

**Espanola Regional Hydro Distribution Corporation (ERHDC)
2009 IRM Application Interrogatory Responses
Board Staff
EB-2008-0173**

Question # 1

Taxes

Ref.: Board Letter of Acknowledgement

In its correspondence of November 25, 2008, the Board noted that your request for an adjustment to your 2009 payments in lieu of taxes (PILs) went beyond the intended 2009 IRM format and indicated that part of your application would not be heard in this proceeding. Please re-file an amended 3rd Generation IRM Rate Generator Model and Supplementary Filing Module that exclude all reference to additional PILs, but retain the CCA correction referred to at page 5 of the Manager's Summary.

Response

ERHDC has included in the response to the interrogatories Appendix A (Espanola_IRR_BoardStaff_AppendixA_RateGeneratorModel_20090126) which is an updated IRM Rate Generator Model and Appendix B (Espanola_IRR_BoardStaff_AppendixB_SupplementalModule_20090126) which is an updated Supplemental Filing Module excluding the request for the PILs adjustment. In the 2008 Cost of Service Rate Application an amount of \$43,240 was included on the CCA schedule in error. This error had no impact on the 2008 rates except for increasing the CCA and therefore decreasing the taxable income that was further offset by projected loss carry-forwards resulting in no PILs approved in 2008. The CCA correction was made in the 2009 IRM application on page 5 of the Manager's Summary when re-calculating taxable income for 2008 taking into consideration the CCA error and the expiration of loss carry-forwards as part of the request for a PILs adjustment. The request for additional PILs has been removed from the IRM process as per the OEB. The 2009 Rate Generator Model or the Supplementary Module does not allow for the CCA correction since the PILs have been removed from the application. This issue will be addressed in a separate application ERHDC will be submitting to the OEB for PILs recovery.

Question #2

Smart Meters

Ref.: 2009 3rd Gen. IRM Rate Generator Model, Sheet J1.1

Espanola is requesting an increased smart meter rate adder to \$1.00. Section 1.4 of the Board Guidelines G-2008-0002, Smart Meter Funding and Cost Recovery, specifies filing requirements for distributors seeking the standard \$1.00 smart meter funding adder. In accordance with section, 1.4. please provide documentation supporting that Espanola is duly authorized to deploy smart meters pursuant to O. Reg. 427/06 as amended on June 25, 2008 by Reg. 235/08. Distributors can be authorized to deploy smart meters if they

are one of the thirteen “named” distributors under applicable law, or by procuring their smart meters pursuant to and in compliance with the August 14, 2007, Request for Proposal issued by London Hydro Inc. If Espanola received an attestation letter from the fairness commissioner in respect of its smart meter tendering process, please file a copy.

Response

ERHDC has included below an attestation letter from the fairness commissioner dated August 1, 2008.



AUG 14 2008

PRP International, Inc.
Fairness Advisory Services

August 1, 2008

Mr. Claudio Stefano
Acting as D9 Lead for Espanola
Espanola Regional Hydro Distribution Corp.
598 Second Avenue
Espanola, ON P5E 1C4

Dear Mr. Stefano:

Subject: Attestation of the Fairness Commissioner
Advanced Metering Infrastructure RFP, August-July 2008
London Hydro, Consortium & Add-On LDCs Smartmetering Project

PRP International, Inc. is pleased to submit its letter report of the Fairness Commissioner for the noted Request for Proposal (RFP) evaluation and selection phase. This judgment is being provided for the information and use of each Add-On LDC Sponsor, in their consideration of the report from the Evaluation Phase, for this competitive transaction.

*"It is the judgment of PRP International, Inc., as the Fairness Commissioner, that the determinations of the two (2) highest ranked Proponents for the **District 9 Collective of LDCs (Chapleau Public Utilities Corporation, Espanola Regional Hydro Distribution Corp., Great Lakes Power Limited, Hearst Power Distribution Co. Ltd., North Bay Hydro Distribution Ltd., Northern Ontario Wires Inc. - Cochrane, and PUC Distribution Inc. (Sault Ste. Marie)** requirements are:*

- *KTII/ Sensus Limited, as the recommended Preferred Proponent, based on its highest ranking, and*
- *Elster Metering being the second ranked Proponent.*

These determinations were made in a fair (objective and competent) manner and consistent with the evaluation and selection processes set out in the RFP, issued August 14, 2007."

A detailed report for your records will be submitted to you, by August 31, 2008. Should you have any questions or require clarification of any matter contained in this letter report, please contact the undersigned.

Yours truly,

A handwritten signature in black ink, appearing to read "Peter Sorensen", written over a horizontal line.

Peter Sorensen
President

cc: Mr. Gary Rains, RFP Project Director

RECEIVED

AUG 11 2008

203 - 8 QUEEN STREET, SUMMERSIDE, PEI C1N 0A6
TELEPHONE: 902.436.3930 FAX: 604-677-5409
EMAIL: fairness@telus.net

Question #3

Cost Allocation

Ref.: Manager's Summary, pages 2-3

Please provide the spreadsheet used to generate the proposed 2009 cost allocation adjustments set out in your Manager's Summary.

Response

ERHDC has included with this response Appendix C which is an Excel Version of the cost allocation spreadsheet.

(Espanola_IRR_BoardStaff_AppendixC_CosttoRevCal_20090126).

In reviewing the cost ratio adjustments used on page 2 of the Manager's Summary ERHDC noted a formula error in the line "Adjustment to class revenue for the 2008 Cost of Service Rate Application". This line was incorrectly adding the 2009 IRM adjustment and the 2008 adjustment. ERHDC has recalculated the ratio's and included the revision in the re-submitted 3rd Generation Rate Model and the Supplemental Filing Module (Appendix A & B). Below is a revised cost allocation calculation:

		1	2	3	7	8	9
	Total	Residential	GS <50	GS>50- Regular	Street Light	Sentinel	Unmetered Scattered Load
Distribution Revenue (sale)	\$1,065,411	\$647,914	\$271,702	\$109,478	\$33,150	\$946	\$2,221
Miscellaneous Revenue (mi)	\$125,226	\$90,193	\$28,078	\$4,938	\$1,213	\$34	\$770
Total Revenue	\$1,190,637	\$738,107	\$299,780	\$114,416	\$34,363	\$980	\$2,991
	100.00%	60.81%	25.50%	10.28%	3.11%	0.09%	0.21%
Expenses							
Distribution Costs (di)	\$278,954	\$160,846	\$61,163	\$35,590	\$20,446	\$545	\$363
Customer Related Costs (cu)	\$235,380	\$168,288	\$58,743	\$6,877	\$47	\$5	\$1,419
General and Administration (ad)	\$242,795	\$154,331	\$56,683	\$20,600	\$10,099	\$271	\$811
Depreciation and Amortization (dep)	\$216,027	\$126,144	\$50,453	\$24,144	\$14,513	\$387	\$386
PILs (INPUT)	\$25,964	\$14,642	\$6,228	\$3,225	\$1,790	\$48	\$31
Interest	\$68,399	\$38,571	\$16,406	\$8,497	\$4,717	\$126	\$82
Total Expenses	\$1,067,518	\$662,822	\$249,676	\$98,934	\$51,614	\$1,380	\$3,093
Direct Allocation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Allocated Net Income (NI)	\$123,118	\$69,428	\$29,531	\$15,294	\$8,490	\$226	\$148
Revenue Requirement (includes NI)	\$1,190,636	\$732,250	\$279,207	\$114,228	\$60,104	\$1,606	\$3,241
	Revenue Requirement Input equals Output						
Rate Base Calculation							
Net Assets							
Distribution Plant - Gross	\$4,729,291	\$2,673,830	\$1,116,774	\$567,677	\$355,575	\$9,459	\$5,974
General Plant - Gross	\$412,991	\$233,063	\$98,509	\$50,411	\$29,704	\$791	\$513
Accumulated Depreciation	(\$3,070,982)	(\$1,737,998)	(\$721,225)	(\$365,259)	(\$236,302)	(\$6,283)	(\$3,914)
Capital Contribution	(\$104,494)	(\$59,755)	(\$22,378)	(\$8,629)	(\$13,179)	(\$350)	(\$203)
Total Net Plant	\$1,966,806	\$1,109,139	\$471,680	\$244,201	\$135,799	\$3,617	\$2,370
Directly Allocated Net Fixed Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Power (COP)	\$4,263,072	\$2,189,245	\$825,630	\$1,194,439	\$45,470	\$1,619	\$6,669
OM&A Expenses	\$757,128	\$483,465	\$176,589	\$63,067	\$30,593	\$820	\$2,593
Directly Allocated Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$5,020,200	\$2,672,710	\$1,002,220	\$1,257,506	\$76,063	\$2,440	\$9,262
Working Capital	\$753,030	\$400,906	\$150,333	\$188,626	\$11,409	\$366	\$1,389
Total Rate Base	\$2,719,836	\$1,510,046	\$622,013	\$432,827	\$147,208	\$3,983	\$3,760
	Rate Base Input equals Output						
Equity Component of Rate Base	\$1,359,918	\$755,023	\$311,006	\$216,413	\$73,604	\$1,992	\$1,880
Net Income on Allocated Assets	\$123,118	\$75,285	\$50,104	\$15,482	(\$17,251)	(\$400)	(\$101)
Net Income on Direct Allocation Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$123,118	\$75,285	\$50,104	\$15,482	(\$17,251)	(\$400)	(\$101)
RATIOS ANALYSIS							
REVENUE TO EXPENSES %	100.00%	100.80%	107.37%	100.16%	57.17%	61.01%	92.30%
EXISTING REVENUE MINUS ALLOCATED	\$0	\$5,857	\$20,573	\$187	(\$25,741)	(\$626)	(\$250)
RETURN ON EQUITY COMPONENT OF R	9.05%	9.97%	16.11%	7.15%	-23.44%	-20.09%	-5.39%
Adjustment to class revenue for 2008 Cost of Service Rate Application	\$0 100.00%	(\$35,025) 63.07%	(\$5,225) 26.47%	\$23,935 7.89%	\$16,000 2.29%	\$315 0.07%	\$0 0.21%
Adjustment to class revenue for 2009 IRM Application	\$0	(\$24,048)	(\$10,306)	\$25,400	\$8,800	\$154	\$0
Revised % income from each rate class to arrive at cost revenue ratio for 2009	100.00%	60.81%	25.50%	10.28%	3.11%	0.09%	0.21%

ERHDC has re-calculated the adjustments for each rate class for the Service Charge and the Volumetric Charge and included the revised adjustments in the Rate Generator Model and the Supplemental Filing Module re-submitted to the Board as Appendix A & B.

Detailed calculations are included below:

2008 Cost of Service Revenue Allocation					
	Allocation	Distribution	Low Voltage	Transformer	Total
Class		Revenue		Allowance	
Residential	63.07%	\$749,305	\$75,525		\$824,830
Gen < 50	26.47%	\$314,478	\$30,782		\$345,260
Gen > 50	7.89%	\$93,737	\$31,577	\$12,958	\$138,272
USL	0.21%	\$2,495	\$262		\$2,757
Street Light	2.29%	\$27,206	\$1,100		\$28,306
Sentinel	0.07%	\$832	\$50		\$882
	100%	\$1,188,053	\$139,296	\$12,958	\$1,340,307

2009 Cost of Service Revenue Allocation					
	Allocation	Distribution	Low Voltage	Transformer	Total
Class		Revenue		Allowance	
Res	60.81%	\$730,335	\$75,525		\$805,860
Gen < 50	25.50%	\$306,258	\$30,782		\$337,040
Gen > 50	10.28%	\$123,464	\$31,577		\$155,041
USL	0.21%	\$2,522	\$262		\$2,784
Street	3.11%	\$37,351	\$1,100		\$38,451
Sent	0.09%	\$1,081	\$50		\$1,131
	100%	\$1,201,011	\$139,296	\$0	\$1,340,307

Note: ERHDC allocated the Transformer Allowance to all rate classes in 2009.

	2008	2009	Percentage
Class	Revenue	Revenue	Change
Res	824,830	805,860	-2.30%
Gen < 50	345,260	337,040	-2.38%
Gen > 50	138,272	155,041	12.13%
USL	2,757	2,784	0.99%
Street	28,306	38,451	35.84%
Sent	882	1,131	28.27%
	1,340,307	1,340,307	

		2008 Approved Service Charge	Cost Ratio Adjustment	Adjustment to Service Charge \$
	Residential	10.13	-0.0230	-0.2330
	GS < 50 kW	18.17	-0.0238	-0.4324
	GS > 50 kW	123.11	0.1213	14.9332
	Streetlights	0.82	0.3584	0.2939
	Sentinel Lights	0.9	0.2827	0.2544
	USL	8.53	0.0000	0.0000
		2008 Approved Volumetric Charge	Cost Ratio Adjustment	Adjustment to Volumetric Rate
	Residential	0.0146	-0.0230	-0.00034
	GS < 50 kW	0.017	-0.0238	-0.00040
	GS > 50 kW	3.0504	0.1213	0.3700
	Streetlights	10.6841	0.3584	3.8292
	Sentinel Lights	7.6612	0.2827	2.1658
	USL	0.013	0.0000	0.0000

Question #4**K-Factor Adjustment***Ref.: Manager's Summary, Page 4*

Espanola's Manager Summary states the applied for K-Factor is to be -0.19%. This figure is used at Sheet D2.2 of the 3rd Generation IRM Rate Generator Model. However Sheet E1.3 of the 3rd Generation Supplementary Filing Module (which includes the additional PILs) produces a K-Factor of 0.18%.

On page 9 of the Manager's Summary, Espanola explains that the difference is due to the PILs amount requested. As the Board will not hear Espanola's PILs amount request in this proceeding, please confirm what Espanola's proposed K-Factor adjustment is.

Response

ERHDC has submitted with these interrogatory responses Appendix A and Appendix B which are an amended 3rd Generation Rate Generator Model and an amended Supplementary Filing Module that exclude the PILs request and has a K-factor adjustment of 0.19%.

Question #5**Retail Transmission Service Rates***Ref.: Managers Summary, page10*

Espanola's Managers Summary indicates that the utility will apply for an 11.3% uniform increase in the 2009 Network Service Rates and a 19.2% increase in the 2009 Line and Transformation Service Rates. Please provide further explanation, including supporting calculations, for the amounts requested.

Response

ERHDC based the increase applied for on the guidelines issued by the OEB (G-2008-001) issued October 22, 2008. ERHDC has applied to change the RTSR's to reflect the change in the uniform transmission rates and did not include clearance of the RTSR deferral accounts as part of the application. Further guidance from the Board in G-2008-001 stated that for Incentive Regulation Applications the module will adjust RTSR's in the same manner as the uniform transmission rates have changed and deferral accounts are to be used to account for the difference in the rate that a distributor pays for transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers. While the transmission rates will change on January 1, 2009, retail rates will not change prior to May 1, 2009. The changes are stated as follows on page 2 of the guidelines issued by the OEB:

- Network Service Rate has increased from \$2.31 to \$2.57 per kW per month, an 11.3% increase
- Line Connection Service Rate has increased from \$0.59 to \$0.70 per kW per month, an 18.6% increase
- Transformation Connection Service Rate has increased from \$1.61 to \$1.62 per kW per month, a 0.6% increase

Therefore, based on the above ERHDC applied for an 11.3% increase to Network Service Rates and a 19.2% increase to Line and Transformation Rates (18.6 % + 0.6% increase = 19.2%) to have the RTSR's change in the same manner the uniform transmission rates have changed.

Question #6

Rural or Remote Electricity Rate Protection

By letter dated December 17, 2008, the Board informed the electricity distributors of the approval it has given to the IESO regarding the level of charge the IESO may apply to its Market Participants for the Rural or Remote Electricity Rate Protections (RRRP) program. In that letter, the Board stated: "Distributors that currently have a rate application before the Board shall file this letter as an update to their evidence along with a request that the RRRP change in their tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009."

If Espanola has not done so, please file the required addition to the evidence as outlined in the December 17th letter.

Response

ERHDC requests that the RRRP charge in the tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009 as per the OEB letter Dated December 17, 2008 from the OEB attached below.

Ontario Energy
Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie
de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécoeur: 416-440-7656
Numéro sans frais: 1-888-632-6273



December 17, 2008

To: All Licensed Electricity Distributors and Retailers

Re: Rural or Remote Electricity Rate Protection

Ontario Regulation 442/01, Rural or Remote Electricity Rate Protection ("RRRP") (made under the *Ontario Energy Board Act, 1998*) requires the Ontario Energy Board (the "Board") to calculate the amount to be charged by the Independent Electricity System Operator ("IESO") with respect to the RRRP for each kilowatt-hour of electricity that is withdrawn from the IESO-controlled grid.

Amount to be charged by the IESO for RRRP

Based on the demand forecast provided by the IESO, the Board has determined that the amount to be charged by the IESO with respect to the RRRP shall remain at the current level of 0.1 cents per kilowatt-hour effective January 1, 2009. Effective May 1, 2009, the IESO's RRRP charge shall be 0.13 cents per kilowatt-hour.

Amount to be Charged by Distributors and Retailers for RRRP

Effective January 1, 2009, the RRRP charge shall remain at the current level of 0.1 cents per kilowatt-hour.

Effective May 1, 2009, the RRRP charge shall be 0.13 cents per kilowatt-hour.

After May 1, 2009 the RRRP charge shall remain at 0.13 cents per kilowatt-hour until such time as the Board revises it.

Ontario Energy Board

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Distributors that currently have a rate application before the Board shall file this letter as an update to their evidence along with a request that the RRRP charge in their tariff sheet be revised to 0.13 cents per kilowatt-hour effective May 1, 2009.

Where a distributor does not have a rate application before the Board, the distributor shall make an application to the Board to alter the RRRP charge in its tariff sheet effective May 1, 2009 to 0.13 cents per kilowatt-hour.

In the collection of this amount from customers, the customer's metered energy consumption shall be adjusted by the Total Loss Factor as approved by the Board.

The Board wishes to remind all distributors and retailers that in accordance with subsection 5(6) of the Regulation:

A distributor or retailer who bills a consumer for electricity shall aggregate the amount that the consumer is required to contribute to the compensation required by subsection 79(3) of the Act with the wholesale market service rate described in the Electricity Distribution Rate Handbook issued by the Board, as it read on October 31, 2001.

Yours Truly,

Original Signed By

Kirsten Walli
Board Secretary