

Responses to Board Staff Interrogatories

Espanola Regional Hydro Distribution Corporation (“ERHDC”) 2010 IRM3 Electricity Distribution Rates EB-2009-0224

Question #1

Ref: 2010 IRM Deferral Variance Account 2006 EDR LV

In the 2006 EDR application Espanola included \$135,448 in LV Allocation as a Rate Adder. In 2007 and 2008 the price cap adjustment (GDP-IPI – X) was 0.9% and 1.1% respectively. This would have increased the 2007 and 2008 LV Allocation to \$136,667 and \$138,170 respectively. In the 2010 IRM Deferral Variance Account Workform Espanola has reported \$0 for 2006, 2007 and 2008 additions for USoA 1550 LV Variance account.

	DVAWF		2006 EDR	
	Transactions (additions) during 2006/7/8, excluding interest and adjustments	Transactions (reductions) during 2006/7/8, excluding interest and adjustments	7-2 ALLOCATION - LV-Wheeling Cell L120	(GDP-IPI) - X
2006	\$ -	\$ -	\$ 135,448	0.0%
2007	\$ -	\$ -	\$ 136,667	0.9%
2008	\$ -	\$ -	\$ 138,170	1.1%

a) Please confirm that Espanola has applied the 2006 EDR LV Allocation against Hydro One LV costs and that the balance shown in the Deferral Variance Account workform are net of the LV allocation and correct.

b) If LV Allocation not applied or Account 1550 not correct please provide an explanation in respect to the accounting for the LV

Response

a) The table above titled DVAWF is a summary of transactions for each year from column 1 & 2 of the 2010 IRM Deferral and Variance workform. ERHDC reported additions/reductions in column 3 “Adjustments during 2008 – other” for each of the respective years above for account 1550. ERHDC has applied the 2006 EDR LV Allocation against Hydro One LV costs and the balances shown in the Deferral Variance Account Workform are correct.

b) Refer to answer a) above.

Question #2**Ref: 2010 IRM Deferral Variance Account 1588 -Power**

The 2008 ending balances reported in the 2010 IRM Deferral Variance Account workform prepared by Espanola shows the split for account 1588 – Power and Global Adjustment. On October 15, 2009 the Board issued “Regulatory Audit and Accounting Bulletin 200901” which clarified the accounting rules for reporting the 1558 – Global Adjustment sub-account.

	Account Number	Total Claim
Account Description		
RSVA - Power (Excluding Global Adjustment)	1588	554,439
RSVA - Power (Global Adjustment Sub-account)		36,083

a) Has Espanola reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009, and ensured that it has accounted for its account 1588 and sub-account Global Adjustment in accordance with this Bulletin?

b) Has Espanola made adjustments subsequent to filing the 2010 IRM3 application and need to re-file an updated 2010 IRM Deferral Variance Account workform?

Response

- a) Espanola has reviewed the Regulatory Audit & Accounting Bulletin 200901 dated October 15, 2009 and is accounting for account 1588 and sub-account Global Adjustment in accordance with that bulletin.
- b) Espanola has not made adjustments subsequent to filing the 2010 IRM3 application except for correcting the estimated kWh's used for Non-RPP customers. Refer to question #5 below.

Question #3

Ref: 2010 IRM Deferral Variance Account 1588 – Global Adjustment

On November 13, 2009 Board Staff prepared a submission in the Enersource EB-2009-0193 2010 IRM3 Application. The following is an excerpt from the submission in respect to Board staff concerns with the current proposal for handling the disposition of the USoA 1588 – Global Adjustment.

The EDDVAR Report as well as the Board’s Decision in EB-2009-0113 adopted an allocation of the GA sub-account balance based on kWh for non RPP customers by rate class. Traditionally this allocation would then be combined with all other allocated variance account balances by rate class. The combined balance by rate class would then be divided by the volumetric billing determinants (kWh or kW) from the most recent audited year end or Board approved forecast, if available. This process hence spreads the recovery or refund of allocated account balances to all customers in the affected rate class.

This method was factored on two premises; a) that the recovery/refund of a variance unique to a subset of customers within a rate class would not be unfair to the rate class as a whole and b) that the distributors’ billing systems would not be able to bill a subset of customers within a rate class, without placing a significant burden to the distributor.

For these reason the Board’s original Deferral Variance Account workform was modelled on this basis. However based on Enersource’s evidence, there could be material unfairness to RPP customers within the affected rate classes.

Therefore Board staff suggests that a separate rate rider be established to clear the GA sub-account balance to Non-RPP customers within rate classes.

What remains unclear to Board staff is whether Enersource’s billing system could accommodate that change within a reasonable timeframe.”

Board staff would like to poll Espanola on the above issue.

a) Board staff is proposing that a separate disposition rate rider be applied prospectively to Non-RPP customers for 1588 – Global Adjustment. Does Espanola agree that this proposal would be fair to all customers? Why or why not?

b) If the Board were to order Espanola to provide such a rate rider, would Espanola’s billing system be capable of billing non-RPP the separate rate rider? What complications, if any, would Espanola see with this rate rider?

c) If Espanola were to be unable to bill in this fashion what would it consider proposing in the alternative?

Response

- a) ERHDC agrees that a separate disposition rate rider that would be applied prospectively to Non-RPP customers for 1588 - Global Adjustment would be fair and it is appropriate to clear a variance balance only with customers that contributed to the balance.
- b) At this time ERHDC's billing system would not be capable of billing Non-RPP customers a separate rate rider. ERHDC's billing system could be modified to include a separate non-RPP rate rider but further analysis of the alternatives would need to be completed by ERHDC.
- c) The IR process does not provide sufficient time to fully consider the issue and put forth practical alternatives.

Question #4**Ref: 2010 IRM Deferral Variance Billing Determinants**

Below are the billing determinants identified on Sheet "B1.3 Rate Class And Bill Det" of the workform.

Rate Class	Billed Customers or Connections	Billed kWh	Billed kW
Residential	2,848	32,354,293	
General Service Less Than 50 kW	485	14,690,190	
General Service 50 to 4,999 kW	16	15,996,077	36,264
Unmetered Scattered Load	11	125,709	
Sentinel Lighting	23	25,145	41
Street Lighting	1,039	610,138	1,721

a) Please identify if these values are from the Espanola 2008 Cost of Service Application or 2008 RRR reported values.

b) If the above are from the 2008 CoS application please provide reference to location in the application.

Response

a) The values identified on Sheet "B1.3 Rate Class and Bill Det" are the 2008 RRR reported values.

b) Refer to answer above.

Question #5**Ref: 2010 IRM Deferral Variance Billing Determinants**

Below are the Billed kWh for Non-RPP customers identified on Sheet “B1.3 Rate Class And Bill Det” of the workform.

Rate Class	Billed kWh for Non-RPP customers
Residential	5,232,089
General Service Less Than 50 kW	2,537,532
General Service 50 to 4,999 kW	1,859,331
Unmetered Scattered Load	
Sentinel Lighting	
Street Lighting	

a) Please identify if these values estimated values or actual values and specify the applicable period.

b) If the above values are estimated please explain why Espanola is unable to determine actual.

c) As discussed in one of the questions above Board staff have proposed a non-RPP customer rate rider for disposition of the 1588 – Global adjustment. If accepted would Espanola support using the numbers above as the most reasonable denominator to be used for rate determination.

d) If Espanola were to establish a separate rate rider to dispose of the balance of the 1588 – Global adjustment sub-account, does Espanola believe that the rider be applied to customers in the MUSH sector? If not, would Espanola have the billing capability to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588 – Global adjustment sub-account?

Response

a) The values above are estimated kWh's for 2008 year.

b) At the time of filing the 2010 IRM application ERHDC used estimates that were readily available. ERHDC is able to determine actual figures with the exception of estimates being used at month end as meter reads for all customers can not be done exactly at month end.

- c) ERHDC would not support the numbers above as being a reasonable denominator if Board Staff proposed a non-RPP customer rate rider for disposition of 1588 – Global Adjustment. As ERHDC stated above the numbers are estimates and upon further analysis the number below would be a more reasonable estimates to use as a denominator.

Rate Class	Billed kWh for Non-RPP customers
Residential	5,228,002
General Service Less Than 50 kW	3,470,499
General Service 50 to 4,999 kW	9,873,031
Unmetered Scattered Load	
Sentinel Lighting	
Street Lighting	

- d) ERHDC proposes that this issue is generic to the industry and that a stakeholder consultation may be required to fully address this issue. ERHDC’s billing system would require some modification to exclude customers in the MUSH sector if a separate rate rider were to apply for the disposition of the 1588- Global adjustment sub-account. ERHDC would need to further analyze different billing methods in the current billing system but the IR process does not provide sufficient time to fully consider the alternatives.

Question #6**Ref: 2010 IRM Deferral Variance Total Claim**

Below are the Total Claim values for the EDDVAR Group One Deferral Accounts.

Regulatory Assets – Continuity Schedule Final

	Account Number	Total Claim
Account Description		
LV Variance Account	1550	29,205
RSVA - Wholesale Market Service Charge	1580	(71,692)
RSVA - Retail Transmission Network Charge	1584	(118,324)
RSVA - Retail Transmission Connection Charge	1586	(297,687)
RSVA - Power (Excluding Global Adjustment)	1588	554,439
RSVA - Power (Global Adjustment Sub-account)		36,083
Recovery of Regulatory Asset Balances	1590	41,225
Disposition and recovery of Regulatory Balances Account	1595	0
Total		173,249

a) Please complete the amended Deferral Variance Account Workform V4 as found on the Board's website under the 2010 Electricity Distribution Rates update December 7, 2009. Note that Board staff can assist in converting your most recent model (either the one filed with your application or a more recent version if available). Please contact your case manager to assist you if need be.

b) Please confirm if these are the final balances for disposition. If not the final balances please provide amended workform to support final balances for disposition.

c) Please reconcile final balance for disposition to the 2008 year end account balance reported in the RRR filing. Please identify the sources and reason for variances.

d) Please confirm that Espanola has complied with and applied correctly the Boards accounting policy and procedures for calculation of the final disposition balance. If Espanola has used other practices in the calculation please explain

where in the filing and why?

e) Please confirm that Espanola has used the simple interest calculation as required by the Board using the Boards prescribed interest rates. If Espanola has used other calculations please explain where in the filing and why?

f) Please confirm that Espanola has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009 (included in the Updated IRM Deferral and Variance Account Work Form zip file). If Espanola has not complied with this requirement please explain why not?

Response

- a) ERHDC has completed the amended Deferral Variance Account Workform V4 and has submitted it as part of the interrogatory responses file name "*Espanola_IRR_BoardStaff_IRM Deferral and Variance Workform_20100108*".
- b) The balances in the amended Deferral and Variance Account Workform are the final balances being requested for disposition. It should be noted that ERHDC changed the kWh's for the 2008 billed Non-RPP customers to reflect the updated estimates on sheet "B1.3 Rate Class and Bill Det" as stated in Question #5 above.
- c) The balances for disposition are reconciled in the amended Deferral and Variance Account Workform and are in agreement with the 2008 year end account balances reported in the RRR filing. In 2005, 2006 and 2007 there are differences in the year end balances compared to the RRR filing balances. In past practices ERHDC did not amend the RRR filing due January 31 which are preliminary balances as final balances are not available by January 31. The adjustments to the balances after January 31 were included as adjustments in the April filing to reconcile the year to date balances.
- d) ERHDC has complied with and applied correctly the Boards accounting policy and procedures.
- e) ERHDC has used the simple interest calculation required by the Board and the prescribed interest rates.
- f) ERHDC has complied with the requirement to apply recoveries to principal first as outlined in the 2006 Regulatory Assets Transactions document issued September 4, 2009.

Question #7
Harmonized Sales Tax

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

In the event that PST and GST are harmonized effective July 1, 2010:

- a) Would Espanola agree to capture in a variance account the reductions in OM&A and capital expenditures?
- b) Are there other alternatives that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

Response

- a) At this time ERHDC would not agree to capture in a variance account the reduction in OM&A and capital expenditures as a result of PST and GST being harmonized. The harmonization of sales taxes are said to reduce a utility's OM&A costs and capital expenditures in the long term. However, in the short term, during the IRM period a utility's OM&A costs and capital expenditures are not likely to decrease. Prices may not go down at all. Further, growth/reduction in capital expenditures is not incorporated into rates during the IRM period unless such growth/reduction exceeds the materiality threshold limit set by the OEB.

There are numerous other elements of a utilities cost (other than PST) embedded into distribution rates such as property taxes, employment insurance rates, Canada pension plan rates, etc. and increases/decreases to all components of rates should be considered simultaneously. In addition, there would be an increased exposure to bad debts as accounts receivable increase. Addressing only the commodity tax component of rates during the IRM period amounts to "a single-issue rate adjustment" and on that basis it should be rejected.

Furthermore, establishing a variance account during the IRM period to track reductions in OM&A and capital expenditures imposes an enormous administrative burden on a utility.

- b) ERHDC proposes that the issue is generic to the industry and a stakeholder consultation is required to ensure implications of this tax change are fully addressed. In the meantime, the distributor's revenue requirements should be established based on the current tax regime. Due to the nature of the short IRM period (1 year), sufficient time is not available to fully consider the issue of impacts through harmonization of sales taxes in order to put forth practical alternatives to a variance account being proposed by Board staff.