

Board Staff Interrogatories
2007 Electricity Distribution Rates
Canadian Niagara Power-Fort Erie
EB-2007-0514

Re: Z-Factor
Request for Recovery of Storm Costs

Recording and Record Keeping

The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Board Report"), Appendix C at p. vii states that Z-Factor cost claims should be included in account 1572, Extraordinary Event Costs. The appropriate recording and record-keeping methodologies for account 1572 can be found in Board issued documents such as, but not limited to, Article 220 of the Accounting Procedures Handbook and the September 15, 2003 Regulatory Asset Filing Guidelines.

1. At Tab 7 of Appendix C of the application, Fort Erie indicated that it incurred total costs of \$2,261,194 attributable to the October 2006 storm. The Applicant requested \$1,611,053 plus interest, including \$233,392 for materials. Please confirm which amount(s) is included in account 1572. Is any portion of the difference between the costs of the storm damage and the Z-Factor claim included elsewhere other than account 1572 on either the balance sheet or the income statement?
2. Has the Applicant included any amounts in the Z-Factor claim that were previously denied by the Board? If so, please state the amounts and provide details.
3. If there are any amounts still outstanding to be paid to external parties for services rendered as part of the disaster response and recovery initiative, please identify these amounts and the relevant party and confirm whether these amounts are included in the current claim.
4. At Tab 5, page 2 of Appendix C of the application, Fort Erie stated that approximately 100 poles and 3km of overhead distribution line were replaced in total between Port Colborne and Fort Erie as a result of the

damage inflicted on their respective distribution systems by the October 2006 storm. Please provide the following for assets replaced by Fort Erie:

- a. The value of the damaged assets which are no longer used and useful
- b. Information on whether or not the Applicant has removed this value from its net fixed assets
- c. If yes, the location of this value on its financial statements including specific impacts on the balance sheet and income statement
- d. The annual amount being recovered in rates on this asset value including all calculations
- e. Information on whether or not the Z-Factor claim reflects a deduction of the amount in "d" above in calculating the net claim.

Materiality

The Board Report, Appendix C at p. vi states that amounts claimed will be considered material and therefore eligible for potential recovery if they meet a certain materiality threshold. For expenses incurred, the total expenses on a per event basis must involve 0.2% of total distribution expenses before taxes. Capital costs will be considered material if, on a per event basis, they involve 0.2% of net fixed assets.

5. At Tab 5, page 2 of Appendix C of the application, Fort Erie stated that approximately 100 poles and 3km of overhead distribution line were replaced in total between Port Colborne and Fort Erie as a result of the damage inflicted on their respective distribution systems by the October 2006 storm. Please provide a cost estimate of replacing all the subject assets attributed to Fort Erie as if the assets were part of a normal capital program.

Causation

The Board Report states that operational response to normal events, including winter storms, is within the planning control of management and that distributors are already adequately compensated for the risk of these types of events. Therefore, amounts claimed should be directly related to the Z-Factor event and must be clearly outside the base upon which rates are derived. Z-Factor events are by definition major events that are not controllable by management, such as acts of God.

6. Please provide information on whether or not all the costs in the subject claim are associated exclusively with the distribution assets of the regulated utility.
7. Please provide information on whether or not any of the distribution system assets that were repaired or replaced, are used to service customers other than those of the regulated utility. If yes, please provide the portion of the assets that relate to this activity. Please explain the rationale for any allocations between business units.
8. Please provide the total annual maintenance and operations costs (on an actual basis) for three historic years i.e. 2004, 2005 and 2006 fiscal years and a pro forma budget for 2007. If available, please provide the actual costs related directly to storm damage for each of the years requested. If not available, please provide the costs budgeted for storm damage for each of the years requested.

Prudence

The Board Report states that amounts claimed must represent the most cost-effective option (not necessarily the least initial cost) for ratepayers. Consequently, the distributor will need to justify the reasonableness of the amounts relative to other options that the distributor may have had.

9. At Tab 6, page 9 of Appendix C of the application, Fort Erie refers to the Niagara Erie Power Alliance ("NEPA"), a cooperative arrangement among eleven Ontario LDCs. Please identify the member LDCs of NEPA and the types of services provided including the associated rates/fees and the basis for those rates/fees.
10. At Tab 5, page 2 of Appendix C of the application, Fort Erie identified all LDCs that assisted with the disaster response and recovery initiative. Please provide the following:
 - a. The rationale used by the Applicant for selecting the mix of NEPA LDCs and non-NEPA LDCs identified at the above reference
 - b. The identification of all affiliates and an explanation as to why Cornwall Electric, a LDC which is located a great distance from the affected areas was selected to assist with the restoration efforts.

11. At Tab 6, pages 3-8 of Appendix C of the application, Fort Erie referred to its Storm Contingency Plan and outlined the recovery initiatives it undertook pursuant to that plan. Please summarize the extent to which Fort Erie followed its contingency plan. If the Applicant deviated in any way from the plan, please identify all deviations and the reasons for those deviations.

Recovery Methodology

In the Review and Recovery of Regulatory Assets, Phase 2 proceedings for the remaining distributors, the Board approved customer numbers as the allocator for storm related costs recorded in account 1572, Extraordinary Even Costs and 2004 volumetric data as the appropriate billing determinant. The approved costs were to be recovered over 4 years as per the recovery period for all regulatory asset accounts.

12. At Tab 7, page 1 of Appendix C of the application, the Applicant stated that the allocation of the Z-Factor amount between the Fort Erie and Port Colborne operating territories is based on a summary of time records for both internal labour and contractor invoices and that all other categories of costs have been allocated using this summary allocation. Please provide information on why the Applicant believes that the material costs and any other directly related expenditure should be allocated to the Fort Erie and Port Colborne service areas on the basis of time sheets. Please explain why the costs directly associated with each service area cannot be identified.
13. At Tab 3 page 3 and Tab 8 of Appendix C of the application, Fort Erie stated that it used 2004 customer counts to allocate costs to the classes and three years' average volumes (2002, 2003, and 2004) as the billing determinant. Fort Erie stated that this is a similar allocation and rate rider calculation to that in the Final Recovery of Regulatory Assets in the 2006 EDR process. Please provide the following:
 - a. The customer counts by class, volumes by class and distribution revenues by class for calendar year end 2005 and 2006. If complete 2006 data is unavailable, please ensure that information for 2005 is provided for the above items
 - b. Alternate calculations of the Z-Factor rate riders using 2005 customer counts and updating the billing determinant to reflect 2005 volumes. Please provide the same calculations using 2006 customer counts and 2006 volumes

- c. The associated total bill impacts reflecting each scenario in “b” above for a residential customer at 1,000 kWhs and a general service <50kW customer at 2,000 kWhs. Please assume a two year recovery period as per the Applicant’s original proposal
 - d. A discussion on the merits of not using the most recent data available for both allocator and billing determinant in calculating the final rate riders.
14. The Applicant has proposed to mitigate the impact on its ratepayers by proposing to recover the claimed costs over two years. The Applicant stated that the impact on total bill for residential customers at 1,000 kWhs is 5.6%. Please discuss the merits of further mitigating customer impacts by extending the recovery period (to either three or four years).