



June 28, 2012

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Ms. Walli

**Re: Espanola Regional Hydro Distribution Corporation's (ERHDC) 2012 Cost of Service
Electricity Distribution Rate Application EB-2011-0319 Responses to VECC and Board
Staff follow-up Interrogatory questions.**

ERHDC has attached responses to VECC and Board Staff follow-up questions regarding the Interrogatories in the above noted proceedings. The responses have been filed through the Web Portal.

In the event of any additional information, questions or concerns, please contact Jennifer Uchmanowicz, Rate and Regulatory Affairs Officer, at Jennifer.Uchmanowicz@ssmpuc.com or (705) 759-3009.

Sincerely,

A handwritten signature in black ink that reads "Jennifer Uchmanowicz". The signature is written in a cursive, flowing style.

Jennifer Uchmanowicz
on behalf of Espanola Regional Hydro Distribution Corporation
Rates and Regulatory Affairs Officer
PUC Services
Sault Ste. Marie Ont.
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ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION (ERHDC)
2012 RATE APPLICATION (EB-2011-0319)

Board Staff and VECC IRR – Follow-up Questions

Board Staff Follow-up Questions

1. Reference: Board Staff IR #39, part a; E4/T2/S5/P13; E1/T2/S1/P2;

ERHDC included \$12,500 of IFRS costs in 2012 OM&A as per Table 4-12, OM&A Cost Drivers. In its response to part a, ERHDC stated that it has not incurred incremental administrative IFRS transition costs to June 8, 2012.

- a. Is ERHDC planning to implement any aspect of IFRS in the remaining year of 2012?
- b. If answer to part “a” above is yes, what are the estimated IFRS costs as at December 31, 2012 for implementation of the project?
- c. If the estimated costs provided in part “b” above is different from the \$12,500 IFRS costs included in the 2012 OM&A test year, please specify an amount and update Table 4-12 and please explain why they are different.
- d. If ERHDC is not implementing IFRS in 2012 and not spending any money for IFRS, would ERHDC agree to remove the \$12,500 of IFRS costs from 2012 OM&A and update Table 4-12 and other related evidence? If not, please explain why not.

ERHDC Response

- a) ERHDC is not planning to implement any aspect of IFRS in the remaining 2012 year.
- b) n/a
- c) n/a
- d) ERHDC total forecast cost for transition to IFRS is \$50,000 which has been spread over the 4 year rebasing term. ERHDC agrees to remove the \$12,500 IFRS cost in 2012 and use the Board approved deferral account 1508 for IFRS costs.

2. Reference: E6/T2/S2/P1; Board Staff IR #39, part c;

In the original application ERHDC stated it will implement IFRS in January 1, 2012. In its response to Board IR #38, ERHDC expects to implement its IFRS on January 1, 2013.

Please confirm that ERHDC is taking the one year optional delay for mandatory changeover to IFRS and will be adopting IFRS as of January 1, 2013.

ERHDC Response

ERHDC confirms it will be taking the one year optional delay for the mandatory changeover to IFRS and will be adopting IFRS as of January 1, 2013.

3. Reference: Board Staff IR #36: Exhibit 5; Board Staff IR #40, part a; March 2, 2012 Board letter to Electricity Distributors on Cost of Capital Parameter Updates for 2012 COS Applications; Appendix A, Staff Discussion Paper dated March 31, 2011

In ERHDC's response to the Board staff IR # 36, Exhibit 5, ERHDC updated its cost of capital parameters based on the March 2, 2012 Board cost of capital parameter updates.

In ERHDC's response to Board staff IR #40, ERHDC used the rate of return of 9.12% instead of the weighted average cost of capital (WACC) per Appendix A of the Staff Discussion Paper dated March 31, 2011.

Does ERHDC agree that the revenue requirement amount to be included in the PP&E Deferral account (per ERHDC response to Board staff IR # 40, part a) showing the adjustment in the return should be based on the WACC? If so, please update the revenue requirement accordingly.

ERHDC Response

ERHDC agrees the revenue requirement amount to be included in the PP&E deferral account should be based on WACC and the amount should be \$29,483. ERHDC has provided the WACC calculation below based on the deemed capital structure and the cost of capital parameters for May 1, 2012 rate changes.

2012		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	4.41%
Short-Term Debt	4.00%	2.08%
Return On Equity	40.00%	9.12%
Weighted Average Cost of Capital		6.20%

The revised calculation for the PP&E account is as follows:

Original IRR filing

Revised using WACC

IFRS 2011 NBV	2,494,557	IFRS 2011 NBV	2,494,557
CGAAP 2011 NBV	2,400,062	CGAAP 2011 NBV	2,400,062
Difference	94,495	Difference	94,495
Amortized over 4 years	23,624	Amortized over 4 years	23,624
Add: Rate of Return 9.12%	8,618	Add: WACC 6.20%	5,859
Adjustment to Depreciation Expense	32,242	Adjustment to Depreciation Expense	29,483

VECC Follow up questions

LOAD FORECAST AND REVENUE OFFSETS

A. Reference: VECC #9 a)

- The referenced Appendix does not provide the information/calculations requested. Please provide a response to the original question.

ERHDC response

ERHDC has provided below the table requested in question #9 a).

	2009	2010
Actual Purchases	67,883,961	64,797,089
Actual HDD Values	5,245	4,577
Actual CDD Values	86	221
"Weather Normal" HDD Values	5,042	5,042
"Weather Normal" CDD Values	140	140
HDD coefficient from Power regression model	3,845	3,845
CDD coefficient from Power regression model	8,567	8,567
Weather Normal Adjustment based on the product of HDD and CDD coefficients and the difference between actual and weather normalized HDD and CDD values respectively	(317,665)	1,092,193
Estimated "weather normal purchases" calculated by adjusting actual purchases by the values derived in the row above	67,566,296	65,889,282

B. Reference: VECC #12 a) and Staff #8 b)

- Please clarify whether the \$2,500 value for 2011 is a forecast or actual value. If it is a forecast, please provide the 2011 actual.

ERHDC response

The \$2,500 in account 4325 (merchandising, jobbing etc.) is a forecast. The 2011 actual amount was \$7,260. The May 2012 year-to-date amount is \$1,763.

COST ALLOCATION

C. Reference: Staff #22 a)

Preamble: In the response Espanola confirms that for the GS>50 class the LTNCP values should equal the respective SNCP values and corrected the CA model accordingly. However in the corrected model (Sheet I8) filed as part of the IRR the LTNCP values are not the same as the SNCP values for the GS<50 class.

- Please confirm whether the LTNCP and SNCP values for the GS<50 class should also be equal and also whether they should equal the PNCP value.
- Please provide a revised cost allocation run as necessary.

ERHDC response

The amounts for the LTNCP, PNCP and SNCP values should not be equal for the GS<50 customers. ERHDC reviewed the number of customers reported in the cost allocation study in sheet I6.2 and proposes the following change:

	As Filed in IRR	Revised as per follow-up questions	Difference
Total Number of Customers	425	425	0
Bulk Customer Base	0	0	0
Primary Customer Base	425	425	0
Line Transformer Customer Base	425	422	3
Secondary Customer Base	420	420	0

As a result of the change in the customer count above ERHDC proposes the demand data on sheet I8 will also change as follow:

			1	2	3	7	8	9
Customer Classes		Total	Residential	General Service < 50 kW	General Service 40 to 4,999 kW	Street Lights	Sentinal Lights	Unmetered Scattered Load
CO-INCIDENT PEAK								
1 CP								
Transformation CP	TCP1	14,043	7,874	3,212	2,919	13		25
Bulk Delivery CP	BCP1	14,043	7,874	3,212	2,919	13		25
Total Sytem CP	DCP1	14,043	7,874	3,212	2,919	13		25
4 CP								
Transformation CP	TCP4	53,156	29,851	11,898	11,116	181	5	105
Bulk Delivery CP	BCP4	53,156	29,851	11,898	11,116	181	5	105
Total Sytem CP	DCP4	53,156	29,851	11,898	11,116	181	5	105
12 CP								
Transformation CP	TCP12	126,197	66,365	27,891	31,068	543	18	312
Bulk Delivery CP	BCP12	126,197	66,365	27,891	31,068	543	18	312
Total Sytem CP	DCP12	126,197	66,365	27,891	31,068	543	18	312
NON CO INCIDENT PEAK								
1 NCP								
Classification NCP from Load Data Provider	DNCP1	15,163	8,719	3,218	3,033	157	8	28
Primary NCP	PNCP1	15,163	8,719	3,218	3,033	157	8	28
Line Transformer NCP	LTNCP1	14,017	8,719	3,196	1,910	157	8	28
Secondary NCP	SNCP1	14,002	8,719	3,180	1,910	157	8	28
4 NCP								
Classification NCP from Load Data Provider	DNCP4	56,971	32,310	12,010	11,885	626	31	108
Primary NCP	PNCP4	56,971	32,310	12,010	11,885	626	31	108
Line Transformer NCP	LTNCP4	52,484	32,310	11,925	7,483	626	31	108
Secondary NCP	SNCP4	52,427	32,310	11,869	7,483	626	31	108
12 NCP								
Classification NCP from Load Data Provider	DNCP12	135,509	70,229	29,345	33,672	1,875	75	312
Primary NCP	PNCP12	135,509	70,229	29,345	33,672	1,875	75	312
Line Transformer NCP	LTNCP12	122,830	70,229	29,138	21,201	1,875	75	312
Secondary NCP	SNCP12	122,692	70,229	29,000	21,201	1,875	75	312

In addition, 3 out of the 5 customers that do not use the secondary system in the GS<50 rate class own their transformers and receive a transformer allowance credit. ERHDC has not included on sheet I6.1 forecast kW's for the GS<50 customers receiving a transformer allowance. ERHDC estimates the forecast KW's to be 1,434 kW receiving transformer allowance. ERHDC proposes the resulting ownership allowance of \$860 (\$0.60 per kW) should be included in the model on sheet I6.1 for the GS<50 customers.

As a result of the proposed change ERHDC has included a revised summary sheet O1.

Rate Base Assets		Total	1 Residential	2 General Service < 50 kW	3 General Service 40 to 4,999 kW	7 Street Lights	8 Sentinal Lights	9 Unmetered Scattered Load
crev	Distribution Revenue at Existing Rates	\$1,224,391	\$732,471	\$256,293	\$179,801	\$48,942	\$1,087	\$5,797
mi	Miscellaneous Revenue (mi)	\$139,899	\$94,679	\$22,549	\$11,697	\$10,187	\$246	\$542
		Miscellaneous Revenue Input equals Output						
Total Revenue at Existing Rates		\$1,364,290	\$827,150	\$278,843	\$191,498	\$59,129	\$1,332	\$6,339
Factor required to recover deficiency (1 + D)		1.3465						
Distribution Revenue at Status Quo Rates		\$1,648,671	\$986,289	\$345,105	\$242,106	\$65,902	\$1,463	\$7,806
Miscellaneous Revenue (mi)		\$139,899	\$94,679	\$22,549	\$11,697	\$10,187	\$246	\$542
Total Revenue at Status Quo Rates		\$1,788,570	\$1,080,968	\$367,654	\$253,803	\$76,088	\$1,709	\$8,347
Expenses								
di	Distribution Costs (di)	\$619,833	\$360,591	\$111,430	\$88,924	\$55,518	\$1,120	\$2,251
cu	Customer Related Costs (cu)	\$398,394	\$302,977	\$74,084	\$13,848	\$4,900	\$292	\$2,294
ad	General and Administration (ad)	\$354,398	\$230,812	\$64,531	\$35,862	\$21,127	\$492	\$1,574
dep	Depreciation and Amortization (dep)	\$143,296	\$92,432	\$24,781	\$16,032	\$9,461	\$209	\$382
INPUT	PILs (INPUT)	\$9,329	\$5,857	\$1,638	\$1,109	\$683	\$13	\$27
INT	Interest	\$108,404	\$68,061	\$19,038	\$12,889	\$7,942	\$155	\$319
Total Expenses		\$1,633,654	\$1,060,729	\$295,502	\$168,663	\$99,631	\$2,282	\$6,846
Direct Allocation		\$0	\$0	\$0	\$0	\$0	\$0	\$0
NI	Allocated Net Income (NI)	\$154,916	\$97,263	\$27,207	\$18,419	\$11,350	\$222	\$456
Revenue Requirement (includes NI)		\$1,788,570	\$1,157,992	\$322,709	\$187,082	\$110,981	\$2,503	\$7,302
		Revenue Requirement Input equals Output						
Rate Base Calculation								
Net Assets								
dp	Distribution Plant - Gross	\$7,116,038	\$4,359,056	\$1,251,647	\$908,260	\$562,054	\$12,347	\$22,674
gp	General Plant - Gross	\$1,093,513	\$684,229	\$191,903	\$128,362	\$84,112	\$1,584	\$3,323
accum dep	Accumulated Depreciation	(\$4,841,070)	(\$2,937,698)	(\$852,537)	(\$642,722)	(\$383,413)	(\$9,034)	(\$15,666)
co	Capital Contribution	(\$261,756)	(\$155,501)	(\$45,431)	(\$24,850)	(\$34,360)	(\$450)	(\$1,163)
Total Net Plant		\$3,106,725	\$1,950,086	\$545,582	\$369,050	\$228,392	\$4,447	\$9,168
Directly Allocated Net Fixed Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0
COP	Cost of Power (COP)	\$6,141,868	\$3,224,429	\$1,111,545	\$1,720,983	\$61,484	\$2,384	\$21,043
OM&A Expenses		\$1,372,625	\$894,379	\$250,045	\$138,634	\$81,545	\$1,905	\$6,118
Directly Allocated Expenses		\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal		\$7,514,493	\$4,118,808	\$1,361,590	\$1,859,617	\$143,029	\$4,288	\$27,161
Working Capital		\$1,127,174	\$617,821	\$204,238	\$278,943	\$21,454	\$643	\$4,074
Total Rate Base		\$4,233,899	\$2,567,907	\$749,820	\$647,993	\$249,847	\$5,090	\$13,242
		Rate Base Input equals Output						
Equity Component of Rate Base		\$1,693,560	\$1,027,163	\$299,928	\$259,197	\$99,939	\$2,036	\$5,297
Net Income on Allocated Assets		\$154,916	\$20,239	\$72,152	\$85,140	(\$23,543)	(\$573)	\$1,501
Net Income on Direct Allocation Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income		\$154,916	\$20,239	\$72,152	\$85,140	(\$23,543)	(\$573)	\$1,501
RATIOS ANALYSIS								
REVENUE TO EXPENSES STATUS QUO%		100.00%	93.35%	113.93%	135.66%	68.56%	68.25%	114.31%
EXISTING REVENUE MINUS ALLOCATED COSTS		(\$424,280)	(\$330,842)	(\$43,866)	\$4,416	(\$51,852)	(\$1,171)	(\$964)
		Deficiency Input Does Not Equal Output						
STATUS QUO REVENUE MINUS ALLOCATED COSTS		(\$0)	(\$77,024)	\$44,946	\$66,721	(\$34,893)	(\$795)	\$1,045
RETURN ON EQUITY COMPONENT OF RATE BASE		9.15%	1.97%	24.06%	32.85%	-23.56%	-28.15%	28.34%

A summary of the changes to the cost allocation revenue to expense ratios are provided below:

	Residential	GS<50	GS>50	Street Lights	Sentinel Lights	USL
Original rate application filing	93.2	115.9	132.7	68.5	68.1	114.9
IRR filing	93.3	114.2	135.6	68.6	68.2	114.3
Follow up IRR filing	93.4	113.9	135.7	68.6	68.3	114.3

ERHDC has filed with these interrogatory follow-up questions a revised cost allocation model that reflects the changes described above.

RATE DESIGN

D. Reference: VECC #23 b)

- The response does not provide the actual 2011 purchased kWh as requested.

Please provide.

ERHDC response

ERHDC actual 2011 purchased kWhs is 65,440,486.

Additional Information

Tree trimming costs

ERHDC confirms that all costs in account 5135 relate to tree trimming. For the purpose of this application the \$150,000 one-time tree trimming costs have been spread over 4 years for \$37,500 per year.

In Board Staff IR #9 g) ERHDC completed the table for 2012 based on actual work expected to be performed in 2012. The revised table outlines the costs applied for by year in the application.

Year		2008	2009	2010	2011	2012	2013	2014	2015
13km Bass Lake Road – One time	Costs					\$37,500	\$37,500	\$37,500	\$37,500
	Costs / km					3.25km \$11,538/km	3.25km \$11,538/km	3.25km \$11,538/km	3.25km \$11,538/km
13km Bass Lake Road – Ongoing	Costs				\$10,000				
	Costs / km				1 km \$10,000/km				
All other lines	Costs	\$64,272	\$100,443	\$135,566	\$113,916	\$148,501	\$148,501	\$148,501	\$148,501
	Costs / km	28km \$2,295/km	36km \$2,790/km	34km \$3,987/km	11km \$10,356/km	14km \$10,607/km	14km \$10,607/km	14km \$10,607/km	14km \$10,607/km
Total	Costs	\$64,272	\$100,443	\$135,566	\$123,916	\$186,001	\$186,001	\$186,001	\$186,001