

Board Staff Interrogatories
2007 Electricity Distribution Rates
Lakeland Power Distribution Ltd.
EB-2007-0551

Re: Z-Factor
Request for Recovery of Storm Costs Recorded in Account 1572,
Extraordinary Event Costs

Recording and Record Keeping

The appropriate recording and record-keeping methodologies for account 1572, Extraordinary Event Costs 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. The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors (the "Board Report"), Appendix C at p. vii states that the amounts in a Z-Factor claim are to be recorded in account 1572, Extraordinary Event Costs. Please confirm that there are no other costs recorded in account 1572 other than the \$217,870 costs related to the August 2, 2006 storm. If other costs are included in this account, please provide a brief description of the costs and the amount that is not related to the August 2, 2006 storm.
2. The Applicant stated that a second storm hit on September 24, 2006 and that these expenses are not included in the \$217,870 amount. Please identify where the September 24, 2006 expenses are recorded. Does the Applicant intend to make these costs the subject of any future claim to the Board? If so, please provide details.
3. The Applicant indicated that it incurred total costs of \$217,870 attributable to the August 2, 2006 storm. 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?

4. If there are any amounts still outstanding to be paid to any 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. Specifically, are there any amounts expected to be paid to Lakeland Energy and/or Bracebridge Generation which the Applicant's Press Release (page 7 of the filing) stated were assisting with restoration activities but which are not named among the contract labour (page 4 of the filing)? Please fully explain this matter.
5. The Applicant stated that it replaced various assets as a result of the damage inflicted on its distribution system by the August 2, 2006 storm. Please provide the following:
 - 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.

6. Please provide the Applicant's materiality calculation utilizing:
 - a. The distribution expense approach.
 - b. The net fixed assets approach.

7. The Applicant stated that it replaced various assets as a result of the damage inflicted on its distribution system by the August 2, 2006 storm. Please provide a cost estimate of replacing the above assets as if they were part of a normal capital program.

Causation

The Board Report states that operational response to normal events, including 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.

8. 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.
9. Please provide information on whether or not the Applicant carries property insurance coverage for its distribution system. If yes, will the Applicant be making (or has made) a claim for the damage inflicted by the subject storm to its distribution system? If yes, please provide the details of the claim identifying the principal, any deductible and the amount of the proceeds that the Applicant is expecting to receive.
10. 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.

11. Please identify any arrangements/agreements with other LDCs and non-LDCs that the Applicant may be party to involving the provision of emergency response services. Please identify the

parties to the arrangement(s), the purpose of the arrangement(s) and the types of services provided including the associated rates/fees and the basis for those rates/fees.

12. Please provide a detailed breakdown of the costs charged by each LDC and non-LDC that assisted with the disaster response and recovery initiative.
13. Please summarize the extent to which the Applicant followed its contingency plan. If the Applicant deviated in any material way from the plan, please identify the 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 Event 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.

14. The Applicant has proposed a recovery methodology for the claimed costs. Please explain the rationale for the proposed allocator, billing determinant and recovery period.
15. Please provide the customer counts by class, volumes by class and distribution revenues by class for calendar year end 2004, 2005 and 2006. If complete 2006 data is unavailable, please ensure that information for 2004 and 2005 is provided for the above items.
16. Please provide the bill impacts on a total bill basis reflecting all items applied for in the subject application including the Z-Factor claim. Please show all calculations for a minimum of two consumption levels per class including 1,000 kWhs for the residential class and 2,000 kWhs for the general service < 50kW class.