



December 22, 2014

Kirsten Walli, Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON  
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Attention: Ms. Walli

**Re: Espanola Regional Hydro Distribution Corporation's ("Espanola Hydro" or "ERHDC") 2015 Distribution Rate Application  
Interrogatory Responses  
Board File No. EB-2014-0071**

In accordance with Procedural Order No. 1 dated November 25, 2014, please find attached Espanola Hydro's responses to Board Staff and VECC Interrogatories in the above proceeding.

Espanola Hydro has filed these responses pursuant to the Board's e-Filing Services and two hard copies of the responses will be delivered to the Ontario Energy Board.

In the event of any additional information, questions or concerns, please contact Andrew Belsito, Rates and Regulatory Affairs Officer, phone number: (705) 759-3009 or email: [andrew.belsito@ssmpuc.com](mailto:andrew.belsito@ssmpuc.com).

Sincerely,

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Andrew Belsito, CPA, CMA  
on behalf of Espanola Regional Hydro Distribution Corporation  
Rates and Regulatory Affairs Officer  
PUC Services Inc.  
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**Espanola Regional Hydro Distribution Corporation**  
**(“Espanola Hydro” or “ERHDC”)**  
**EB-2014-0071**  
**Interrogatory Responses**

**Board Staff – Interrogatory #1**

**Ref: Tab 1 – Information Sheet**

Board staff notes that Espanola Hydro has chosen the 2012 rate year in the input cell entitled “Please indicate in which rate year the Group 1 accounts were last cleared”. Board staff notes that this cell should indicate 2014, as Espanola Hydro received approval to dispose of its Group 1 Accounts as part of its 2014 IRM application (EB-2013-0127).

Please confirm if Espanola Hydro agrees, and Board staff will make the necessary corrections to the model.

**Espanola Hydro’s Response**

Espanola Hydro agrees that the Group 1 Accounts were last cleared in 2014; therefore, the cell should indicate 2014.

**Board Staff – Interrogatory #2**

**Ref: Tab 4 – Current Tariff Schedule**

Board staff notes that under the General Service 50 to 4,999kW Service Classification, Espanola Hydro has input two line items labelled Rate Rider for Incremental Capital. Board staff notes that the rider with the value of \$2.6378/kW should actually be labelled: Rate Rider for Disposition of Global Adjustment Account (2014) – effective until April 30, 2015, Applicable only for Non-RPP customers.

Please confirm if Espanola Hydro agrees, and Board staff will make the necessary corrections to the model.

**Espanola Hydro's Response**

Espanola Hydro agrees that the General Service 50 to 4,999kW rate rider with the value of \$2.6378/kW should actually be labelled: Rate Rider for Disposition of Global Adjustment Account (2014) – effective until April 30, 2015, Applicable only for Non-RPP customers.

**Board Staff – Interrogatory #3**

**Ref: Tab 5 – Continuity Schedule**

Board staff notes that Espanola Hydro has not entered the principle and interest amounts approved for disposition by the Board for the 2010 (EB-2009-0224) and 2012 (EB-2011-0319) rate years (columns G, L and AA, AI respectively). Board staff has provided the approved amounts below:

2010 Rate Year (EB-2009-0224)

Account Description	Account Number	Principal Amounts A	Interest Amounts B	Total Claim C = A + B
LV Variance Account	1550	29,470	(265 )	29,205
RSVA - Wholesale Market Service Charge	1580	(80,035 )	8,343	(71,692 )
RSVA - Retail Transmission Network Charge	1584	(102,110 )	(16,214 )	(118,324 )
RSVA - Retail Transmission Connection Charge	1586	(243,823 )	(53,864 )	(297,687 )
RSVA - Power (Excluding Global Adjustment)	1588	538,824	15,615	554,439
RSVA - Power (Global Adjustment Sub-account)	1588	34,377	1,706	36,083
Recovery of Regulatory Asset Balances	1590	15,925	25,300	41,225
		<u>192,628</u>	<u>(19,378 )</u>	<u>173,249</u>

2012 Rate Year (EB-2011-0319)

Account #	Account Description	Disposition Amount Initial Application	Disposition Amount Decision
1550	LV Variance Account	(\$9,996)	(\$9,996)
1580	RSVA – Wholesale	(\$137,250)	(\$137,250)
1584	RSVA – Retail	\$676	\$676
1586	RSVA – Retail	(\$9,298)	(\$9,298)
1588 Pwr	RSVA – Power	\$280,208	\$280,208
1588 GA	RSVA – Power – Sub	(\$5,199)	(\$5,199)

- (A) Please confirm if Espanola Hydro agrees that these amounts should be recorded in the Rate Generator model, and Board staff will make the necessary corrections.
- (B) If the answer to (A) is no, please provide an explanation.

**Espanola Hydro’s Response**

- (A) Espanola Hydro agrees that the amounts provided above should be recorded in the Rate Generator model.

**Board Staff – Interrogatory #4**

**Ref: Tab 5 – Continuity Schedule**

**Application, PDF page 5**

In its application, Espanola Hydro notes that it is applying for disposition of the following Group 1 Accounts: 1550, 1580, 1584, 1586, 1588, and 1589, totalling a claim of -\$109,117.

In its continuity schedule at tab 5 of the Rate Generator Model, Espanola Hydro total claim is -\$106,410 for a resulting threshold test of -\$0.0017/kWh.

Board staff notes that the total claim in the Rate Generator Model, and the resulting calculated rate riders, includes an amount of \$2,707 in Account 1551 – Smart Metering Entity Charge Variance.

- (A) Please confirm that Espanola Hydro is in fact seeking disposition of Account 1551.
- (B) If the answer to (A) is no, please provide an explanation for why this account is being omitted.

**Espanola Hydro's Response**

- (A) Espanola Hydro agrees to dispose of account 1551 – Smart Metering Entity Charge Variance. Originally, Espanola Hydro was not seeking disposition of Account 1551 as this account is not included in the Board's list of Group 1 Accounts.

**Board Staff – Interrogatory #5**

**Ref: Tab 11 – STS – Tax Change**

Board staff is unable to reconcile the amount entered for total rate base entered on tab 11 of the Rate Generator Model to Espanola Hydro's previous cost of service Revenue Requirement Work Form (EB-2011-0319). The figure currently entered is \$4,246,610. Board staff notes that the figure from Espanola Hydro's previous Revenue Requirement Work Form shows \$4,244,735.

- (A) Please confirm if Espanola Hydro agrees, and Board staff will make the necessary corrections to the model.
- (B) If the answer to (A) is no, please provide an explanation for the discrepancy.

**Espanola Hydro's Response**

- (A) Espanola Hydro agrees that the total rate base should be \$4,244,735.

**Board Staff – Interrogatory #6**  
**Ref: Tab 15 – RTSR – UTRs & Sub-Tx**

Hydro One Sub-Transmission Rate Rider 9A	Unit	Effective January 1, 2013	Effective January 1, 2014	Effective January 1, 2015
Rate Description		Rate	Rate	Rate
RSVA Transmission network - 4714 - which affects 1584	kW	\$ -	\$ 0.1465	\$ 0.1465
RSVA Transmission connection - 4716 - which affects 1586	kW	\$ -	\$ 0.0667	\$ 0.0667
RSVA LV - 4750 - which affects 1550	kW	\$ -	\$ 0.0475	\$ 0.0475
RARA 1 - 2252 - which affects 1590	kW	\$ -	\$ 0.0419	\$ 0.0419
RARA 1 - 2252 - which affects 1590 (2008)	kW	\$ -	-\$ 0.0270	-\$ 0.0270
RARA 1 - 2252 - which affects 1590 (2009)	kW	\$ -	-\$ 0.0006	-\$ 0.0006
Hydro One Sub-Transmission Rate Rider 9A	kW	\$ -	\$ 0.2750	\$ 0.2750

Board staff notes that the Hydro One Sub-Transmission Rate Rider 9A expires on December 31, 2014 and therefore the rates should be removed. Board staff will make the necessary adjustments to Centre Wellington Hydro's Rate Generator Model.

Please confirm Espanola Hydro acknowledges this change.

**Espanola Hydro's Response**

Espanola Hydro confirms and acknowledges this change.

**Board Staff – Interrogatory #7**

**Ref: Deferral and Variance Account Disposition**

Chapter 3 of the Filing Requirements notes that distributors must establish separate rate riders to recover the balances in the RSVAs from Wholesale Market Participants (“WMPs”) who must not be allocated the RSVA account balances related to charges for which the WMPs settle directly with the IESO (e.g. wholesale energy, wholesale market services).

Chapter 3 of the Filing Requirements also note that “distributors who serve Class A customers per O.Reg 429/04 (i.e. customers greater than 5 MW) must propose an appropriate allocation for the recovery of the global adjustment variance balance based on their settlement process with the IESO.”

- (A) Please confirm whether or not Espanola Hydro serves any customers that are WMPs.
  - i. If yes:
    - i. Have these consumers been WMPs throughout the entire time over which variances accumulated in the RSVA accounts proposed for disposition?
    - ii. Please confirm that RSVA account balances have not been allocated to WMP customers as they settle these charges directly with the IESO.
- (B) Please confirm whether or not Espanola Hydro serves any class A consumers that settle energy charges directly with Espanola Hydro. If yes, please explain how balances in Account 1589 (Global Adjustment) have been allocated to these consumers.

**Espanola Hydro’s Response**

- (A) Espanola Hydro does not serve any customers who are Wholesale Market Participants.
- (B) Espanola Hydro also does not serve any Class A consumers that settle energy charges directly with Espanola Hydro.



**Board Staff – Interrogatory #8**

**Ref: Class A Customer/Wholesale Market Participant – Deferral/Variance Account Calculation**

In calculating Deferral and Variance Account rate riders for sub-groups of customers within a class (e.g. WMPs and non-WMPs), distributors have used two approaches.

- 1) Rate riders grouped by the nature of the deferral and variance accounts (i.e. one set of rate riders for accounts related to transmission (e.g. 1584 and 1586) and another set of rate riders for account related to power (e.g. 1580 and 1588). For an example, see the EnWin Utilities Ltd. Final 2014 Tariff and Rates and Charges (EB-201-0156).
- 2) Sets of rate riders calculated on the basis of the customer group to which they would apply (i.e. one rate rider for WMPs and one rate rider for non-WMPs). For an example, see Bluewater Power Distribution Corp.'s 2014 IRM application (EB-2013-0112).

Please explain which approach Espanola Hydro would choose and why.

**Espanola Hydro's Response**

Espanola uses the approach of grouping Rate Riders by the nature of the deferral and variance accounts. This approach is used because Espanola Hydro does not serve any consumers that are WMPs, eliminating the need for sub-groups of customers. By using this method, Espanola Hydro can easily determine the total in each deferral and variance account. To calculate rate riders for each account, Espanola Hydro allocates the total between rate classes based off the total kWh percentage.

**Board Staff – Interrogatory #9**

**Ref: Over-Earning**

Chapter 3 of the Filing Requirements for Electricity Distributors Rate Applications for Price Cap Incentive Rate-Setting and Annual Incentive Rate-Setting Index dated July 25, 2014 (page 13) states:

“For each of the Board’s three rate-setting options, a regulatory review may be triggered if a distributor’s earnings are outside of a dead band of +/- 300 basis points from the Board-approved return on equity. The Board monitors results filed by the distributors as part of their reporting and record-keeping requirements and determines if a regulatory review is warranted. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.

The Board reminds distributors that the filing of an application for an increase to base rates during the IR period or under the Annual IR index is the decision of the applicant; it is not a Board requirement. A distributor whose earnings are in excess of the dead band can refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If not, the level of earnings may be raised as an issue in the application.”

Board staff notes that Espanola Hydro’s 2013 RRR 2.1.5.6 return on equity (“ROE”) filing shows an ROE of 29.92%, a difference of 20.80% from the Board-approved 9.12% ROE. This is reflected in Espanola Hydro’s Scorecard for 2013.

- (A) Please provide the drivers for the over-earning.
- (B) Please explain why Espanola Hydro feels it is reasonable to apply an increase to its base rates given the over-earning in 2013.
- (C) Does Espanola Hydro expect that the over-earning was one-time occurrence or that it will continue?
- (D) Please confirm that the ROE filed as part of the RRR 2.1.5.6 by Espanola Hydro for 2011 and 2012 is -9.13% and -22.31%, respectively.
- (E) Please provide Espanola Hydro’s pro forma for the 2014 year illustrating the expected ROE for 2014.

**Espanola Hydro's Response**

(A) The driver's for over-earning are provided in the chart below:

	<b>Board Approved 2012</b>	<b>Actual 2013</b>	<b>Adjusted 2013</b>
Net Income	\$ 154,847.00	\$ 508,647.00	\$ 508,647.00
Revenue Drivers			
1 Rate Rider - Disposition of Residential Smart Meter Costs			-\$ 45,770.00
2 Rate Rider - Recovery of Lost Revenue			-\$ 38,485.00
3 Rate Rider - Recovery of Foregone Revenue			-\$ 127,211.00
4 Increase in Late Payment Charges			-\$ 9,900.00
5 Regulatory Carrying Cost Revenue			-\$ 10,878.00
Cost Drivers			
1 2012 OEB Reduction in Depreciation recorded in 2013			-\$ 29,250.00
2 Correction in Historical Years Excess Depreciation			-\$ 54,800.00
3 Lower Meter Read Expense			-\$ 42,620.00
4 Recovery of Tree Trimming Exp recovered in revenue over 4 years, (including 1/4 in 2013), actual expense in 2012			-\$ 56,500.00
5 Temporary Labour Vacancy			-\$ 8,000.00
6 Management Salaries - AS per COS rate approval - Finance Officer head out increased temporarily to 2 in 2012 to train retiree replacement, recovered in revenue over 4 years, all expenses were incurred in 2012			-\$ 26,030.00
7 Increase in PILs due to higher income			\$ 124,917.00
Normalized Income			<u>\$ 184,120.00</u>
Rate Base	\$ 4,244,735.00	\$ 4,249,913.00	\$ 4,249,913.00
4.00% ST Debt	\$ 169,789.40	\$ 169,996.52	\$ 169,996.52
56.00% LT Debt	\$ 2,377,051.60	\$ 2,379,951.28	\$ 2,379,951.28
40.00% Equity	\$ 1,697,894.00	\$ 1,699,965.20	\$ 1,699,965.20
ROE	<u>9.12%</u>	<u>29.92%</u>	<u>10.83%</u>

(B) Espanola Hydro feels it is reasonable to apply for an increase to its base rate given the over-earning due to the fact that the normalized ROE for 2013 (10.8%) only differed by 1.68% from the Board approved 9.12%. The average ROE of 8.36% for 2012 and 2013 (-13.19% and 29.92% respectively) is within the dead band of the Board approved 9.12%.

(C) Espanola Hydro expects that the over-earnings will continue, however, the earnings over the 4 year period of the 2012 COS Rate Application will be within the dead band of the Board approved ROE of 9.12%.

(D) For the years of 2011 and 2012, Espanola Hydro confirms that it has filed an ROE of -.56% and -13.19% respectively. The amounts of -9.13% and -22.31% given by the OEB are the differences between Espanola Hydro's actual ROE and the ROE from the most recent COS Application (8.57% and 9.12% respectively).

(E)

	<b>Forecasted 2014</b>
Net Income	\$ 462,631.00
Revenue Drivers	
1 Rate Rider - Disposition of Residential Smart Meter Costs	-\$ 45,770.00
2 Rate Rider - Recovery of Lost Revenue	-\$ 38,485.00
7 Increase in PILs due to higher income	
Normalized Income	<u>\$ 378,376.00</u>
Rate Base	\$ 6,262,201.00
4.00% ST Debt	\$ 250,488.04
56.00% LT Debt	\$ 3,506,832.56
40.00% Equity	\$ 2,504,880.40
ROE	<u>15.11%</u>

**VECC – Interrogatory #1**

**Ref: Manager’s Summary, Section 3 Off-Ramps**

ERHDC states:

*“An off ramp is based on a pre-defined set of conditions under which a plan, based on any of the three rate-setting methods, would be terminated or modified before its normal end-of-term date due to excessive over or under earnings. In this application, ERHDC is not applying for an off-ramp.”*

- a) Please explain the pre-defined set of conditions under which a plan would be terminated or modified before its normal end of term date due to excessive over or under earnings.
- b) Please explain why ERHDC is not applying for an off-ramp as part of this application.
- c) Please provide ERHDC’s return on equity and compare to the Board’s approved return on equity for the years 2011, 2012, 2013 and forecast for 2014.
- d) Please explain any excessive over or under earnings outside of a dead band of +/- 300 basis points from the Board-approved return on equity.

**Espanola Hydro’s Response**

(A) The specific wording of “pre-defined set of conditions” was previously used by the Board in their Filing Guidelines distributed on June 28<sup>th</sup>, 2012. Espanola Hydro’s understanding of these conditions would be if the distributor’s ROE is outside of the dead band of +/- 300 basis points (3%) from the Board-approved ROE a regulatory review may be warranted.

(B) Please refer to “Board Staff – Interrogatory #9” question (B). Espanola is not applying for an off ramp due to timing variances which result in the ROE over 4 year period of the 2012 COS application being within the dead band of the Board approved ROE of 9.12%.

(C) Espanola Hydro’s return on equity compared to the Board-approved return on equity:

2011

ERHDC ROE	-0.56%
Board Approved ROE	<u>8.57%</u>
Difference	-9.13%

2012

ERHDC ROE	-13.19%
Board Approved ROE	<u>9.12%</u>
Difference	-22.31%

2013

ERHDC ROE	29.92%
Board Approved ROE	<u>9.12%</u>
Difference	20.80%

2014

Forecasted ERHDC ROE	15.11%
Board Approved ROE	<u>9.12%</u>
Difference	5.99%

(D) Espanola Hydro's over-earning is due to timing variances which caused under-earning in 2012 and over-earning in 2013. Please see "Board Staff – Interrogatory #9" question (A) for detailed variances. When calculating the average ROE over the 4 year period of the 2012 COS Rate Application, Espanola Hydro will be within the dead band of the Board approved ROE of 9.12%.

**VECC – Interrogatory #2**

**Ref: Filing Requirements for Electricity Distribution Rate Applications, 2014 Edition for 2015 Rate Applications, Chapter 3 Incentive Regulation, July 25, 2014, Page 13**

The Filing Requirements state:

*3.2.10 Off-ramps*

*“For each of the Board’s three rate-setting options, a regulatory review may be triggered if a distributor’s earnings are outside of a dead band of +/- 300 basis points from the Board-approved return on equity. The Board monitors results filed by distributors as part of their reporting and record-keeping requirements and determines if a regulatory review is warranted. Any such review will be prospective, and could result in modifications, termination or the continuation of the respective Price Cap IR or Annual IR Index plan for that distributor.*

*The Board reminds distributors that the filing of an application for an increase to base rates during the IR period or under Annual IR index is the decision of the applicant; it is not a Board requirement. A distributor whose earnings are in excess of the dead band can refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan. If not, the level of earnings may be raised as an issue in the application.*

*A distributor may choose to file only for disposition of Group 1 deferral and variance account balances in accordance with Board policies, without applying for adjustments to its base rates.”*

- a) Please discuss if ERHDC considered filing only for disposition of Group 1 deferral and variance account balances in accordance with Board policies, without applying for adjustments to its base rates. If not, why not?
- b) Please discuss ERHDC’s rationale for applying to adjust its base rates given its over-earnings in 2013.

**Espanola Hydro’s Response**

(A) Espanola Hydro has not considered disposing of only Group 1 Deferral and Variance account balances without applying for adjustments to the base rates. Reasoning behind this decision is answered in “VECC – Interrogatory #1” question (D).

(B) Please see “VECC – Interrogatory #1” question (D).