PUBLIC INTEREST ADVOCACY CENTRE
LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC
ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. http://www.piac.ca

Michael Buonaguro
Counsel for VECC
(416) 767-1666

November 27, 2009

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,

Michael Buonaguro
Counsel for VECC
Encl.

ESSEX POWERLINES CORPORATION (“EPL”)

2010 RATE APPLICATION

EB-2009-0143

VECC’S INTERROGATORIES (ROUND #1)

GENERAL

Question #1

Reference: Exhibit 1/Tab 2/Schedule 2, pages 1-2

a) Please confirm that all of EPL’s delivery points are via Hydro One Networks distribution facilities (i.e., it pays HON Sub-Transmission Rates and Retail Transmission Charges for all power received).

Question #2

Reference: Exhibit 1/Tab 2/Schedule 3, pages 1-2

a) Please confirm that Essex Power Services Corporation (EPS) currently does not provide any services to EPL? If it does, please describe what they are and the basis for the charges.

b) Please confirm that the Application does not include any charges from EPS for services for 2010? If it does, please describe fully what the services are, the amounts charged and the basis for the charges.

c) This section does not identify any affiliate transactions between EPL and Essex Power Corporation (EPC).
   - Please confirm that there are such transactions for 2009 and forecast for 2010.
   - Please provide a copy of the services agreement between EPL and EPC.

Question #3

Reference: Exhibit 1/Tab 4/Schedule 8, page 1

a) Please reconcile the 2010 OM&A value reported here ($6,387,118) with the value reported at Exhibit 4/Tab 1/Schedule 1 ($6,440,941).

RATE BASE

Question #4

Reference: i) Exhibit 2/Tab 3/Schedule 3, Attachment 1, pages 13-16
ii) Exhibit 4/Tab 7/Schedule 1, Attachment 1, page 5

a) Please explain why the 2009 Gross Asset balance values reported in Reference (i) and not the same as the 2010 Opening Balances reported in Reference (ii) for certain accounts (e.g., #1835 and #1845) such that the total Gross Asset balance for year end 2009 differs in the two References by roughly $6 M.

Question #5

Reference: Exhibit 2/Tab 4/Schedule 1

a) Please provide a summary table of EPL's capital additions for the years 2005-2010, where for each year spending is broken down by the same major categories used in the Exhibit to describe historical spending (e.g., Residential Expansions, Residential Services, … etc.).
(Note: This is similar to Board Staff IR #2 but with a break down of "Capital Additions")

b) Please provide a summary table of EPL's capital additions for the years 2005-2010 by USOA.

c) Please confirm whether for 2008, 2009 and 2010 all capital spending is assumed to be in-service the year it is spent (i.e., there is no construction in progress at year end). If not, please provide a schedule that sets out the total capital spending by USOA and the outstanding construction in progress as of year for 2008, 2009 and 2010.

d) On page 5, reference is made to the AIS containing the capital projects for 2009 and 2010 (lines 3-4). Some of the projects listed on pages 26 and 27 are designated as OM&A while others are deemed to be capital. For each of these years, please provide a listing of the projects in the AIS that are capital and reconcile the total with the capital additions reported in Exhibit 2/Tab 3/Schedule 3/Attachment 1.

Question #6

Reference: Exhibit 2/Tab 4/Schedule 1, pages 5-12

a) Please provide an update as to the status of the 2009 developer projects (page 5, lines 16-19). Is there a need to revise the 2009 capital spending/capital contribution forecast? If so, please provide the new values and indicate the impact on the 2010 rate base.

b) Please provide a table setting out the total number of new Residential connections and Commercial/Industrial connections underlying the capital additions forecast for 2009 and 2010.

c) In the case of the distributed generation expansion (page 9), do the capital contributions cover the entire cost of the project? If not, why not?

d) What assumptions has EPL made regarding other distributed generation connections in 2009 and 2010 (apart from the one large project discussed); what are the capital costs included for each year and how much of the these costs are covered by capital contributions. If all of the cost is not assumed to be covered by capital contributions please explain why.

Question #7

Reference: Exhibit 2/Tab 4/Schedule 1, pages 15-41

a) With respect to the table on page 16, please address the following:
   - How does the spending shown in the table relate to that shown on pages 26 and 27 of the AIS (e.g., do they both cover the same programs areas and reconcile or do they cover different program areas and if so what are the differences)?
   - Does the table cover all of the spending areas subsequently described on pages 16-51 and, if not, what spending areas discussed in this Schedule are summarized in the table?

b) Year to year capital additions shown on page 16 are reasonably consistent. However, in Exhibit 2/Tab 3/Schedule 3, Attachment 1, total capital additions in 2010 are almost $4.2 M relative to 2008 and 2009 values of $2.9 M and $3.8 M. Please identify the major drivers leading to increased overall capital additions for 2010 relative to previous years?

c) With respect to page 37, are there any charges from EPC in 2010 that will be allocated to capital accounts? If so, please indicate what the associated activities are and, for purposes of the Application, what level of costs was allocated to capital accounts and how.

Question #8

Reference: Exhibit 2/Tab 4/Schedule 1, pages 42-51

a) With respect to page 46, please provide a status update regarding the need for building changes due to MOT's road widening project.

b) Please outline the computer software projects that accounted for the $85,000 in spending in 2008 and the forecast $105,000 spending for 2009 and briefly discuss why the spending was required.

c) With respect to pages 50-51, please describe more fully why how/why the current ERP system does not allow for IFRS compliance.

d) What is involved with the Harris upgrade as opposed to the financial system upgrade and why are both required?

e) What is the status of this project and what is the basis for the estimated $795,144 cost?

f) What other alternatives are being considered and is the approach EPL is currently reviewing preferable?

Question #9

Reference: Exhibit 2/Tab 4/Schedule 5 (AIS)

a) With respect to the 2010 projects listed on page 27, please identify the two capital projects with the lowest Strategic Objective Score and, in each case, discuss the implications of either not proceeding with the project or deferring ti for one year.

b) For 10 highest cost capital projects in the Preventative or Enhancement categories (page 27), please provide a more detailed description of the project and basis for the projected level of spending.

c) How was the 2010 level of spending established for the various capital projects in the Reactive category?

Question #10

Reference: i) Exhibit 2/Tab 5/Schedule 1, Attachment 1
II) Exhibit 3/Tab 1/Schedule 3, Attachment 1

a) Please confirm that the price used to determine commodity costs was the RPP price from the Board's April 2009 RPP Report.

b) Based on the most recent 12 month data, what proportion of EPL's sales (i.e., kWh) are to RPP customers?

c) Are any of EPL's retail customers registered as Market Participants and billed directly for commodity costs by the IESO?

d) If the response to part (c) is yes, what is their forecast use for 2009 and 2010 and has it been excluded from the calculation of the commodity cost used to determine the working capital allowance?

e) If the $0.0607 value used for the commodity cost is based on the RPP price, please undertake the following:
   - Using the same source, estimate the commodity cost for non-RPP customers
   - Estimate an average commodity cost for all sales based on the weighted average of the RPP and non-RPP forecast costs.
   - Re-estimate the Total Commodity cost for 2010.

LOAD FORECAST & OPERATING REVENUE

Question #11

Reference: Exhibit 3/Tab 1/Schedule 2, Attachment 1 (ERA Report)

a) With respect to pages 2-3, please explain why the "three other points" do not receive volumetric charges for distribution.

b) With respect to page 14, please indicate the kW volumes for 2010 associated with the Embedded Distribution points that are currently not subject to volumetric charges – reporting the GS>50 and Intermediate volumes separately.

c) Based on the most recent 12 months of available data please indicate the total kW delivered (i.e. monthly values summed for 12 months) to HON through each of these three delivery points.

d) With respect to pages 3-4, did ERA consider using an approach similar to that employed by the Consultant for Cooperative Hydro Embrun's 2010 Rate Application (EB-2009-0132)? If not, why not? If yes, why was the approach rejected?

e) While EPL's service area is adjacent to EnWin's and may have similar "weather", the use of electricity for space conditioning (i.e. penetration rates) may differ between the two utilities. Did ERA review the appliance saturation surveys undertaken by the two utilities as part of HON's weather normalization analysis in order to determine if usage characteristics were similar between the two utilities? If yes, please provide the results. If no, what is the basis for ERA's assumption that the weather normalization factors should be similar?

f) With respect to page 11, please contrast the assumed growth in residential customer for 2009 and 2010 with the number of new Residential connections assumed for 2009 and 2010 in Exhibit 2.

g) Similarly, please contrast the assumed growth in GS and Intermediate class customers for 2009 and 2010 with the number of new Commercial/Industrial connections assumed for 2009 and 2010 in Exhibit 2.

Question #12

Reference: Exhibit 3/Tab 2/Schedule 1, Attachment 1

a) Please provide a breakdown of the $78,810 in transformer allowance by customer class.

b) Please provide a revised version of the Schedule on page 1 showing 2010 Projected Revenues at Existing rates where the volume for the GS>50 and Intermediate classes include the volumes associated with the Embedded Distribution delivery points that are currently not subject to volumetric charges.

c) With respect to the Table on page 2, please provide a schedule setting out the derivation of the revenue by class for 2010 used to determine the Total % of Revenue by Class shown in the last column. Please provide the results in sufficient detail to support the reported Fixed-Variable splits by class.

d) Please confirm whether the rates used in response to part (c):
    - Excluded the Smart Meter adder
    - Exclude the LV adder
    - Included the discount for Transformer Allowance where appropriate.

If not, please provide a revised response to part (c) using the rates as specified above.

Question #13

Reference: Exhibit 3/Tab 3/Schedule 1, page 1

a) Please reconcile the $779,844 in Other Revenue reported here (page 1) with the $779,884 value reported in the accompanying Attachment 1 (page 1) and the $679,883 value reported in Exhibit 1/Tab 4/Schedule 9, page 4.

b) With respect to Attachment 2 (page 1), please explain the inclusion of $78,810 in Transformer Allowance under Revenues from Services.

c) With respect to Attachment 2 (page 1), please explain why there is roughly a $200,000 difference between Revenue and Expenses for Non-Utility Operations in 2008 but a difference of only $100,000 forecast for 2009 and 2010.

OPERATING COSTS

Question #14

Reference: Exhibit 4/Tab 1/Schedule 1, pages 5-6

a) The Application states that the forecasted 2010 OM&A is 3% lower than the 2006 Board approved level. However, the Application goes on to state that $901,414 in LV costs should be removed from the 2006 approved OM&A for comparative purposes. Please confirm that based on this adjustment the 2010 forecast OM&A is 12% above the comparable 2006 EDR approved value.

b) With respect to page 6, the referenced Appendix 2-H lists a number of cost drivers for 2009 (i.e., Regulatory Expenses through Community Relations). For each item please explain what it represents and why it is considered an ongoing cost for 2010.

c) With respect to page 6 and Appendix 2-H, where in the cost driver table are the annual inflation of 3% for wages and 2% for other expenses (per Exhibit 4/Tab 1/Schedule 3, page 1) captured?

d) Why isn't EPL recording its 2010 IFRS cost in a deferral account as provided by the Board in EB-2008-0408, page 43?

Question #15

Reference: Exhibit 4/Tab 2/Schedule 2

a) What is the basis for the $200,000 estimate for IFRS conversion costs? Is this over and above the software capital spending to enable implementation of IFRS?

Question #16

Reference: Exhibit 4/Tab 2/Schedule 4

a) Given the Board's September 28, 2009 update regarding the Low Income Energy Assistance Program initiative:
   - Is the budgeted LEAP amount required for 2010? If yes, why?
   - Is the proposed CIS department funding required for 2010? If yes, why?

Question #17

Reference: Exhibit 4/Tab 2/Schedule 5

a) Please confirm that EPL has included the cost of the two new positions in the 2010 proposed revenue requirement as opposed to posting them to the requested deferral accounts.

Question #18

Reference: Exhibit 4/Tab 4/Schedule 1

a) The Application states (page 6) that, in the past, the accounting department of EPC assisted with required regulatory activities as did other positions within EPL. Please explain why, with the hiring of the Manager-Regulatory Affairs, the charges from EPC for Finance & Regulatory & Management (per Appendix 2-M) are virtually the same in 2010 as in 2008 and 2009.

b) The Application states (page 9) generator requests for studies and associated models have previously been completed by consultants and will now be done in-house. Please indicate where in the Application the reduction in external consultants' costs for 2010 has been reflected.

c) To what extent will the costs of the new Distribution Engineer and Special Customer Accounts Manager position be recovered from generators through charges for connections studies, etc.? Where is this revenue offset reflected in the Application?

Question #19

Reference: Exhibit 4/Tab 5/Schedule 1

a) Please describe the Finance, Regulatory and Management services that EPC will provide to EPL in 2010.

b) Please describe the Engineering & CDM/OPA services that EPC will provide to EPL in 2010. Are any of these costs recoverable through OPA program funding and, if not, why not?

c) Please indicate where (i.e., which USOA) the external costs for managing CDM/OPA activities were recorded prior to 2010.

d) In which USOA are the charges from EPC recorded for 2010?

e) With respect to page 1, please confirm that the 6% is a mark-up on the allocated OM&A expense. If this is the case, why is it reasonable to a compare the value to EPL's regulated rate of return which is applicable to the value of assets employed?

Question #20

Reference: Exhibit 4/Tab 8/Schedule 3, page 2

a) Please provide the basis for EPL's combined 2010 tax rate of 33.73%.

b) Does EPL's 2010 tax rate reflect the May 2009 provincial budget changes that, effective July 1, 2010, will reduce the small business tax to 4.5% and eliminate the small business deduction surtax and reduce the corporate tax rate to 12%? If not, please provide an updated tax calculation. (Note: This is similar to Board Staff IR #18 but also includes reference to the corporate tax reduction)

REVENUE DEFICIENCY

Question #21

Reference: i) Exhibit 6/Tab 1/Schedule 2

a) Based on the responses to the first round of interrogatories from all parties please prepare a schedule that sets out all the adjustments/revisions that EPL has acknowledged as being required to the currently requested 2010 revenue requirement and the impact of each. In each case, please provide a cross reference to the relevant IR response.

COST ALLOCATION

Question #22

Reference: Exhibit 7/Tab 1/Schedule 1, Attachment 1 (ERA Report),

a) With respect to page 7 (lines 10-12), please confirm that the reference to GS<50 should read “GS>50”. If not, please explain.

b) With respect to Table 7, please recalculate the revenue to cost ratios for EPL-2010 assuming the distribution revenues for each class are increased by the same percentage such that total service revenues (i.e., including miscellaneous revenues) equals the 2010 proposed revenue requirement ($12,192,424).

c) With respect to page 7 and the load profile for the one Intermediate customer, it was acknowledged in Exhibit 3 that the load for this customer varies significantly. Why wouldn’t an average profile based on few years of data be a better basis for forecasting 2010. Please provide a table that contrasts the load profile (e.g., kWh, CP and NCP values) based on: i) 2008 data and ii) based on an average 2006-2008 data).

d) Please provide a schedule setting out the derivation of the Distribution Revenue by Customer Class as shown in Sheet O1 (Row 18) of the 2010 Cost Allocation run. (Note: The values used for each customer class do not match those reported in Exhibit 7/Tab 2/Scheduele 2/Attachement 3, page 1)

e) With respect to Table 8, the revenue requirement dollar values shown for the Residential class do not match the value in the Cost Allocation models filed with the application. Also, the total costs reported for the 2006 model runs do not match those in the actual Cost Allocation models filed. Please reconcile and revise Table 8 as required.

Question #23

Reference: Exhibit 7/Tab 2/Schedule 2, Attachment 1

a) Please provide a schedule that sets out the derivation of the values in the column "Cost Allocation %" (i.e., the first column with numerical values).

b) Please reconcile the 69.98% value for the Residential class' share of Base Revenues at existing rates with the 70.50% value implicit in Sheet O1 of the 2010 Cost Allocation run (i.e. 6,853,984/9721,288).

c) The Table indicates that for 2010 the Cost Allocation of Base Requirement to the Residential class is $8,086,704 but that the Existing Rate portion of the Base Revenue Requirement is only $8,056,690.
   - Please confirm that this suggests a revenue to cost ratio for the class of less than 100% at existing rates.
   - Please reconcile this with the results presented in Exhibit 7/Tab 1/Schedule 1/Attachment 1, page 14 where at existing rates the revenue to cost ratio for Residential (85.65%) exceeds the overall ratio (85.31%) suggesting that at current rates the revenue to cost ratio for Residential exceeds 1.0.

d) The Table indicates that for 2010 the Cost Allocation of Base Requirement to the Residential class is $8,086,704 but that the Existing Rate portion of the Base Revenue Requirement is only $8,056,690. If this is the case, why is EPL proposing to increase the revenue allocation to $8,295,250 – which exceeds the "Cost Allocation" value?

e) Please confirm that the proposed Revenue to Cost ratios are calculated based on the ratio of the "Base Distribution Revenue by Class" to the "Allocated Base Distribution Revenue Requirement by Class" – where both total $11,512,541 when summed over all classes.

f) Please confirm that in the Board's Cost Allocation Model Revenue to Cost Ratios are determined base on the ratio of "Total Revenues by Class (including allocated Miscellaneous Revenues)" to the "Allocated Service Revenue Requirement by Class" – where both total $12,192,424 when summed over all classes.

g) Please calculate the revenue to cost ratios for each class based on EPL's proposed allocation of costs consistent with the methodology used by the Board's cost allocation model.

Question #24

Reference: Exhibit 7/Tab 2/Schedule 2, Attachment 2

a) This schedule indicates that the revenue to cost ratio for Residential is being reduced in 2010. However, Attachment 1 shows that the revenues allocated to the Residential class under EPL's proposal are higher than what would be case if the existing rate proportions were maintained – suggesting the revenue to cost ratio is being increased. Please reconcile.

RATE DESIGN

Question #25

Reference: Exhibit 8/Tab 2/Schedule 1/Attachment 1, page 1

a) Please confirm that EPL's approach to rate design is as follows:
   - Maintain the current fixed-variable split, except
   - Where the current fixed charge exceeds the Board's upper bound, set the fixed charge at the value for the upper bound.

b) Please confirm whether the total Revenue Requirement used to determine allocation of cost to customer classes and resulting the monthly service charges under the "Existing Fixed/Variable Split" column is:
   - $12,575,503 (per Exhibit 8/Tab 1/Schedue 1, page 1), or
   - $11,512,541 (per Exhibit 7/Tab 2/Schedule 2, Attachment 1

   If the former, please explain why when the Cost Allocation model used to determine the range service charges excludes LV costs and the transformer allowance credit.

c) If the response to part (b) indicates that the $11,512,541 value was <u>not</u> used, please re-calculate the service charge based on the existing fixed/variable split underlying Base Distribution Revenues (per response to Question 12, part (d)) and the proposed allocation of the Base Distribution Revenue Requirement to customer classes (per Exhibit 7/Tab 2/Schedule 2, Attachment 2, page 2).

d) Please confirm that the Board's EB-2007-0667 Guideline (page 12) sets the upper limit for the MSC at 120% of avoided costs plus the allocated customer costs (i.e., Minimum System plus PLCC Adjustment).

e) Based on the responses to parts c) and d), please indicate any revisions that are required to EPL's proposed 2010 monthly service charges.

Question #26

Reference: Exhibit 8/Tab 2/Schedule 1/Attachment 2

a) Please confirm that the rates set out in this attachment provide for the recovery of LV costs and the foregone revenues associated with the transformer ownership allowance.

b) Please provide a revised rate derivation where:
   - Fixed and variable charges are first established to recovery the Base Distribution Revenue Requirement (per Question #25),
   - LV adders (as calculated in Exhibit 8/Tab 3/Schedule 2) are incorporated into each class' variable rates.
   - The variable rates for each class where customers receive the transformer allowance are increased to recovery the allowance specifically provided to the class' customers.

<u>Question #27</u>

Reference: Exhibit 8/Tab 3/Schedule 1

a) With respect to the discussion regarding the Network and Connections accounts' variances and balances, please confirm that part of the issue is that historically retail rates have not be readjusted at the same time as the rates charged by Hydro One Networks changed. To what extent did this account for the 13% under recovery experienced with the Network account and the 31% under recovery in the Connections account in the last 12 months?

<u>Question #28</u>

Reference: Exhibit 8/Tab 3/Schedule 2

a) Given Hydro One Networks is proposing to increase is ST rates January 1, 2010, is EPL's proposal regarding LV charges still appropriate?

<u>DEFERRAL/VARIANCE ACCOUNTS</u>

<u>Question #29</u>

Reference: Exhibit 9/Tab 1/Schedule 2, Attachment 1

a) Please explain what the balance in Account #1572 - Extra-Ordinary Event costs represents (e.g., why/how were the costs incurred and why are they included in a deferral account?).

Question #30

Reference: Exhibit 9/Tab 2/Schedule 1

a) Why is EPL proposing to dispose of the balance the Deferred Payments in Lieu of PILs account (#1562) when the treatment of PILs is currently the subject of a separate proceeding (EB-2008-0381)?

b) Please demonstrate that EPL's Deferral and Variance account balances meet the criteria for disposition as set out in the Board's EB-2008-0046 Report.

SMART METERS

Question #31

Reference: Exhibit 9/Tab 3/Schedule 2

a) Please reconcile the $5,297,682 cost reported on page 3 with the costs reported in Exhibit 9/Tab 3/Schedule 1, Attachment 1.

b) Please reconcile the annual capital spending profile for smart meters set out in Attachment 1, page 1 with that reported in Exhibit 9/Tab 3/Schedule 1, Attachment 1.