

**Ontario Energy
Board**
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY E-MAIL

July 8, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Milton Hydro Distribution Inc. (“Milton Hydro”)
2015 Z-factor Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2014-0162**

In accordance with the Notice of Application and Hearing, please find attached Board Staff interrogatories in the above proceeding. Please forward the following to Milton Hydro and to all other registered parties to this proceeding.

Milton Hydro’s responses to interrogatories are due by July 31, 2014.

Yours truly,

Original Signed By

Suresh Advani

Encl.

**Milton Hydro Distribution Inc. (“Milton Hydro”)
2015 Z-factor Electricity Distribution Rates
EB-2014-0162
Board Staff Interrogatories**

1. Accounting Standard

Ref: Board’s letter¹ dated July 17, 2012

- a. Please provide the accounting standard under which Milton Hydro’s Z-factor application has been filed.
- b. Please confirm whether or not Milton Hydro’s Z-factor application is reflective of the capitalization policy changes as per the Board’s letter “Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013” dated July 17, 2012.

1

<http://www.ontarioenergyboard.ca/oeb/ Documents/Regulatory/Board Ltr Accounting Changes Under CGAAP 2012 2013.pdf>

2. Accounting Treatment - Impaired Assets

Ref: Manager's Summary: page 4, line 7

Board staff notes that Milton Hydro's claim is based on the premise that its distribution system was negatively impacted by the ice storm that occurred on December 21st and 22nd, 2013.

- a. Please explain the extent of the damage to Milton Hydro's assets with respect to the usability, remaining useful life and salvage value of the assets.
- b. Please indicate Milton Hydro's accounting treatment for these damaged assets (e.g. impairment loss).
- c. Please quantify any loss recorded on the assets.

3. Audited Costs

Ref: Manager's Summary

Board staff was unable to establish whether Milton Hydro's costs comprising the Z-factor claim have been audited.

- a. Please indicate whether the costs contained within the application have been audited.
- b. If not, please indicate when audited costs will be available.

4. Incremental Internal Labour Costs

Ref: Manager's Summary: page 2, lines 17 & 18

Ref: Manger's Summary: page 4, line 25

Ref: Manager's Summary: page 13, Table 3

Board staff notes that Milton Hydro is applying for recovery of incremental OM&A costs, which includes labour costs for overtime only pertaining to Milton Hydro staff.

- a. Please provide the method used to determine the level of incremental overtime hours worked by Milton Hydro staff that are included in the Z-factor claim.
- b. Please include a description of the method for tracking overtime hours and labour rates.
- c. In addition to the overtime hours provided in Table 3, please also provide the regular hours by department worked by Milton Hydro staff in the restoration effort.
- d. For additional clarity, please confirm that the Z-factor claim does not include the costs of these regular hours.

5. External Contractors and Other Electricity Distributors

Ref: Manger's Summary: page 4, line 26

Ref: Manager's Summary: page 14, Table 4

Board staff notes that Milton Hydro utilized a total of nine external contractors and nine electricity distributors in the restoration effort.

- a. Please provide information supporting the choices made with respect to the procurement of external contractors listed under Power-Line Contractors in Table 4.
- b. Further to the above, were the external contractors retained in a manner consistent with Milton Hydro's procurement policies? If not, please provide rationale supporting procurement.
- c. Please clarify if the invoiced costs from the nine Local Distribution Companies and nine Power-Line Contractors in Table 4 are based on regular labour rates or premium rates given, for example, the timing of the engagement, its urgency, or the amount of notice provided to suppliers.

6. Trucks - Overtime Hours and Charge

Ref: Manager's Summary: page 13, Table 3

In Table 3 titled "Milton Hydro Overtime Labour Costs", Board staff notes a charge of \$14,912 against 208 overtime hours for Trucks.

- a. Please provide an explanation to clarify the above noted overtime hours and charge.

7. Allocation of Recovery Costs

Ref: Manager's Summary: page 18

Board staff notes that Milton Hydro proposes to recover the ice storm Z-factor costs by way of a fixed rate rider across all metered customer classes based on Milton Hydro's customer count at December 31, 2013.

Board staff further notes that in the Board's Decision on The Combined Proceeding on Storm Damage Cost Claims (EB-2007-0514/0595/0571/0551)² and the Board's Decision on Niagara-on-the-Lake Hydro Inc.'s wind storm damage Z-factor claim (EB-2011-0186)³, the Board ruled that approved costs shall be allocated to the classes on the basis of distribution revenue and using the last Board approved fixed-variable split.

Board staff also notes that in the Settlement Agreement approved by the Board with respect to West Coast Huron Energy Inc.'s tornado damage claim embedded within its 2013 cost of service rate application (EB-2012-0175)⁴, approved costs were allocated to the classes on the basis of dollar weighted allocators, i.e. distribution revenue.

- a. Please provide Milton Hydro's rationale for proposing to recover the ice storm Z-factor costs by way of a fixed rate rider across all metered customer classes based on Milton Hydro's customer count.
- b. Please provide Milton Hydro's views on allocating approved costs to all customer classes, i.e. metered and unmetered.

2

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/11274/view/Dec_Combined%20Proceeding_Storm%20Damage_20070731.pdf.PDF (page 14)

3

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/331998/view/dec_order_NOTL_20120322.PDF (page 12)

4

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/408004/view/Dec_Rate%20Order_WCHI_20130829.PDF (pdf page 234)

- c. Further, please provide Milton Hydro's views on allocating approved costs to all customer classes on the basis of distribution revenue.
- d. With respect to intra class allocations, please provide Milton Hydro's views on the recovery of approved amounts on the basis of (i) fixed only, or (ii) fixed and variable rate riders.
- e. Please calculate rate riders by allocating Milton Hydro's recovery amount of \$946,967 to all customer classes on the basis of the last approved distribution revenue, and using (i) fixed only, and (ii) fixed and variable rate riders, using the last Board approved fixed-variable split.

8. Shareholder Contributions

Ref: Manager's Summary: page 2

Ref: Milton Hydro's 2011 cost-of-service rate application⁵ (EB-2010-0137), exhibit 1, pages 23

Board staff notes that Milton Hydro is a corporation incorporated pursuant to the *Ontario Business Corporations Act*, and is a wholly-owned subsidiary of Milton Hydro Holdings Inc. which is 100% owned by the Corporation of the Town of Milton.

- a. Is Milton Hydro's shareholder, i.e. Town of Milton making any contribution to the restoration cost?
 - i. If not, why not?
 - ii. If yes, please provide details.

5

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/211572/view/MILTON_A_PPL_rates_20100826.PDF

9. Cost Impact

Ref: Manager's Summary: page 6-7

Board staff notes that Milton Hydro's claim suggests that it sustained significant and sustained damage to its distribution system as a result of the ice storm that occurred on December 21st and 22nd, 2013.

- a. If the ice storm event had not occurred, would Milton Hydro have incurred any of the costs included in the \$946,967 it is seeking to recover?

10. Emergency Preparedness

Ref: Manager's Summary: page 7

- a. Please explain if Milton Hydro has an Emergency Preparedness Plan ("EPP") to cope with events such as the subject ice storm.
 - i. If yes, please provide details and a copy of the plan. Please comment on the degree to which Milton Hydro's response to the ice storm accorded with the provisions of the plan, and explain the main reasons for any deviation from it.
 - ii. If Milton Hydro does not have an EPP, please explain why not.

11. Budget

Ref: Milton Hydro's 2011 cost-of-service rate application⁶ (EB-2010-0137), exhibit 4, pages 6-10

Board staff notes that Milton Hydro's 2011 cost-of-service rate application alludes to the OM&A budgeting process including an item related to unexpected repairs to the distribution system caused by storm damage.

- a. What was Milton Hydro's budget for storm damage for 2013?
- b. What was the unspent amount in Milton Hydro's 2013 storm damage budget just prior to the occurrence of the ice storm on December 21, 2013?
- c. Up to what dollar value, if any, was the ice storm restoration effort funded by Milton Hydro's 2013 storm damage budget?
- d. Please provide Milton's Hydro's annual storm damage budget and actual annual expenditure for the 5-year period prior to 2013.

6

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/211572/view/MILTON_A_PPL_rates_20100826.PDF

12. Insurance and Other Funding Sources

Ref: Manager's Summary: page 3, section 1.6

Board staff notes that Milton Hydro states that there is no insurance coverage available to offset the costs of restoration.

- a. Did Milton Hydro investigate the possibility of reimbursement through its current property insurance? Was any reimbursement for damage available through current coverage?
- b. Please provide a copy of any communication received from Milton Hydro's insurance provider regarding potential reimbursement for ice storm damage.
- c. Did Milton Hydro attempt to obtain funding to offset the costs of restoration from other sources, including but not limited to the Ontario Disaster Relief Assistance Program⁷?
 - i. If yes, please provide details.
 - ii. If not, why not?

⁷ <http://www.mah.gov.on.ca/Page237.aspx>

13. Rate of Return

Ref: Revenue Requirement Work Form⁸ (Milton Hydro's 2011 cost-of-service rate application - EB-2010-0137), tab 4

Board staff notes that Milton Hydro's Board approved Return on Equity ("ROE") in its 2011 cost-of-service rate application (EB-2010-0137) was 9.58%. Board staff also notes that Milton Hydro's achieved regulatory ROE for 2013 reported to the Board was 10.61%.

- a. Please confirm that Milton Hydro's achieved regulatory ROE for 2013 was 10.61%, i.e. higher than the Board approved ROE of 9.58%.
- b. If yes, please explain Milton Hydro's reasons for seeking the recovery of the entire z-factor claim through this application, and whether any amount could and should be borne by Milton Hydro given the level of its return on equity in 2013.

⁸ http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec&sm_udf10=EB-2010-0137&sortd1=rs_dateregistered&rows=200