

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

Question #1

Reference: Espanola Application, 3GRIM Supplemental Model
Espanola Application, Manager's Summary

Preamble: In the manager's Summary, ERHDC states that it is proposing the following adjustments in the revenue to cost ratios for 2009:

- GS>50 – 78% to 100%
 - Sentinel Lights – 51% to 61%
 - Street Lights – 43% to 57%
- a) Increasing the GS>50 class revenue to cost ratio to 100% implies a 28.2% increase in costs (i.e. 100/78). Please reconcile this with the 13.1% adjustment used in the Application – per page 2 of the Manager's Summary
- b) Increasing the Sentinel Lights class revenue to cost ratio to 61% implies a 19.6% increase in costs (i.e. 61/51). Please reconcile this with the 8.86% adjustment used in the Application – per page 2.
- c) Increasing the Street Lights class revenue to cost ratio to 57% implies a 32.6% increase in costs (i.e. 57/43). Please reconcile this with the 15.3% adjustment used in the Application – per page 2.

Response

Increasing a revenue to cost ratio (as in the case above) implies that revenue is required to be increased by a determined percentage to arrive at the new ratio. ERHDC believes it does not imply an increase in costs or that the increase in costs will be proportional to the change in the ratio.

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 including the 2009 IRM adjustment and the 2008 adjustment. ERHDC has recalculated the ratio's and included them in the 3rd Generation rate model and has resubmitted. Refer to responses to Board Staff Interrogatories *Espanola_IRR_BoardStaff_AppendixC_Cost to Revenue Cal_20090126* for a detailed excel version of the calculation. ERHDC has also re-submitted the Supplemental Module and the Rate Generator Model (Appendix A & B) with the Board Staff responses including the cost ratio revisions and excluding the PILs adjustment which the Board has previously stated would not be heard in this proceeding. The cost to revenue calculation is also further clarified in response to Board Staff Interrogatory question #3 file as *Espanola_IRR_BoardStaff_20090126*.

Question #2

Reference: Espanola Application, 3GIRM Supplemental Model
Espanola Application, Managers Summary

- a) The 3GIRM Supplemental Model indicates that the Residential class proportion of revenues at 2008 rates is 61.6% (TabB1.1). However, on page 3 of the Manager's Summary the proportion is reported as 63.07%. Please reconcile.
- b) The 3GIRM Supplemental Model indicates that the GS>50 class proportion of revenues at 2008 rates is 10.3% (TabB1.1). However, on page 3 of the Manager's Summary the proportion is reported as 7.89%. Please reconcile.
- c) Please describe in greater detail how the % adjustment factors on page 2 of the Manager's Summary were determined.
- d) With respect to Tab B3.1, please confirm that the OEB Cost Allocation Model include the cost of the Transformer Ownership Allowance in the Base Revenue Requirements and allocated it to all customer classes.
- e) Please confirm that in its Final Rate Order for 2008 Espanola excluded the cost of the transformer ownership allowance from the base revenue requirement allocated to customer classes (using the proposed revenue to cost ratios) and allocated the "cost" of the allowance directly to the GS>50 class.
- f) Given the price cap adjustment is applied to all the rates, why shouldn't it also be applied to the transformer ownership allowance for 2009?

Response

- a) & b) The 3rd GIRM Supplemental Model on Tab B1.1 includes the low voltage charges when calculating the ratios and in the Manager's Summary the low voltage charges are excluded for 2008.
- c) Refer to the excel version of the calculation submitted as Appendix C and Question #3 with the Board Staff Responses.
- d) The OEB Cost Allocation Model included the transformer ownership allowance in the base revenue requirement and allocated it to all the customer classes.
- e) In the 2008 final rate order Espanola allocated the "cost" of the transformer allowance directly to the GS>50 rate class. For the 2009 cost allocation adjustment ERHDC allocated the transformer allowance to all rate classes.
- f) ERHDC prepared this application consistent with the filing guidelines issued by the Ontario Energy Board.