUS is that the amounts claimed will be incurred up to April 30, 2013.
 - b) Please discuss why COLLUS is applying for a rate rider now rather than applying for a deferral account for disposition in a future application given the linkage of the revenue loss claim to current economic conditions.
 - c) Please explain what prevents COLLUS management from planning and budgeting for this event. Please identify the harm caused to the distributor by this event.

7. Ref: Manager's Summary, p. 17 Rate Rider

COLLUS requests that the applied for Z-factor be applied as a rate rider.

On July 22, 2009 the Board issued an update of Chapter 3 of the Board's "Filing Requirements for Transmission and Distribution Applications" (the "Filing Requirements"). Section 1.2 discusses the difference between a rate adder and a rate rider.

"A rate adder (or funding adder) is designed to provide advance funding for investments or expenses to address regulatory undertakings or utility operational matters. Its core purpose is to help a distributor on an interim basis with needed cash flow and also mitigate or smooth anticipated impacts when the Board approves recovery of costs on a final basis. A rate adder does not constitute regulatory approval of any costs actually incurred for which the rate adder was approved. The prudence of such costs is examined, and the costs are approved in whole or in part, at the time at which the distributor brings the matter for regulatory review."

"A rate rider is designed to recover from or return to ratepayers final costs of investments or expenses to address regulatory undertakings or utility operational matters. The prudence of such costs is examined and the costs are approved in whole or in part, at the time at which the distributor

applies to recover them. The Board normally reviews such costs in a combined hearing on behalf of some or all distributors or in a cost of service hearing for an individual distributor's rate application."

- a) Would COLLUS agree that the Board consider the implementation of a rate adder and deferral account in deference to a rate rider? Please discuss this option including a proposal for reporting methodology.

8. Ref: Manager's Summary, p. 31 Customer Impact Review

- a) Please confirm that it is COLLUS management intention to discontinue the Large Use rate class and current Large Use rates as of this application.

9. Ref: 2010 IRM Deferral Variance Account 2006 EDR LV

In the 2006 EDR application COLLUS included \$398,421 in LV Allocation as a Rate Adder. In 2007 and 2008 the price cap adjustment (GDP-IPI – X) was 0.9% and 1.1% respectively. This would have increased the 2007 and 2008 LV Allocation to \$402,007 and 406,429 respectively. In the 2010 IRM Deferral Variance Account Workform COLLUS has reported \$142,033, \$182,401 and \$155,155 for 2006, 2007 and 2008 additions for USoA 1550 LV Variance account.

DVAWF				2006 EDR	
	Transactions (additions) during 2006/7/8, excluding interest and adjustments	Transactions (reductions) during 2006/7/8, excluding interest and adjustments		7-2 ALLOCATION - LV-Wheeling Cell L120	(GDP-IPI) - X
2006	\$ 142,033	\$ -	\$	398,421	0.0%
2007	\$ 182,401	\$ -	\$	402,007	0.9%
2008	\$ 155,155	\$ -	\$	406,429	1.1%

- a) Please confirm that COLLUS has applied the 2006 EDR LV Allocation against Hydro One LV costs and that the balance shown in the Deferral Variance Account workform are net of the LV allocation and correct.
- b) If LV Allocation not applied or Account 1550 not correct please provide an explanation in respect to the accounting for the LV allocation.

10. Ref: 2010 IRM3Rate Generator – LV and 2010 IRM Deferral Variance Account

Sheet “C3.1 Curr Low Voltage Vol Rt” of the 2010 IRM3Rate Generator are shown as below under the caption Rate Generator. The 2006 LV Allocation rate adder are shown in comparison from Sheet “8-2 RATES - LV-Wheeling” of the 2006 EDR.

Rate Generator		2006 EDR	
	Rebased LV	Rate Class	LVRate
Residential	0.0012	Regular	\$ 0.00126
General Service Less Than 50 kW	0.0011	Less than 50 kW	\$ 0.00109
General Service 50 to 4,999 kW	0.4442	Greater than 50 kW (to 3000 kW)	\$ 0.37775
Large Use	0.5569	Large Use (> 5000 kW)	\$ 0.56312
Street Lighting	0.3434	Unmetered Scattered Load	\$ 0.00111
Unmetered Scattered Load	0.0011	Street Lighting	\$ 0.35449

- a) Please provide reference to the 2009 Cost of Service application that identifies the rate adders as shown under the Rate Generator.
- b) If the debit balances shown above in question 9 are correct then it would appear that COLLUS is under recovering LV charges. This is an observation only based on the comparison with 2006 EDR LV rate adders. Did COLLUS address or see this as an issue in the 2009 Cost of Service Application?

11. Ref: 2010 IRM Deferral Variance Account 1588 -Power

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by COLLUS shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued “Regulatory Audit and Accounting Bulletin 200901” which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

Account Description	Account Number	Total Claim
		H = C + D+ E + F + G
RSVA - Power (Excluding Global Adjustment)	1588	(1,574,168)
RSVA - Power (Global Adjustment Sub-account)		1,310,524

- a) Has COLLUS reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?

- b) Has COLLUS made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account workform?

12. Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board's Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors' billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board's original Deferral Variance Account workform was modelled on this basis. However based on Enersource's evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource's billing system could accommodate that change within a reasonable timeframe."

While Enersource's response to the Board staff's submission is still pending Board staff would like to poll COLLUS on the above issue.

- a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does

- COLLUS agree that this proposal would be fair to all customers? Why or why not?
- b) If the Board were to order COLLUS to provide such a rate rider, would COLLUS's billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would COLLUS see with this rate rider?
 - c) If COLLUS were to be unable to bill in this fashion what would COLLUS consider proposing in the alternative?

13. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the billing determinants identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed Customers		
	Billed Customers or Connections	Billed kWh	Billed kW
	A	B	C
Residential	13,011	121,128,423	
General Service Less Than 50 kW	1,588	45,443,663	
General Service 50 to 4,999 kW	128	147,855,660	342,721
Large Use			
Street Lighting	3,051	2,061,153	6,087
Unmetered Scattered Load	68	455,702	

- a) Please identify if these values are from the COLLUS 2009 Cost of Service Application or 2008 RRR reported values.
- b) If the above are from the 2009 CoS application please provide reference to location in the application.
- c) If the above are from the 2008 RRR reported values, please explain why COLLUS has not used the 2009 CoS values.

14. Ref: 2010 IRM Deferral Variance Billing Determinants

Below are the Billed kWh for Non-RPP customers identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

Rate Class	Billed kWh for Non-RPP customers
Residential	16,800,000
General Service Less Than 50 kW	2,400,000
General Service 50 to 4,999 kW	147,855,660
Large Use	
Street Lighting	0
Unmetered Scattered Load	

- Please identify if these values estimated values or actual values and specify the applicable period.
- If the above values are estimated please explain why COLLUS is unable to determine actual.
- As discussed in question 12 above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would COLLUS support using the numbers above as the most reasonable denominator to be used for rate determination.

15. Ref: 2010 IRM Deferral Variance Total Claim

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Regulatory Assets - Continuity Schedule Final

Account Description	Account Number	Total Claim
		H = C + D+ E + F + G
LV Variance Account	1550	511,699
RSVA - Wholesale Market Service Charge	1580	(895,477)
RSVA - Retail Transmission Network Charge	1584	(828,953)
RSVA - Retail Transmission Connection Charge	1586	(1,251,258)
RSVA - Power (Excluding Global Adjustment)	1588	(1,574,168)
RSVA - Power (Global Adjustment Sub-account)		1,310,524
Recovery of Regulatory Asset Balances	1590	(186,743)
Disposition and recovery of Regulatory Balances Account	1595	0
	Total	(2,914,376)

- a) Please confirm if these are the final balances for disposition. If not the final balances please provide amended workform to support final balances for disposition.
- b) Please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify source and reason for variances.
- c) Please confirm that COLLUS has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If COLLUS has used other practices in the calculation please explain where in the filing and why?
- d) Please confirm that COLLUS has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If COLLUS has used other calculations please explain where in the filing and why?
- e) Please confirm that COLLUS has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets

Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If COLLUS has not complied with this requirement please explain why not?

16. Ref: Manager’s Summary Page 6 Smart Meter Rate Adder.

COLLUS has applied for an increased Smart Meter Rate Adder from \$1.00 to \$2.00 per metered customer per month.

- a) Please explain how the value of \$2.00 was derived and provide calculation model to support this calculation.
- b) If a calculation model was not used, please complete the smart meter calculation model that can be provided to you through your applications case manager.

17. Ref: Supplemental Module - Z-Factor Tax Changes

Sheet “F1.1 Z-Factor Tax Changes” of the supplemental module shows Grossed-Up Tax Amount as \$225,414 while the 2009 RRWF sheet “3.Taxes_PILs” shows Grossed-Up Income Taxes as \$164,861.

- a) Please review and advise of correct amount.

18. Ref: Supplemental Module - Revenue Offsets Allocation

Sheet “C1.2 Revenue Offsets Allocation” of the supplemental module shows Informational Filing Revenue Offsets

Rate Class	Informational Filing Revenue Offsets A
Residential	262,403
General Service Less Than 50 kW	69,197
General Service 50 to 4,999 kW	28,368
Large Use	0
Street Lighting	5,397
Unmetered Scattered Load	1,877
	367,242

- a) Please provide reference to the 2009 Cost of Service application that identifies the above Informational Filing Revenue Offsets.