

**Canadian Niagara Power – Fort Erie Responses
to
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?

Response

The amount of \$1,611,053 is included in account 1572. The non-incremental labour costs of \$211,090 and the transmission work of \$4,500 were expensed in the income statement. The insurance proceeds have not yet been received.

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.

Response

No, CNPI Fort Erie has not included any amounts in the Z-Factor claim that were previously denied by the Board.

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.

Response

As of March 26, 2007, there are no amounts still outstanding to be paid to external parties for services rendered as part of the natural disaster response and recovery initiative.

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

Response

CNPI Fort Erie has calculated the Net Book Value of the assets which are no longer used and useful to be \$28,813.

- b. Information on whether or not the Applicant has removed this value from its net fixed assets

Response

The value of the damaged assets which are no longer used and useful has not yet been removed from the fixed assets.

- c. If yes, the location of this value on its financial statements including specific impacts on the balance sheet and income statement

Response

Not applicable.

- d. The annual amount being recovered in rates on this asset value including all calculations

Response

Calculation of Annual Amount being Recovered in Rates		
Description		\$
2006 EDR Net Fixed Assets		26,432,452
Less Value of Damaged Assets in 4a		28,813
Revised Net Fixed Assets		26,403,639
2006 EDR Working Capital Allowance		
2006 EDR Working Capital		24,836,625
Working Capital Allowance @ 15%		3,725,494
Revised Rate Base		30,129,133
Cost of Capital	8.05%	
Revised Return on Rate Base		2,425,395
Distribution Expenses		5,816,400
Revised Revenue Requirement Before Taxes		8,241,795
Income Taxes from PIL's Model		144,022
Revised Service Requirement		8,385,817
Less Revenue Offsets		427,410
Revised Base Revenue Requirement		7,958,407
2006 EDR Base Revenue Requirement		7,959,520
Revenue Requirement Related to Damaged Assets		(1,113)

This calculation addresses on the deletion of the value associated with the assets identified as being no longer used and useful. It doesn't account for changes in depreciation expense or PILs which CNPI believes is immaterial.

- e. Information on whether or not the Z-Factor claim reflects a deduction of the amount in "d" above in calculating the net claim.

Response

No, the Z-Factor claim does not reflect a deduction of the amount determine 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.

Response

CNPI Fort Erie has estimated that it would cost approximately \$225,000 to replace 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.

Response

CNPI Fort Erie confirms that all costs in the subject claim are associated exclusively with the distribution assets of CNPI Fort Erie.

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 locations between business units.

Response

CNPI Fort Erie confirms that none of the distribution assets that were repaired or replaced are used to service customers other than those of the regulated utility.

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.

Response

The summary given below provides CNPI Fort Erie's total actual annual operating and maintenance costs for 2004, 2005 and 2006. In addition the pro forma budget amount is provided for 2007.

Year	Operating and Maintenance Costs
2004	\$1,621,858
2005	\$1,741,455
2006	\$2,026,747
2007 (Budget)	\$1,667,782

CNPI Fort Erie does not budget or account minor storm costs; major events are accounted for separately.

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.

Response

The members of NEPA including the following LDCs: Brant County Power Inc., Brantford Power Inc., Canadian Niagara Power Inc., Grimsby Power Inc., Haldimand County Hydro Inc., Horizon Utilities Corporation, Niagara Falls Hydro Holding Co. Inc., Niagara-on-the-Lake Hydro Inc., Norfolk Power Distribution Inc., Peninsula West Utilities Limited, and Welland Hydro-Electric System Corp. The types of services that are provided under the recent NEPA services arrangement include emergency assistance at agreed rates. This could be in the form of personnel or equipment to aid in maintaining or restoring electric utility service when such service has been disrupted by acts of the elements, equipment malfunctions, accidents, sabotage, or any other occurrences where the parties deem emergency assistance to be necessary or desirable. The following sets out the current associated rates/fees and the current basis for those rates/fees:

Labour Rates

Labour rates shall reflect the service provider's actual hourly rates plus applicable pension costs (for regular hours only), employer health tax, plus a 10% burden.

Truck and Other Equipment Rates

Equipment rates should reflect the service provider's normal equipment hourly rate plus the applicable internal burden.

Material Charges

Material costs should reflect the service provider's actual material costs plus the applicable internal burden.

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

Response

CNPI applied a systematic approach for selecting the mix of NEPA LDCs and non-NEPA LDCs, based upon a combination of criteria including geographic proximity and familiarity with CNPI's system. The consideration of these criteria helped minimize costs and maintained the safety of the restoration effort.

The first group of LDCs called in were primarily NEPA members in close proximity to CNPI's service territories (i.e., PenWest, Niagara Falls, Horizon). The ongoing damage assessment indicated that another group of LDCs would be required to assist. The second group of LDCs were the next closest to CNPI's service territories, generally in the golden horseshoe area, and primarily non-NEPA members (i.e., Burlington, Enersource and Hydro One).

- 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.

Response

The only affiliated LDC in the restoration initiative was Cornwall Electric. Cornwall Electric was called in as its line workers are familiar with CNPI's system and its costs are comparable to other LDCs involved in the restoration. This contributed to the safety and efficiency of the restoration response.

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.

Response

CNPI followed its Storm Contingency Plan in all material respects. The major outage restoration coordination was carried out in accordance with the plan, major outage response roles and responsibilities were assigned to the appropriate CNPI personnel, and major outage communication procedures were followed. All other procedures and processes were put into place by CNPI in all material respects in accordance with the Plan. There were no material deviations from the Plan.

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.

Response

The Port Colborne and Fort Erie service territories are contiguous and the restoration efforts were handled as a single project. The Fort Erie service center hosts the CNPI line operations, system control, materials management and supervisory staff for both service territories. All contract and contributing LDC crews reported to Fort Erie at the beginning of their shift. The crews utilized their own rolling stock as well as materials supplied from the Fort Erie stores. Crews were aware of work assignments and had to provide for a wide range of tasks and work locations prior to stocking the vehicles with rolling stock at the beginning of their shift. Larger items such as poles and conductor were often delivered directly to the job site as required.

The time sheets and contractor invoices were believed to be the best measure of the relative level of restoration efforts spent in each of the service territories and therefore the appropriate allocator of materials.

At the outset, CNPI did not establish work orders with the intention of identifying the service territory for which stock was being dispatched. Such an exercise, in the midst of a major restoration effort, poses significant logistic challenges. Line crews experienced in distribution system restoration know from experience the common materials required at the job site. Items such as insulators, clamps, connectors, crossarms, pins, bolts, fuses and conductor for splicing are all loaded onto the trucks as rolling stock. This material will be used as the crews move from one work location to another thus reducing the overall duration of the system restoration. Larger inventory items such as poles are easier to track to a particular location. The total cost of materials in the claim is less than 10 percent of the cost of the entire restoration; CNPI does not believe that direct assignment, if possible, would introduce a material change in the overall

allocation of costs.

CNPI is not aware of any other charges which could be directly assigned.

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

Response

2005 Distribution Data			
Customer Class	Customer Count	Volume	Revenue
Residential	13,818	110,810,182 kWh	3,309,392
GS < 50 kW	1,164	41,143,677 kWh	928,993
GS > 50 kW	139	388,663 kWh	1,934,786
USL	109	306,618 kWh	n/a
Sentinel Lights	20	2,417 kWh	11,421
Street Lights	6	6,552 kWh	32,138

2006 Distribution Data			
Customer Class	Customer Count	Volume	Revenue
Residential	13,919	111,483,692 kWh	Not available
GS < 50 kW	1,168	37,300,397 kWh	Not available
GS > 50 kW	134	380,772 kWh	Not available
USL	109	277,977 kWh	Not available
Sentinel Lights	19	2,417 kWh	Not available
Street Lights	7	6,552 kWh	Not available

For 2005, the revenue associated with unmetered scattered load is included with the GS < 50 kW class revenue.

- 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

Response

2005 Distribution Data Rate Rider Calculation – 2 Year Recovery				
Customer Class	Customer Count	Allocation	Volume	Rate Rider
Residential	13,818	1,551,292	221,620,364 kWh	0.0070
GS < 50 kW	1,164	130,678	82,287,534 kWh	0.0016
GS > 50 kW	139	15,605	777,326 kW	0.0201
USL	109	12,237	613,237 kWh	0.0200
Sentinel Lights	20	2,245	4,834 kW	0.4645
Street Lights	6	674	13,104 kW	0.0514

2006 Distribution Data Rate Rider Calculation – 2 Year Recovery				
Customer Class	Customer Count	Allocation	Volume	Rate Rider
Residential	13,919	1,552,556	222,967,384 kWh	0.0070
GS < 50 kW	1,168	130,281	74,600,794 kWh	0.0017
GS > 50 kW	134	14,947	761,544 kW	0.0196
USL	109	12,047	555,954 kWh	0.0217
Sentinel Lights	19	2,119	4,834 kW	0.4384
Street Lights	7	781	13,104 kW	0.0596

- 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

Response

Customer Profile		2006 EDR Rates	2007 IRM Rates	2007 IRM Rates & 2 Yr. Recovery 2004 Data	2007 IRM Rates & 2 Yr. Recovery 2005 Data	2007 IRM Rates & 2 Yr. Recovery 2006 Data
Residential 1000 kWh	\$	126.35	126.00	133.31	133.42	133.42
	%	n/a	-0.28	5.51	5.59	5.59
GS < 50 kW 2000 kWh	\$	254.81	254.06	257.24	257.45	257.66
	%	n/a	-0.29	0.95	1.03	1.12

- 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.

Response

The CNPI Fort Erie service territory is an area of modest growth and therefore using more recent customer and sales data would not significantly influence the calculation of the Rate Riders.

CNPI Fort Erie chose to use the data from the 2006 EDR process because of the foregoing statement combined with the fact that it is the most recent Board approved data.

The 2005 data is the data filed in the Record Keeping and Recording Requirements; the 2006 data is preliminary data and is provided for comparison only.

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).

Response

In its application, CNPI Fort Erie chose a two year recovery period as a means of mitigating the rate impact; particularly in the residential class. Since the Z-Factor amounts being claimed were being allocated on a customer basis as was the case for the 1572 accounts in the final disposition of regulatory assets; the residential class bore the bulk of the costs.

The rate impacts may be further mitigated by extending the recovery periods to three or four years; the impact on rates is detailed in the table shown below.

Analysis of Potential Rate Impacts Resulting from Z-Factor Recovery							
Customer Profile		2006 EDR Rates	2007 IRM Rates	2007 IRM Rates & 1 Year Recovery	2007 IRM Rates & 2 Years Recovery	2007 IRM Rates & 3 Years Recovery	2007 IRM Rates & 4 Years Recovery
Residential 1000 kWh	\$	126.35	126.00	140.31	133.31	130.98	129.71
	%	n/a	-0.28	11.05	5.51	3.66	2.66
GS < 50 kW 2000 kWh	\$	254.81	254.06	260.42	257.24	256.18	255.75
	%	n/a	-0.29	2.20	0.95	0.54	0.37
GS > 50 kW 100,000 kWh & 500 kW	\$	14,123.01	14,086.84	14,108.73	14,098.02	14,093.73	14,092.56
	%	n/a	-0.26	-0.10	-0.18	-0.21	-0.22

The basis for these calculations is the principle amount of the Z-Factor recovery amount being requested, \$1,611,503, plus interest improvement calculated for the applicable recovery period.

One year recovery	\$1,675,757
Two year recovery	\$1,712,731
Three year recovery	\$1,749,704
Four year recovery	\$1,778,205

The percentage change in the customer bill was determined by combining the Z-Factor Rate Rider with the distribution volumetric charge as determined by the 2007 IRM Model submitted with the CNPI Fort Erie IRM Application. The bill impacts were taken from the Annualized Impact tab and include the GST adjustment. (The percent impacts previously stated were exclusive GST.)

CNPI Fort Erie chose a two year recovery period as a compromise between the customer bill impacts and the protracted recovery period. CNPI believes that a shorter recovery period provides the best measure of rate stability. The Z-Factor Rate Rider would be kept with in the same timeframe as the current Regulatory Asset recovery and the anticipated rebasing schedule.

CNPI believes that protracting the recovery period may contribute to customer confusion related to additional ongoing initiatives such as smart metering, regulatory asset recovery.