

Essex Powerlines Corporation
EB-2014-0072 Price Cap IR Application & EB-2014-0301 Smart Meter Application
Response to Procedural Order #2 February 6, 2015, Submission of New Evidence

Price Cap IR Application

Pursuant to Procedural Order #2 issued on February 6, 2015, Essex Powerlines Corporation is submitting the following additional evidence as requested and in order as follows:

- 1) Any relevant material from prior Board proceedings:
RESPONSE: There is no relevant material from prior Board proceedings as the error was just recently determined.
- 2) Details regarding the source of the error:
RESPONSE: The source of the error occurred in the use of forms to arrive at the RPP and non RPP split. The data input error was not detected initially as the nature of the 1588 and 1589 as well as all the other variance accounts in total were being monitored and overall they were not changing drastically. The continued increases in the global adjustment amounts appeared to be the reason for the accumulating amounts in the 1588 and 1589 accounts.
- 3) The process followed to determine the correcting accounting entries:
RESPONSE: The input forms were reviewed and the correct amounts for non RPP and RPP from the IESO and Hydro One were included in a spreadsheet and reallocated. This process was performed by one person and reviewed by a supervisor to ensure the revised numbers were correct. This spreadsheet is submitted as outlined in 4).
- 4) Calculations supporting the correcting accounting entries for each year separately (2011,2012,and 2013):
RESPONSE: see files submitted: Essex_GA Analysis Error Correction 2011-2013. This file contains the revised split compared to the original split to determine the correction required.
- 5) Any required changes to the Rate Generator Model:
RESPONSE: The revised Rate Generator Models are included as:
Essex_IRM_Rate_Gen_2011-2013 GA adj over 1 year.xlsm – this file contains the 2011-2013 adjustment between 1588 and 1589 for \$11,589,012 to be settled over a term of one year as shown in Tab 8, cell C15.
Essex_IRM_Rate_Gen_2011-2013 GA adj over 4 years.xlsm – this file contains the 2011-2013 adjustment between 1588 and 1589 for \$11,589,012 to be settled over at term of 4 years as shown in Tab 8, cell C15.

Essex_IRM_Rate_Gen_2013 GA adj only over 1 year.xlsm – this file contains the 2013 adjustment between 1588 and 1589 for \$6,419,261 to be settled over one year as shown in Tab 8, cell C15.

Essex_IRM_Rate_Gen_2013 GA adj only over 4 years.xlsm - this file contains the 2013 adjustment between 1588 and 1589 for \$6,419,261 to be settled over 4 years as shown in Tab 8, cell C15.

Essex_IRM_Rate_Gen_with no GA adjustment.xlsm – this file contains no adjustment for the GA error and a one year disposition.

Essex_IRM_GA adjustment only.xlsm - this file contains the 2011-2013 adjustment between 1588 and 1589 for \$11,589,012 for the GA adjustment only as a totally separate rate rider to be settled over 4 years as shown in Tab 8, Cell C15.

- 6) The proposed bill impacts and rate mitigation strategy if the errors from all 3 years are corrected collectively (2011-2013):

RESPONSE: The bill impacts were submitted in our reply dated January 20, 2015. They are included again as well as the other scenarios requested by the Board:

Each of these files contains a tab for the RPP and non RPP customer classes

Essex_Bill Impact w 2011-2013 GA adj over 1 year.xlsx

Essex_Bill Impact w 2011-2013 GA adj over 4 years.xlsx

Essex_Bill Impact w GA adj as a separate rate rider over 4 years.xlsx

All of these bill impacts are above the 10% threshold.

- 7) The proposed bill impacts and rate mitigation strategy if only the errors from 2013 were corrected.

RESPONSE: The bill impacts showing the error correction for 2013 only are included as well as a rate mitigation strategy to spread this over 4 years. All of these bill impacts are over 10% as seen in the bill impacts provided:

Each of these files contains a tab for the RPP and non RPP customer classes.

Essex_Bill Impact w 2013 GA adj only over 1 year.xlsx

Essex_Bill Impact w 2013 GA adj only over 4 years.xlsx

The Board also asked EPL to provide a written submission on the following question:

Should the Board consider an adjustment to the 2011 and 2012 DVA balances which were disposed of on a final basis as part of Essex Powerlines

Corporation's 2014 IRM proceeding (EB-2013-0128)? Would any such adjustment violate the legal requirements concerning retroactive ratemaking?

RESPONSE: EPL does not believe that correcting the error from 2011 and 2012 would result in a violation of the regulatory principles regarding retroactive ratemaking. First, it must be understood that this error was not a one-time error but rather was a mistake that was continuously applied over the entire period of three years which means the error continued into a period when the account disposal has not yet concluded on a final basis. As such, there is a difference between the current situation and some of the Board's other decisions regarding retroactive ratemaking. EPL would assert this situation is more akin to the Brant County and Brantford dispute [EB-2009-0063] in which it was seeking to correct a billing error that was carried over several years for the omission of billing certain RTS charges. The Board, in that case, permitted recovery without interest as the billing error was within the control of the utility.

EPL is concerned that if the Board were not to correct the mistake ratepayers who overpaid would benefit to the detriment of ratepayers that had underpaid. In essence the ratepayers are innocent third parties that should not be advantaged or disadvantaged as a result of a mistake. To be fair to ratepayers, EPL is suggesting the ratepayers be made whole in these circumstances. Further, such treatment is consistent with the principle in the Distribution System Code regarding the correction of errors which can reach back several years in certain circumstances to correct an error.

EPL has proposed a prospective correction of these errors. That is, it is changing the legal effect of a future transaction based upon a past event. This is not retroactivity in the strict legal sense. If retroactivity were a concern it would not really matter that the 2013 balances were interim and the 2011 and 2012 balances final. Rather, the question is does the fact that the 2011 and 2012 balances preclude the correction of the error?

EPL suggests that it should not preclude correction in the present circumstances:

1. The amounts in each of 2011 and 2012 are material.
2. The error was a continuing error into a period which was still interim.
3. The error was to variance accounts which are specifically intended to provide protection to both the utility and the ratepayer to variability in costs and revenues. It would be difficult to refute a ratepayer's concern that it is only entitled to limited protection in such circumstances.

EPL has suggested that the error be corrected in the 2015 IRM model and rates going forward be adjusted to correct the error. We therefore do not see this as violating the legal requirements concerning retroactive ratemaking. If the error is

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not corrected, the balances in the current accounts would be settled in the future when there may be a greater adjustment required in future rates if the global adjustment continues to increase.