Erie Thames Powerlines Corporation (Erie Thames Powerlines or ETPL)

EB-2017-0038

OEB Staff Clarification Questions

September 7, 2018

1-Clarification Staff-1

Ref: 1-Staff-2
CCC-25

Preamble:

OEB staff has requested that ETPL update its evidence to provide 2017 actual amounts.

CCC has also requested that ETPL provide 2017 actual OM&A amounts.

In response to 1-Staff-2, ETPL stated that it "will focus on the areas that variances will materially impact final rates and any areas of variance that are significant and need to be explained." However, ETPL did not clarify which areas have variances will materially impact final rates, as well as any areas of variance that are significant and need to be explained.

Question(s):

a) Please explain and clarify which areas have variances will materially impact final rates from updating 2017 figures with actual amounts (e.g. OM&A), as well as any areas of variance that are significant and need to be explained.

1-Clarification Staff-2

Ref: 1-Staff-4

In the above noted interrogatory, OEB staff stated that Uniform Transmission Rates (UTRs) were updated effective January 1, 2018.[1] OEB staff also noted that the RTSR

[1] Decision and Order, EB-2017-0359, February 1, 2018

Workform, Tab 5. UTRs and Sub-Transmission, cells J22, J24, and J26 do not reflect updated UTRs.

OEB staff asked ETPL to update the proposed RTSRs to reflect calculations from the RTSR Workform, including updating the UTRs in the RTSR Workform. Once the RTSRs were to be updated, OEB staff also asked ETPL to update the cost of power calculation included in the working capital allowance, proposed tariff sheet and tariff schedule and bill impact model. OEB staff notes that ETPL did not perform these updates. For example, ETPL did not update cells J22, J24, and J26 in Tab 5 of the RTSR Workform, but incorrectly updated cells J36, J38, J40, and J42.

Question(s):

a) Please update ETPL's evidence to address OEB staff's above noted concerns.

1-Clarification Staff-3

Ref: 1-Staff-5

In the response to the above noted interrogatory, ETPL stated that it is proposing to change its billing determinants for its Sentinel Light rate class from kW to kWh, but did not provide an explanation.

OEB staff also notes that the bill impact model shows that the Sentinel Light rate class is comparing 2017 rates that were calculated on a per kW basis, to proposed 2018 rates that were calculated on a per kWh basis. OEB staff also notes that there are other discrepancies in the bill impact model.

Question(s):

a) Please provide an explanation for ETPL's proposal to change its billing determinants for its Sentinel Light rate class from kW to kWh.

b) Please update ETPL's bill impact model to ensure that all discrepancies are rectified.

2-Clarification Staff-4

Ref: Appendices 2-BA 2016 – 2018

Preamble:

ETPL has included Solar Generation as part of distribution assets for rate base.

Question(s):

a) Did ETPL obtain OEB's approval to include solar generation assets as part of deemed distribution assets for the purpose of rate base?

b) If ETPL did not obtain OEB's approval, please provide justification for including solar generation in rate base.

2-Clarification Staff-5

Ref: Appendices 2-BA 2015 – 2018
VECC-3

Question(s):

Appendix 2-BA for 2015 does not appear to have been prepared in accordance with APH Article 510 for the following reasons (for detailed entries please refer to APH Article 510, pp 16 - 20):

i. PP&E – Rate-regulated Deemed cost exemption – at the changeover date (January 1, 2015), distributor must record an adjusting entry in the USoA at the changeover date to reflect the fact that accumulated depreciation was set to nil under IFRS at the transition date (page 12 - APH Article 510)

ii. Customer contributions – An adjustment is required at the changeover date to reclassify the unamortized balance of customer contributions received <u>subsequent</u> to the transition date from the contra asset account in which the contributions were recorded for previous Canadian GAAP to deferred revenue (page 15 - APH Article 510).

OEB staff notes that ETPL is still showing a balance in Account 1995 on Appendices 2-BA from 2015 – 2018. Please note, the balance in Account 1995 is not simply moved to Account 2440. Rather the USoA accounts to which the contributions relate prior to the transition year are to be presented on a net basis.

Please provide amended 2-BA schedules which have been prepared in accordance with the APH Article 510.

2-Clarification Staff-6

Ref: 2-Staff-13

Question(s):

a) ETPL has not provided updated Depreciation expense schedules 2-C. Please provide the schedules.

2-Clarification Staff-7

Ref: 2-Staff-10

Preamble:

In the calculation of the working capital allowance, ETPL has calculated a weighted average price of $0.07183 for non-RPP customers and $0.04056 for RPP customers. However, ETPL used a price of $0.0832 to calculate the forecasted commodity cost for all rate classes, except for $0.0155 that was used for the Large Use rate class. OEB staff also notes that the impacts of the GA modifier have not been incorporated into the calculation of the cost of power. OEB staff is also unclear how the HOEP of $24.63 ($/MWh) and Global Adjustment of $87.76 ($/MWh) used in the cost of power calculation were calculated.

OEB staff also notes that some of the Transmission Network and Transmission Connection charges incorporated into the cost of power calculation do not reconcile to the revised RTSR Workform submitted as part of the interrogatory responses.

OEB staff also notes that in calculating the LV charges of $1,401,830 to be allocated across rate classes, ETPL has incorrectly allocated a rate to the embedded distributor rate class. OEB staff notes that in order to be consistent with page 2 of the 2012 CoS[2] December 21, 2012 Final Rate Order, no LV service rate should be allocated to the embedded distributor rate class.

Questions:

a) Please clarify how ETPL has calculated the cost of power for its working capital calculation, including how it has addressed OEB staff's above noted concerns.

b) Please re-perform the allocation of LV charges across rate classes so that no LV service rate is allocated to the embedded distributor rate class, as well as update other evidence such as the proposed tariff sheet and bill impact model.

c) Please ensure that all of the Transmission Network and Transmission Connection charges incorporated into the cost of power calculation reconcile to the revised RTSR Workform that will be updated as part of the response to these clarification questions.

d) Please also ensure that the kWh and kW used in the cost of power calculation reconcile to the 2018 load forecast. For example, for Transmission Network and Transmission Connection charges incorporated into the cost of power calculation, the kW used in these calculations for the following rate classes do not reconcile to the 2018 load forecast:

   i. GS > 50 to 999 kW
   ii. GS > 1,000 to 4,999 kW
   iii. Large Use

2-Clarification Staff-8

Ref: 2-Staff-18
Exhibit 3, Tab 1, Schedule 2, Page 4

Preamble:

In the above noted interrogatory response, ETPL stated the following:

[2] EB-2012-0121

> Maple Leaf Foods is still operating in Thamesford and as such there has been no impact or material change in economic growth or decline. In fact new subdivisions in Thamesford and Ingersoll have begun development as general growth in the area is impacting the economy to a greater degree than the changes at Maple Leaf Foods and GM Ingersoll.

However, in the load forecast section of ETPL's evidence, ETPL stated the following:

> …With respect to Maple Leaf Foods closure ETPL has taken the approach that the account would be removed from all load forecast modeling since they plan to close in early 2018 prior to ETPL's new rates being implemented…

Question(s):

a) Please update the load forecast and associated evidence to reflect the fact that Maple Leaf Foods has not closed, rather it is still in business.

2-Clarification Staff-9

Ref: 2-Staff-34

Question(s):

a) Please confirm if EPTL has validated the assumption that a pole rated as <=70% remaining strength will deteriorate to <=50% strength within 2 to 3 years.

b) Please confirm that all poles being pro-actively replaced fall into the <=50% remaining strength category.
   i. If not, please provide descriptions of the >50% remaining strength poles that were replaced and the risk assessment that was done to justify the replacement.

c) OEB staff is unclear regarding ETPL's statement in this interrogatory response that "ETPL has not validated its assessment methodology by allowing poles to fail." Does ETPL employ a "run-to-fail" methodology on any of its poles?
   i. If yes, please describe the process of determining which poles to allow to "run-to-fail".
   ii. If no, why not?

d) Please provide examples of poles that are assessed as having a “high consequence of failure” and poles that do not have that same assessment. Approximately how many poles in the ETPL fleet would be assessed as having a “high consequence of failure”?

e) Please describe how consequence of failure changes as probability of failure increases (i.e. how consequence changes as assessed condition decreases).

4-Clarification Staff-10

Ref: 4-Staff-43

Preamble:

In the response to 4-Staff-43 a), ETPL explained the underspending of ETPL’s 2012 OEB approved level of OM&A of $5,660,594, versus actual 2012 OM&A costs of $4,855,139, a difference of $805,455, or 17% percent lower. ETPL stated that the difference was primarily due to one-time events that generated approximately $766,000 of revenue that was accounted for as cost offsets to OM&A in its 2012 actual results.

Question(s):

a) Please confirm that no other similar “one-time” events have occurred since 2012, or will be projected to occur, that were also accounted for as an offset to OM&A rather than recorded as revenue. If this is not the case, please explain, as well as quantify the dollar impact.

4-Clarification Staff-11

Ref: 4-Staff-44 d)
4-Staff-51
VECC-18 b)

Preamble:

OEB staff has generated an analysis in Table E below, which shows what OEB staff believes is the net amount of affiliate transactions (net of revenues and expenses) impacting ETPL's 2018 test year revenue requirement. Table E has been prepared from combining OEB staff's analysis (Table C & Table D) inserted in 4-Staff-51.

OEB Staff Analysis - Table E						
Impact on 2018 Test Year OM&A from Affiliate Transactions (Revenues and Expenses)						
Costs charged to ETPL by ERTH Hldgs:						
ERTH Hldgs	Erie Thames Powerlines	IT Work	Fully Allocated Costs		217,850	
ERTH Hldgs	Erie Thames Powerlines	Billing Services	Fully Allocated Costs		240,459	
ERTH Hldgs	Erie Thames Powerlines	MSP	Market Value		72,900	
ERTH Hldgs	Erie Thames Powerlines	AMV	Market Value		3,507	
					534,716	A
Revenues earned by ETPL from ERTH Hldgs:						
Erie Thames Powerlines	ERTH Corp	Eng/Ops/ Services	Fully Allocated Costs		($150,979)	
Erie Thames Powerlines	ERTH Hldgs	Billing Services	Fully Allocated Costs		($456,295)	
					($607,273)	B
Costs charged to ETPL by ERTH Hldgs:						
Name of Company		**Service Offered**	**Pricing Methodology**	**Corporate Costs**	**Amount Allocated**	
From	**To**			**%**	**$**	
ERTH Corp	Erie Thames Powerlines	Rent	Market Value	22.48%	222,995	
ERTH Corp	Erie Thames Powerlines	Board Corporate Governanc	Fully Allocated Costs	2.08%	20,600	
ERTH Corp	Erie Thames Powerlines	IT Infrastructure	Fully Allocated Costs	5.86%	58,140	
ERTH Corp	Erie Thames Powerlines	Legal	Fully Allocated Costs	7.96%	79,000	
ERTH Corp	Erie Thames Powerlines	Business Development	Fully Allocated Costs	0.00%	-	
ERTH Corp	Erie Thames Powerlines	Shared Costs	Fully Allocated Costs	8.51%	84,460	
ERTH Corp	Erie Thames Powerlines	Human resourses	Fully Allocated Costs	4.26%	42,230	
ERTH Corp	Erie Thames Powerlines	Management Fees	Fully Allocated Costs	48.85%	484,575	
					992,000	C
Total Impact on 2018 Test Year OM&A from Affiliate Transactions (Net of Revenues and Expenses)					**$919,443**	D = A + B +C

Question(s):

a) Please confirm that the row "D" amount of $919,443 shown in Table E above, demonstrates the net amount of affiliate transactions (net of revenues and expenses) impacting ETPL's 2018 test year revenue requirement and is incorporated into ETPL's 2018 OM&A request of $6,456,768. If this is not the case, please explain.

b) Please confirm that other than the above noted impact on 2018 test year OM&A, no other amounts of affiliate transactions are incorporated into ETPL's 2018 test year revenue requirement. If this is not the case, please explain.

c) Although in the response to 4-Staff-51 c), ETPL indicated that certain revenue amounts are booked as cost offsets to USoA Account 5330, Collection Charges, OEB staff is unclear which amounts are recorded in which USoA account. Please map each line item above in Table E to the respective USoA account and associated aggregated groupings of accounts that are incorporated into the 2018 test year revenue requirement.

d) In 4-Staff-51 g), ETPL did not confirm whether no other affiliate expenses or affiliate revenues are double counted in Table 4-10, OM&A Programs Table 2018 test year amount of $6,456,769, further to certain rent amounts. Please perform this confirmation and if this is not the case, please explain. For example, in the response to VECC-18 b), ETPL stated that a large increase of the ERTH IT costs in 2018 of $217,850 that were incorporated into certain 2018 affiliate costs (Management Fees) of $484,575 is due to $140,000 of cyber security costs. However in the response to 4-Staff-44 d) ETPL confirmed that cyber security costs of $130,000 have been included in its 2018 requested regulatory costs of $285,561, that are part of a separate line item of OM&A. (Please refer to Table 4-10 which confirms EPTL's 2018 requested regulatory costs of $285,561.) This may imply double counting.

e) The 2019 Filing Requirements,[3] section 2.3.3 Other Revenue, indicate the use of accounts such as Account 4375 and Account 4380 for affiliate transactions and that the associated amounts should be incorporated into Appendix 2-H as other revenue. Please reclassify 2018 affiliate transactions to flow through 2018 test year other revenue, instead of 2018 test year OM&A. This reclassification is important as it impacts the calculation of the 2018 test year service revenue requirement.

5-Clarification Staff-12

Ref: 5-Staff-58, 5-Staff-59

Question(s):

Please answer the following with respect to:

1) The 2015 Note due to ERTH, as responded to in 5-Staff-58

2) The two notes due to West Perth, as responded to in 5-Staff-59

[3] Filing Requirements For Electricity Distribution Rate Applications - 2018 Edition for 2019 Rate Applications - Chapter 2 Cost of Service July 12, 2018.

a) In the response to part 1), ETPL states:

   - The interest rate payable on the note due to ERTH Corporation is 7.25% and was determined to be the same as the notes payable by ERTH and all of its subsidiaries to its shareholders.

   In the response to part 2), ETPL states:

   - ERTH chose the rate to be consistent with that of all of its other affiliate debt and recognized that recovery in rates from the rate payer would always be requested at deemed rates.

   The deemed long-term (LT) debt rate of 7.25% was established in the 2000 Electricity Distribution Rate Handbook and Decision with Reasons RP-1999-0034. It was updated effective May 11, 2005 with the issuance of the 2006 Electricity Distribution Rate Handbook and the accompanying Report of the Board. Since then, the deemed LT debt rate and other cost of capital parameters have been updated annually in accordance with the OEB's policy and methodologies for the cost of capital parameters. Since 2005, the cost of debt has been 6.25% or lower, reflecting interest and borrowing rates and macroeconomic conditions.

   i) Please explain why ETPL considers that the 7.25% continues to be an appropriate rate for debt owed to its parent company or to municipal shareholders, even for new or renewed debt agreed to since May 2005.

   ii) Does ETPL consider that 7.25% would be an appropriate debt rate if it had obtained the debt from a third party such as a commercial bank, under recent or current economic conditions?

b) In the response to part c) of 5-Staff-58. ETPL states:

   - The rate chosen was to be consistent with all of the other affiliate debt and no changes are anticipated, however, ETPL has the right to change the terms of the note with six months' notice to the holder. Recovery in rates is requested at deemed rates.

i) Has ETPL ever exercised its right to change the terms and conditions of the note, given economic conditions or ETPL's financial conditions at the time?

ii) If not, please explain why not?

iii) If so, please explain the outcome.

5-Clarification Staff-13

Ref: Exhibit 1, Tab 11, Schedule 1, Attachments 10 and 11 (2015 and 2016 Audited Financial Statements)
Exhibit 5, Tab 2, Page 1 or 5 (Updated March 1, 2018)
Appendix 2-OB
VECC-21
2017 Audited Financial Statements

Preamble:

On page 1 of Exhibit 5/Tab 2, ETPL states:

> ETPL is requesting a return on long term debt for the 2018 Test Year of 3.72% as **all actual long term debt is with related parties.** This rate is based upon the Board's letter *titled Cost of Capital Parameter Updates for 2017 Cost of Service and Customer Rate-setting Applications* Dated November 23rd, 2017 for the cost of capital parameters. **ETPL's long term debt is comprised of a number of notes from related parties. [Emphasis added]**

ETPL shows only notes due to ERTH or the eight municipal shareholders in Appendix 2-OB.

In the response to VECC-21, ETPL states:

> ETPL has an operating line of credit with interest payable at Bank Prime – currently 3.70%. **ETPL has loans for large vehicles at 5.7% for 8 years. [Emphasis added]**

Question(s):

a) With respect to the vehicle loans, who are the loans due to?

b) Why are these loans not documented in Appendix 2-OB or taken into account in ETPL's evidence on its long-term debt in Exhibit 5/Tab 2?

c) Please identify where these vehicle loans are documented in ETPL's 2015 and 2016 Audited Financial Statements, specifically with respect to Note 14 of the 2015 Audited Financial Statements and Note 15 of the 2016 Audited Financial Statements.

d) Note 15 of the 2017 Audited Financial Statements, under item c), states that: "[t]he Corporation has under loan one vehicle which bears interest at nil% with monthly payments of $787 due, April 2021." Please explain the statement that the loan "bears interest at nil%" and reconcile with ETPL response to VECC-21 c) of the vehicle loan being at 5.70%.

e) Note 15 c) of the 2017 Audited Financial Statements identifies a loan pertaining to a single vehicle, while the response to VECC-21 c) indicates that there are loans for multiple vehicles. Please explain.

7-Clarification Staff-14

Ref: 7.0-VECC-25 d) and f)

Question(s):

a) ETPL has not provided a response to part d) of 7.0-VECC-25. Please provide a full response.

b) The table shown below part f) is labelled as "Response to VECC-25(d)". Please confirm that this is the response to part f). If it is not the response to part f), please provide a full response.

7-Clarification Staff-15

Ref: 7.0-VECC-26

Question(s):

a) The response provided does not appear to respond to parts b) and c), in particular, of VECC's interrogatory. Please provide full responses to all parts of VECC's interrogatory. Please indicate whether any corrections are reflected in the updated cost allocation model.

7-Clarification Staff-16

Ref: 7.0-VECC-28

Question(s):

a) The IRR does not appear to provide a response to 7.0-VECC-28. Please provide a fill response.

7-Clarification Staff-17

Ref: 7.0-VECC-36

Question(s):

a) The response to part iii of 7.0-VECC-36 c) is "TO BE DETERMINED". The Standby rate does not appear to be shown either as a separate Rate Class or as an explicit rate with explanation on its application for affected rate classes in the updated Tariff and Bill Impacts Model filed along with the IRRs on August 31, 2018.

   Please provide a full response to 7.0-VECC-36, including ETPL's proposed Tariff Schedule including the rates and wording for the proposed stand-by rates.

9-Clarification Staff-18

Ref: GA Analysis Work Form for 2015 and 2016 and DVA Continuity Schedule – CT 142

Question(s):

a) Has CT 142 been trued up with the IESO for all of 2015 and 2016?

b) Which months from 2015 & 2016 were trued-up in the following year, and were therefore, recorded in the following year in ETPL's GL?

c) Have all of 2015 & 2016 related true-up amounts been reflected in the applicant's DVA Continuity Schedule in this proceeding?

d) Please quantify the true-up adjustments with respect to CT 142 reflected in the DVA Continuity Schedule and the columns where it is included.

9-Clarification Staff-19

Ref: Appendix 2-EC and Rate Rider calculation for Account 1576 on DVA Continuity Schedule

Question(s):

a) The rate rider calculation has not been updated for the new account balance per refiled Appendix 2-EC. Please recalculate and file the rate riders for Account 1576.