Board Staff Interrogatories
2010 Electricity Distribution Rates
Coopérative Hydro Embrun Inc.
EB-2009-0132

As identified in the Procedural Order No. 1 issued on November 4, 2009, the Board has determined to proceed by way of written hearing at this point in time and has ordered written interrogatories and responses in the cost of service application of Coopérative Hydro Embrun Inc. ("CHE"). The following are Board Staff's interrogatories.

1 RATE BASE

Issue 1.1 Net Book Value

1 Ref: Exhibit(s) Exhibit 2 Tab 1 Schedule 1 Attachment 1, and Exhibit 1 Tab 4 Schedule 2

Board staff is interested in reconciling the financial statement with the filed evidence. The trend in net book values from 2006 to 2010 can be found in Exhibit 2 Tab 1 Schedule 1 Attachment 1. The ending balance does not reconcile with the net book value found on the balance sheet in Exhibit 1 Tab 4 Schedule 2 for 2008. Please provide a detailed explanation for the difference.

Issue 1.2 Depreciation

2 Ref: Exhibit(s) Exhibit 2 Tab 3 Schedule 2, and Exhibit 1 Tab 4 Schedule 2

Board staff requires more information in the determination of depreciation expenses. The Amortization Expense of $234,820 for 2006 in Exhibit 2 Tab 3 Schedule 2 is significantly different from the $96,906 found in the Statement of Operations on the financial statements for the same year. Please provide a detailed explanation for the difference.

3 Ref: Exhibit(s) Exhibit 2 Tab 2 Schedule 3

On this schedule CHE provides its depreciation policy. Missing from the table of depreciation rates are rates for lease hold improvements and for contributions and grants. Please provide:

a. The length of the lease period;

b. The depreciation rate for the lease; and

c. The depreciation rate for contributions and grants.

4 Ref: Exhibit(s) Exhibit 2 Tab 3 Schedule 2, and
Exhibit 4 Tab 7 Schedule 1 Attachment 1

Board staff can not replicate the Amortization Expenses in Exhibit 2 Tab 3 Schedule 2.

a. Please complete the following table for each of the 14 accounts for the inclusive years of 2006 actual to 2010 forecast.

			Col. 1	*Col. 2*	*Col. 3*	*Col. 4*	*Col. 5*	*Col. 6*	*Col. 7*
		Account	**Openening Gross Asset**	**Additions**	**Retirements**	**Closing Gross Asset**	**Average Gross Asset**	**Depreciation Rate**	**Depreciation Expense**
1	1810	Leashold Improvements							
2	1820	Dx Station <50 kV							
3	###	etc.							
4	###	etc.							
15		Total							

b. Please explain any differences between the tables in part “a” of this interrogatory and Exhibit 2 Tab 3 Schedule 2.

c. Please explain any differences between the tables in part “a” of this interrogatory and Exhibit 4 Tab 7 Schedule 1 Attachment 1 for the test year.

Issue 1.3 Computer Software

5 Ref: Exhibit(s) Exhibit 2 Tab 4 Schedule 1

CHE explained a variance of $62,200 in Account 1925 Computer Software as a need driven by the existing billing system software vendor’s notice in 2007 that it would stop supporting the software in 2 years.

a. Did CHE select the replacement software? If not, who was the party that selected the vendor?

b. Who is the vendor for the replacement software?

c. Was the replacement software selected through a Request for Proposal (“RFP”)?

- i If an RFP was used in the selection, please state the names of the other vendors, and the costs that CHE would have paid.
- ii If the software was not chosen through an RFP, what process was used to select the vendor?
- iii What were the selection criteria?
- iv If the software was chosen by a third party, did CHE have any responsibility for selecting the vendor, and if so what were they?

d. If the software was chosen by a third party, did CHE have a right to back out of any existing billing arrangement?

e. What factor(s) is(are) used to allocate capital costs to CHE.

f. What assurances are there that the new software is compatible with the new demands for time of use billing, smart meters and the Green Energy and Green Economy Act?

g. What is the ongoing maintenance cost for the new software?

h. Please explain the rationale behind any allocation of maintenance costs to CHE.

i. Please compare the maintenance costs for the new system to that of the former Harris system.

Issue 1.4 Working Cash Allowance

6 Ref: Exhibit(s) Exhibit 2 Tab 5 Schedule 1 Attachment 1

This exhibit shows the calculation of the working cash allowance. Board staff is interested in the derivation of the Power Supply Expenses for 2010.

a. Please state the cost of power used in this calculation.

b. Please show and explain the detailed derivation, showing volumes and unit costs, for the projected balance for Account 3350 Power Supply Expenses for 2010.

Issue 1.5 Asset Management

7 Ref: Exhibit(s) Exhibit 2 Tab 4 Schedule 5
Exhibit 2 Tab 4 Schedule 4 Attachment 2, and
Exhibit 2 Tab 6 Schedule 1

In Exhibit 2 Tab 4 Schedule 5 CHE state that it does not believe that an official asset management plan is required, nor that the costs for such a plan would justify itself. CHE is a small utility with a very small service territory.

Board staff notes the level of service interruptions found in Exhibit 2 Tab 6 Schedule 1 that was caused by defective equipment. In Exhibit 2 Tab 4 Schedule 5 CHE indicates that:

1.11 The company does not regularly evaluate and apply if appropriate, leading edge inspections,

2.6 Key performance indicators for critical assets are not in place,

2.8 AM process audits conducted to ensure that the process is consistent with the strategy and policy are not done, and

4.1, 4.2, and 4.3, Strategic planning for asset management appears not to exist.

a. Has CHE performed any potential failure analysis and determined a preventive failure plan as a result?
b. What capital projects will address plant at risk of failure, what are the estimated costs, and in what year would the projects be budgeted?
c. What forward planning is done by CHE to better assess equipment for the effects of age and the environment in order to estimate the potential for failure?
d. Are there are any undocumented strategic asset management plans? If so, please state the plans?
e. If there are now, after filing this application, any planning documents adopted or considered, please provide them.

2 SMART METERS

Issue 2.1 Smart Meter Rate Adder

8 Ref: Exhibit(s) Exhibit 9 Tab 3 Schedule 2 Attachment 1

Board staff has found inconsistencies with the data filed in the Smart Meter Rate Adder calculation.

a. It appears that on page 1 of 5, the incorrect information has been used for the capital costs and for the tax rates for 2008. Please explain why CHE is using different capital cost and PILs values. If this is an error, please correct the calculation.
b. On page 2 of 5, CHE has used 11.2% for the percent of operating costs that is used to determine the working cash allowance. In Exhibit 2 Tab 1 Schedule 2, CHE state that working capital is determined at the rate of 15% of operating costs. Please explain the difference, or correct the calculation.

c. Please recalculate the smart meter rate adder using the applied for cost of capital for 2010 and the appropriate working cash allowance as determined in part “b” of this interrogatory.

3 REVENUE

Issue 3.1 Load Forecast

9 Ref: Exhibit(s) Exhibit 3 Tab 1 Schedule 1; Elenchus Report

The document titled *Weather Normalized Distribution System Load Forecast - 2010 test Year, April 23, 2009,* is a draft document. Board staff is concerned about the forecasting models performance.

a. Please provide a final version of the document.

b. Please state any data cleaning, such as treatment of outliers.

c. Some studies have shown that heating degree days should not be calculated based on 18^{o}C. In the Ottawa area, 14^{o}C has been found more appropriate. Please recalibrate the model using 14^{o}C and provide the resulting forecast along with the statistical parameters as found in Table 3 of the Elenchus report. (If dummy variables need to be adjusted to reflect the different behaviour of the model, please adjust and explain).

d. Similarly, cooling degree days are region specific, with a balance point higher than 18^{o}C for residential loads. Please recalibrate the model for a second run reflecting only the change in cooling degree days to 23^{o}C and provide the resulting forecast along with the statistical parameters as found in Table 3 of the Elenchus report. (If dummy variables need to be adjusted to reflect the different behaviour of the model, please adjust and explain).

e. Please combine “c” and “d” in a third run of the model and provide the requested information.

f. Please provide the development of the percentages used to determine the class share of the 2009 and 2010 forecasts.

Issue 3.2 Customer Growth

10 Ref: Exhibit(s) Exhibit 3 Tab 1 Schedule 1; Elenchus Report

CHE has linked the customer growth in its territory directly to that of CMHC’s forecast for the Ottawa Metropolitan area. Board staff has developed the following table from the evidence:

Residential Customer Growth

	Col. 1	*Col. 2*	*Col. 3*	*Col. 4*	*Col. 5*	*Col. 6*	*Col. 7*	*Col. 8*
	Actuals						**Forecast**	
	2003	2004	2005	2006	2007	2008	2009	2010
Count								
1 Residential	1,417	1,522	1,589	1,634	1,689	1,743	1,787	1,834
2 Change (units)		105	67	45	55	54	44	47
3 Change (%)		7.4%	4.4%	2.8%	3.4%	3.2%	2.5%	2.6%

a. Please confirm that the table is correct. If it is not, please provide a corrected table.

b. Please provide the actual growth from CMHC’s data for the Ottawa Metropolitan area which are for the same actual growth found in the above table in a manner similar to that given in the table.

c. Average residential growth in the provided table is 4.2%. CHE is estimating a 2.5% increase for 2008, and forecasting a 2.6% for 2009. Please explain why using the average growth is not appropriate?

4 OPERATING COSTS

Issue 4.1 Administrative and General Costs

11 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 1 Attachment 2

In 2008 Account 5615 General Administrative salaries increased from $4,200 to $36,033 and for 2010 is forecast to be $37,000. CHE state that they employ a General Manager and two Customer Service Representatives. Please explain the nature of these expenses in Account 5615 and the reason for the relatively large increase.

Issue 4.2 Regulatory Expenses

12 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 1 Attachment 2
Exhibit 4 Tab 2 Schedule 3

CHE is forecasting $120,000 for this 2010 rebasing application. However, Account 5655 Regulatory Expenses shows a $30,000 increase from 2009 to forecast 2010.

a. Is CHE proposing to amortize the $120,000over 4 years?

b. If not please explain the $30,000 increase and in what account are the rebasing costs?

Issue 4.3 International Financial Reporting Services ("IFRS")

13 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 2

CHE state that it estimates that the one time cost for converting to IFRS is $60,000 and that they propose to amortize the cost over four years. Will CHE remove these costs and use a deferral account as stated on page 27 in *Report of the Board Transition to International Financial Reporting Standards, EB-2009-0408, July 28, 2009*?

Issue 4.4 Low Income Energy Assistance Plan (LEAP)

14 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 4

CHE states that the amount of $2,000 is included in the 2010 forecast. CHE intends to work with an outside consultant and link with social interest groups.

a. What is the estimate for the consultant?
b. How was that estimate derived?
c. Please state of the $2,000, the amounts that represent existing programmes and the amounts for new programmes.

Issue 4.5 Charitable Donations

15 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 6

CHE states that the amount of $2,000 is included in the 2010 forecast for charitable donations. On page 39 of the 2006 EDR Handbook it states that charitable donations are not allowed unless they provide assistance to the customers paying there bills.

a. Are any of the charities listed in the Exhibit assisting customers pay their bills?
b. If they are, please state which ones and the amount of the donation.
c. Please state why these costs in part b. should not be LEAP costs.

Issue 4.6 Purchase of Services

16 Ref: Exhibit(s) Exhibit 4 Tab 6 Schedule 1 Attachment 1

CHE has provided a table of suppliers stating the amounts, the nature of the activity and whether a contract exists or not.

a. Please expand this table to include the inclusive years of 2006 to 2009.
b. Please explain any year over year increase greater than 10%.

5 PILS

Issue 5.1 Tax Rates

17 Ref: Exhibit(s) Exhibit 4 Tab 8 Schedule 1

The table below was prepared by Board staff. Please state why CHE is not using the Blended Tax Rate of 16% and Ontario Capital Tax Rate of 0.150%

	January to June 30th	July 1st to December 31st	January to June 30th	July 1st to December 31st	January to June 30th	July 1st to December 31st
Income Range	**$0 to $500,000**	**$0 to $500,000**	**$500,001 to $1,500,000**	**$500,001 to $1,500,000**	**> $1,500,000**	**> $1,500,000**
Federal rate	11.00%	11.00%	18.00%	18.00%	18.00%	18.00%
**Ontario rate ** **	5.50%	4.50%	0.00%	4.50%	14.00%	12.00%
Income Tax Rate	16.50%	15.50%	18.00%	22.50%	32.00%	30.00%
Blended Rate	**16.00%**		**20.25%**		**31.00%**	
Capital Tax Rate	0.150%	0.000%				
Surtax	4.250%	0.000%				
Ontario Capital Tax Exemption	**$15,000,000**					

6 COST OF CAPITAL AND RATE OF RETURN

Issue 6.1 Cost of Debt

18 Ref: Exhibit(s) Exhibit 5 Tab 1 Schedule 2

In the Summary of Cost of Capital table in Exhibit 5 Tab1 Schedule 2, CHE is requesting debt to be solely composed of long term debt at a rate of 7.19%. No justification is given for deviation from the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors, December 20, 2006* where the Board found that the short term debt amount will be fixed at 4% of rate base. No supporting evidence was submitted for the long term debt rate of 7.19%.

a. Please provide sound reasons for deviating from the Board's policy on debt, which is that a short term component is to be fixed at 4%.

b. If there are no sound reasons, please provide a short term debt rate with sound justification if the proposed rate varies from the current Board approved rate of 1.33%.

c. Please provide support for the requested long term rate of 7.19% for this rate varies from the current Board policy of 7.62%. The support should in the least provide for each debt instrument, the name of the debt holder, the relationship of the debt holder to CHE, the date it was effective, the term of the instrument, the interest rate, whether the interest rate is fixed or variable, and the terms as to whether the instrument can be called or retired at any time. Please substantiate any request with the Board's findings in the above mentioned Report of the Board, December 20, 2006.

7 COST ALLOCATION

Issue 7.1 Revenue to Cost Ratios

19 Ref: Exhibit(s) Exhibit 7

Please provide a table of revenue to cost ratios based on the proposed class revenues and the allocated 2010 costs.

Issue 7.2 Transformer Ownership Allowance

20 Ref: Exhibit(s) Cost Allocation Model

Please confirm that CHE does not have customers who own their own transformers.

8 LOSS FACTORS

Issue 8.1 System Loss Improvement Work

21 Ref: Exhibit(s) Exhibit 8 Tab 3 Schedule 3

Between 2006 and 2007, CHE improved its distribution system in an effort to reduce losses. This work was on the basis of the Utility Load Flow Study by Stantec Consulting Ltd. Distribution losses for 2006 – 2008 appear to be lower, as found on line G of Attachment A. What reasons would CHE have for not using the three year average for 2006-2008 rather than the five year average for distribution loss factors?

9 RATE DESIGN

Issue 9.1 Retail Transmission Service Rates

22 Ref: Exhibit(s) Exhibit 8 Tab 3 Schedule 1
Exhibit 1 Tab 2 Schedule 1

The Retail Transmission Sales Rates which CHE uses for developing the distribution rate rider are the Uniform Transmission Service rates. However CHE describes itself as entirely embedded in Hydro One Network Inc.'s low voltage system. Staff would like clarification of the transmission service CHE is receiving. Does CHE pay Hydro One for transmission service on Hydro One rates, or does CHE pay the Uniform Transmission Service rate?

23 Ref: Exhibit(s) Exhibit 8 Tab 3 Schedule 1 Attachment 1

The determination of the proposed Retail Transmission Rate Connect and Retail Transmission Rate Network charges appears to use historical costs. Over time these costs have changed, and provides a historical cost that is not totally reflective of current rate levels. As such, the ratios derived on this Exhibit could lead to results that would not match total costs incurred to total revenues.

a. Please recast the total period costs for Network Service Charge and Transformation Connect Service Charge based on the current rates that CHE pays.
b. Please also recast the respective billings based on current Retail Transmission Rates – Network and Retail Transmission Rates – Connect.
c. Based on “a” and “b” please develop new proposed Retail Transmission Rates – Network and Retail Transmission Rates – Connect.

Issue 9.2 Monthly Rates and Charges

24 Ref: Exhibit(s) Exhibit 8 Tab 4 Schedule 3 Attachment 1

This exhibit is incomplete.

a. Please provide the proposed Specific Service Charges.
b. Please identify and substantiate any changed or new charge.
c. Please review the Conditions of Service and state any charges in the Conditions of Service that are not stated in the current Specific Service Charges and provide justification for the level of the charge.
d. Please provide the proposed loss adjustment factors.

10 DEFERRAL AND VARIANCE ACCOUNTS

Issue 10.1 Reconciliation of Balances

25 Ref: Exhibit(s) Exhibit 1 Tab 4 Schedule 2, Attachment 2, and 2008 Audited Financial Statements

CHE’s Balance Sheet as of December 31, 2008 shows total Regulatory Liabilities of $155,252. This total includes a debit of $12,810 for Rebasing Costs. The total Regulatory Liabilities as reported on the Audited Financial Statements differ from the amounts reported to the Board under RRR 2.1.7.

a. Please reconcile the amounts reported in the Audited Financial Statements as of December 31, 2008 under Note 5, Regulatory Liabilities (page 11 of the Audited Financial Statements) to the amounts reported to the Board under the annual RRR 2.1.7 filing.

b. Identify the components of any difference between RRR 2.1.7 and the Audited Financial Statements, including an explanation of which other accounts now contain any such difference by component.

c. State which value should be relied upon in this proceeding, and, if different from the value reported in the 2008 audited financial statements, explain why the Board should rely on the different value.

Issue 10.2 Continuity of Records

26 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 1 Attachment 1

a. CHE has not used the Continuity Schedule model provided by the Board as per the filing requirements. Please use this path to access this model, and refile the Continuity Schedule: http://www.oeb.gov.on.ca/OEB/_Documents/Regulatory/7_Continuity_Schedule.XLS. Please file both, Excel as well as PDF versions of the Continuity Schedule.

b. There appear to be arithmetic errors in this schedule. For example, Account 1508 has an opening principal balance on January 1, 2006 of $4,587, and the changes during 2006 were $1,328. The ending principal balance on page 2 is shown to be $3,516, and not $5,915. Please correct and refile all impacted schedules including the Continuity Schedule model provided by the Board. Please ensure that the amount dispositioned in 2006 EDR are correctly shown on the Continuity Schedule.

c. CHE has not provided the interest rates applied to calculate the carrying charges for the regulatory deferral and variance accounts. Please provide the rates by quarter for each year.

d. CHE has applied to clear a credit amount of $127,209 for account 1562, Deferred Payments in Lieu of Taxes. The Board has commenced a proceeding to review PILs, EB-2008-0381. The Board has indicated that the results of this proceeding will inform its policies on the disposition of balances in the PILs accounts 1562, 1563 and 1592. If CHE intends to disposition the balance in PILs account 1562 before the Board reaches its decision on the matters in case EB-2008-0381, please provide reasons.

Issue 10.3 Account 1588

27 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 1 Attachment 1

On October 15, 2009, the Board's Regulatory Audit & Accounting group issued a bulletin related to Regulatory Accounting & Reporting of Account 1588 RSVA Power and Account 1588 RSVA Power Sub-account Global Adjustment. Please confirm whether or not CHE plans on making any changes to its filing with respect to Account 1588.

Issue 10.4 Rate Rider Calculation

28 Ref: Exhibit(s) Exhibit 9 Tab 2 Schedule 1 Attachment 2

Board staff has reviewed the determination of the proposed rate riders for conformance to Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative, EB-2008-0046, July 31, 2009.

a. Please explain why CHE is allocating Account 1550 LV Variance Account on the basis of tranansmission connection revenue rather than class kWh?

b. Please explain why CHE has determined the unit rate based on forecasted volumes rather than the most recent Board-approved volumes?