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January 18, 2010

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2009-0143
Essex Powerlines Corporation – 2010 Electricity Distribution Rate
Application

Please find enclosed the interrogatories of the Vulnerable Energy Consumers Coalition (VECC) in the above-noted proceeding.

Thank you.

Yours truly,

A handwritten signature in blue ink, appearing to be 'M Buonaguro', is written above the typed name.

Michael Buonaguro
Counsel for VECC
Encl.

ESSEX POWERLINES CORPORATION (“EPL”)

2010 RATE APPLICATION

EB-2009-0143

VECC’S INTERROGATORIES (ROUND #2)

(Note: Numbering Continues from VECC’s Round #1 IRs)

Question #32

Reference: VECC #4

- a) Please provide a listing of the USOA accounts for which this adjustment was made.

Response:

There was no physical adjustment made to any USOA accounts. The assets transferred to Essex were coded to the appropriate USOA accounts at the net book value of the asset. Essex then continued with the current depreciation schedule (Essex Power Services uses the exact same depreciation methods as Essex Powerlines) to continue depreciating the assets over their remaining useful life.

- b) Please explain why the gross book values were adjusted (in Exhibit 4) to accommodate the existing depreciation charge instead of adjusting the depreciation expense to match the gross book value (per the continuity schedule) and the prescribed services lives.

Response:

Due to the fact that Essex had knowledge of the assets that were being transferred and was aware of the remaining useful life of the asset it considered that it would be prudent to not restart the normal prescribed life on the transferred assets net book value but to simply continue with the depreciation schedule. Restarting the depreciation would not be representative of the true remaining useful life of the assets transferred into EPL and would result in write offs at the time of retirement in later years.

- c) Please outline any direction the OEB’s Accounting Procedures Handbook provides on how to treat this issue.

Response:

There was no specific direction available from the OEB’s Accounting Procedures Handbook. Essex used it’s professional judgment as per Article 410, Accounting for Specific Items Property, Plant and Equipment, c. Amortization Methods:

“The APHandbook does not provide prescriptive guidance for the amortization of property, plant and equipment but allows professional judgment to be used in choosing the method that allows amortization to be recognized in a rational and systematic manner appropriate to the nature of the property, plant and equipment.”

Question #33

Reference: VECC #6 c) & d) and Energy Probe 11 b)

- a) Please confirm whether all or a portion of the \$560,000 expenditures previously forecast for DG connection and expansion in 2009 actually occurred prior to year-end. What was the gross value of the assets in-service & used/useful at 2009 year end and the associated capital contributions?

Response:

None of the forecasted \$560,000 expenditure has occurred. Therefore \$ 0 is the gross value of assets in-service in 2009.

The Generator has requested a connection date of August 2010 (see also response to Energy Probe 6c). See response to 33 c) also.

- b) Please confirm whether Essex’s application assumes the \$560,000 of gross capital additions are to be treated in accordance with the October 2009 DSC amendments.

Response:

Essex’s application did not assume the \$560,000 capital additions were treated in accordance with the October 2009 DSC amendments as its application was filed prior to the amendments being released.

Essex had listed this as an adjustment to our filing per VECC question #21 but in light of the response to c) below, there will be no adjustment made.

- c) Of the \$520,000 in spending not associated with connection assets, is all of it eligible for rate protection under Ontario Regulation 330/09? If not, please explain how much is exempt and why.

Response:

The outcome of Distribution Connection Cost Responsibility EB 2009-0077, has determined that the Generator is responsible for all the estimated \$560,000 in Capital not just \$40,000 as previously stated in other OEB and intervenor interrogatory responses.

The consultation on Ontario Regulation 330/09 recommends that the \$560,000 for Connection and Expansion is not applicable to Regulation 330/09 for this specific project. The Chart: Regulation 330/09; DCCR amendments, Direct Benefits consultation - issued December 14, 2009 on the OEB web site confirms this. Section 2 page 5 of the Staff Discussion Paper - issued December 14, 2009 also says the following:

“However, similar investments to connect generation that was contracted under the RESOP program will not be treated as an “eligible investment”. The important distinction is not between the two OPA programs. Instead, it is related to the Board’s cost responsibility rules under the DSC and the timing of the recent DCCR amendments. RESOP generation was contracted before those DCCR amendments were made. As a consequence, investments to connect a RESOP generator remain the cost responsibility of the generator.”

The conclusion of Rate Protection and the Determination of Direct Benefits under Ontario Regulation 330/09 (EB-2009-0349) will determine this.

- d) Please confirm that Essex’s proposal is to place these expenditures in a deferral account and exclude them from the determination of the 2010 rate base. If so, please confirm that the 2010 rate base was calculated excluding these assets.

Response:

N/A – see response to c) above.

Question #34

Reference: VECC #11 a)

- a) Please confirm that none of the distribution assets involved in delivering power to these three Hydro One Networks delivery points are owned or maintained by Essex. If this is not the case, please indicate specifically what assets Essex owns and/or is responsible for maintaining.

Response:

See response to Board Staff 5d) that included the following:

“The assets that get the energy to these ED points are all owned and operated by Hydro One. “

Essex confirms that none of the distribution assets involved in delivering power to these three points are owned or maintained by Essex.

Question #35

Reference: VECC #11 f) & g) and Energy Probe #13

- a) Please provide a table that sets out the number of Residential, Commercial and Industrial services installed annually over 2007 – 2010 and the number of customers in these customer classes connected each year.

Response:

Exhibit 2 Tab 4 Schedule 1 page 6 shows the number of Residential lots or units that are available to build on but not connected, except 2009 actual was zero (0) not 202 as estimated.

Year	Residential Expansion	Residential Connections	Commercial Expansion (total units)	Commercial Connections
2007	301	142	40	11
2008	113	132	16	4
2009	0	62	11	3
2010 Forecasted	150	129	3 (no Plazas)	5

Question #36

Reference: VECC #16 a)

- a) The total CIS department funding was \$11,573.22 – please address the requirement for the remaining funding.

Response:

The total budget for the LEAP program was calculated to be \$25,000, which consisted of \$13,426.78 (0.12% of total distribution revenue) and \$11,573.22 (which included labour [\$6,997.20], programming and other administration cost [\$4,576.02]). The total incremental cost included in Essex's rate application was \$18,002.80 (\$25K less non-incremental labour \$6,997.20).

Essex would agree to the removal of the \$18,002.80 of incremental costs related to the LEAP program from the revenue requirement if the Board provided another mechanism to fund the program.

Question #37

Reference: VECC #18a); Energy Probe #32 c) and Board Staff #10

- a) Do the IFRS costs reported in Board Staff #10 recognize the staff time that is now available (and already included in the budget) from EPC as result of hiring the Manager-Regulatory Affairs?

Response:

Yes, the staff costs included in Board Staff #10 is in addition to the EPC finance department hours that become available as a result of the hiring of a Manager-Regulatory Affairs by Essex. EPC will still be allocating this available staff time (already included in the Essex 2010 budget) to Essex due to IFRS conversion and ongoing duties.

- b) If yes, please outline the responsibilities of the EPC staff (already include in the budget) regarding IFRS conversion versus those of the additional staff reported in Board Staff #10.

Response:

The IFRS responsibilities allocated to the existing EPC staff would include:

- Establish and update IFRS project charter.
- Complete IFRS project risk assessment.
- Assess IFRS impact and develop strategy to adjust our budgeting process and performance management metrics.
- Detailed assessment of the impact on systems, processes, business activities and personnel.
- Detailed assessment of accounting differences from current GAAP to IFRS.
- Make recommendations on accounting policies and choice of elective options for first-time IFRS adoption.
- Seek agreement from auditor, audit committee, OEB, shareholders, and other financial statement users on accounting policies and reporting options.
- Conduct awareness and education sessions for stakeholders throughout the project timeline.
- Facilitate the verification of our detailed gap analysis by the external auditor.
- Quantify the impact for the IFRS conversion on major financial statement items.
- Monitor ongoing IASB developments and impact on organization.
- Assess potential breaches of debt covenant that would force immediate reclassification of loans from long-term to current status.
- Renegotiate debt covenants with lenders.

- Assess financial instruments for possible change in designation and one-time exemption options.
- Establish controls over new data requirements and records that will be external to the core enterprise system.
- Document the research, industry benchmarking, decisions and conclusions relating to IFRS options selected and elections to ensure our conclusions can be audited and defended.

The IFRS responsibilities allocated to additional staff costs reported in Board Staff #10 would include:

- Gathering and record existing asset data where available.
- Seeking out or creating and record missing asset data.
- Allocate December 31, 2009 net book value for assets to new classes including components.
- Create temporary asset ledger, initial December 31, 2009 asset records and maintain the ledger for all activity throughout 2010.
- Segment organization into logical cash generating units.
- Allocate all assets to the cash generating units.
- Carry out individual impairment testing on all cash generating unit's assets, future cash flow estimates and budget/actual data.
- Assess which internal controls are at risk or need modification once IFRS practices are established.
- Develop strategy and conduct technical training for staff on the new IFRS processes and procedures.
- Explore options for design of new financial statements, reconciliations, notes and schedules in regard to the IFRS framework.
- Design of new financial statement format and links to new IFRS compliant financial software.
- Develop strategy for dual reporting of year 2010 comparative data.
- Develop sample financial statements.
- Facilitate the migration of the December 31, 2010 asset ledger records to the IFRS compliant new financial software fixed asset module.

Question #38

Reference: VECC #18 c)

- a) Please estimate the appropriate revenue offset based on the additional costs for the two positions and the reported percentages.

Response:

The impact of Essex capitalizing a portion of the costs associated with the Distribution Engineer and the Special Customer Accounts Manager would be a reduction in the Distribution Revenue Requirement from \$11,512,541 to \$11,457,058, a \$55,483 decrease. Also Energy Probe Interrogatory #60 (b).

Question #39

Reference: VECC 19 e)

- a) The response states the ARC permits fully allocated costs to include a return on invested capital. However, in the case of Essex and EPC the return is applied to total expenses and not the invested capital used to provide the service. Please explain why this is appropriate.

Response:

The return earned by EPC for 2010 (see Exhibit 4, Tab 5, Schedule 1, Appendix 2-M, Chart 5) is \$64,869. This was applied to the expenses as a method to collect the return. EPC is not an asset company like EPL. EPC is a service company that does not have many fixed assets but it does have significant equity. Invested capital is not defined in the ARC. Invested capital represents specified liabilities and equity on the balance sheet. Invested capital can be calculated as Total Debt and Leases + Total Equity – non-operating cash and investments. For EPC there is no long term debt and total equity is \$19.2 million (2008). There is no Non operating cash but there is the investment in EPL of \$15.8 million. The calculation of Invested Capital therefore is \$19.2M – 15.8M = \$3.4 million. Of this \$3.4 million, 78-90% (see chart 5) of the services provided are related to EPL. Using the regulated rate of return on capital as established for EPL in this current rate filing of 6.69%, EPC should have a return as follows: \$3.4M X.78%X6.69%=\$177,418. We feel the \$64,869 is reasonable.

Another method of establishing invested capital is to determine the actual cash and cash equivalents invested in the company. EPC has cash and cash equivalents of \$3.6 million (2008). Using the same calculation as outlined above would produce a return of \$187,855. Again, we feel the \$64,869 is reasonable.

Additionally, the Tillsonburg decision EB-2008-0246, approved a 5% management fee on all transactions.

Question #40

Reference: Amended Application – Exhibit 7/Tab 1/Section 1/Attachment 1

- a) Please provide the copy of Sheets O1 and O2 consistent with the revised new revenue to cost ratios set out in amended Table 7.

Response:

A copy of sheets O1 and O2 is attached. The revised cost allocation model has been submitted electronically under file name EPL-2010-A1.

- b) Please outline what changes were made (from the original 2010 run filed) that gave rise to the new revenue to cost ratios.

Response:

The original model had \$679,883 for miscellaneous revenues, which incorrectly included transformer allowances of \$78,810. This corrected model removed this amount from miscellaneous revenue, reducing the total to \$601,073, leading to changes in the revenue to cost ratios.

Question #41

Reference: VECC #22

- a) Please re-do the response to part (b) based on the updated 2010 cost allocation run.

Response:

Changes from the original application are shaded:

Customer Class	EPL-2006	EPL-2006C1	EPL-2006C2	EPL-2010-A1	EPL-2010-A1 *	Board Target
Residential	115.53	116.72	104.24	85.36	100.33	85 – 115
GS < 50 kW	47.76	48.2	46.36	41.45	48.72	80 – 120
GS > 50kW	155.58	150.26	146.05	136.30	160.21	80 – 180
USL	129.66	129.38	143.6	114.39	134.45	80 – 120
Street Lighting	11.84	11.92	32.2	26.45	31.09	70 – 120
Sentinel	29.9	30.38	40.16	31.39	36.90	70 – 120
Intermediate	173.49	163.17	163.42	288.78	339.42	80 – 120
Total	100.00	100.00	100.00	85.08	100.00	

- Assuming uniform increase to achieve 100% overall revenue-to-cost ratio.

- b) Per the response to part (d) (and also VECC #23 (d)), please explain more fully why the revenue to cost ratios based on EPL-2010 should not be used as the starting point for any consideration of revenue to cost ratio adjustments as these results reflect: i) 2010 costs and ii) 2010 revenues assuming no shift in cost allocation.

Response:

Essex submits that the starting point should be based on prior Board approval. Although the EPL-2006-C2 model has not been approved by the Board, it is based entirely on Board-approved data, including distribution rates, costs, normalized loads and cost allocation methodology. The distribution rates in EPL-2010 are Board-approved at this time, but the costs and loads are not. Essex submits it is more appropriate to rely on data that is fully Board-approved in determining a starting point for revenue-to-cost ratios. Furthermore, this provides a stable starting point for the ratios, which would otherwise fluctuate with any changes to loads or costs that arise during the rate application process.

Question #42

Reference: VECC #23

- a) Please provide an updated version of the RateMaker Model consistent with the amended Application.

Response:

The updated version of the RateMaker Model, named EPL_APPL_Amended_RateMaker_20091222, was uploaded on December 21st along with the amended Application and can be found on the OEB website in the webdrawer.

Question #43

Reference: VECC #25 c) and VECC 26 b)

- a) Please re-do the responses to these two questions based on the amended Application.

Response:

Update to VECC #25 (c):

	Base Revenue @ Existing Rates	Fixed Charge Rev. @ Existing Rates	% Base Revenue from MSC
Residential	6,893,261	3,403,523	49.37%
General Service Less Than 50 kW	590,335	280,022	47.43%
General Service 50 to 2,999 kW	1,960,091	915,111	46.69%
General Service 3,000 to 4,999 kW	171,670	97,825	56.98%
Unmetered Scattered Load	60,657	16,163	26.65%
Sentinel Lighting	7,099	2,808	39.55%
Street Lighting	88,944	35,025	39.38%
TOTAL	9,772,057	4,750,477	48.61%

	Base Revenue Requirement (BRR)	% Base Revenue from MSC	BRR from Fixed Charges
Residential	8,517,130	49.37%	4,205,302
General Service Less Than 50 kW	967,371	47.43%	458,867
General Service 50 to 2,999 kW	1,813,046	46.69%	846,459
General Service 3,000 to 4,999 kW	74,290	56.98%	42,333
Unmetered Scattered Load	62,489	26.65%	16,651
Sentinel Lighting	11,135	39.55%	4,404
Street Lighting	145,890	39.38%	57,450
TOTAL	11,591,351	48.61%	5,634,888

	BRR from Fixed Charges	Customers / Connections	Annual Fixed Charge Amount	Monthly Service Charge
Residential	4,205,302	25,902	\$162.35	\$13.53
General Service Less Than 50 kW	458,867	1,852	\$247.77	\$20.65
General Service 50 to 2,999 kW	846,459	222	\$3,812.88	\$317.74
General Service 3,000 to 4,999 kW	42,333	2	\$21,166.70	\$1,763.89
Unmetered Scattered Load	16,651	151	\$110.27	\$9.19
Sentinel Lighting	4,404	168	\$26.22	\$2.18
Street Lighting	57,450	2,643	\$21.74	\$1.81
TOTAL	5,634,888			

Question #44

Reference: VECC #29 a)

- a) Please provide full details regarding:
- The nature of event that occurred
 - Essex’s response to the event
 - A breakdown of the costs that Essex is seeking to recover, including support to demonstrate they were all incremental costs
 - Demonstration that the costs exceed the materiality threshold as specified in the Board’s March 2000 Electricity Distribution Handbook (Note: If Essex believes a different materiality limit should apply please explain why and demonstrate it is exceeded).

Response:

Nature of the event – downed power lines due to a wind storm

Essex response to the event – dispatched emergency crews to restore power

Costs:

Materials	\$14,121
Labour	
Overtime	\$23,167
Tree	
Trimming	\$ 5,292
Total Cost	<u>\$42,580</u>

As per the OEB report dated December 20, 2006, Appendix C:Z-Factors, these expenses are clearly outside the base upon which rates were derived. Also, the costs are justified as downed power lines and customer outages needed to be restored quickly and the cause was not within Essex’s control.

Materiality Threshold – per the Z-Factor report– an expense will be considered material if it involves 0.2% of total distribution expenses before taxes. Essex’s distribution expenses in 2005 were \$6,579,804.70, 0.2% of these expenses are \$13,159.61, which is much lower than the expenses occurred.

Question #45

Reference: VECC #30 a)

- a) Based on the response to this interrogatory please confirm that the balances associated with accounts #1562, #1565 and #1566 which have all been included in the calculation of the rate rider as shown in Exhibit 9/Tab 2/Schedule 2, Attachment 1, page 1 should be removed. Note: The values in

Accounts #1565 and #1566 offset each other leaving the value of Account #1562).

Response:

Essex confirms that the balance of accounts 1562 (\$157,430), 1565 (\$23,834) & 1566(-\$23,834) were erroneously included in the calculation of the rate rider and should be removed.