EB-2020-0019

ERTH Power Corporation

Application for electricity distribution rates and other charges beginning May 1, 2021

VECC Interrogatories
February 10, 2021

VECC-1

Ref 1: Manager's Summary Page 3
Ref 2: OEB ELECTRICITY REPORTING & RECORD KEEPING REQUIREMENTS Effective March 31, 2020

At Reference #1, ERTH Power notes it achieved an ROE in excess of 300 basis points in its merged 2019 financial performance.

At Page 18 of Reference #2 (2.1.5.6), the OEB indicates "A distributor shall report the regulatory return on equity earned in the preceding fiscal year. The reported return is to be calculated on the same basis as was used in establishing the distributor's base rates.

a) Please provide all calculations to show the achieved ROE amount compared to the deemed amount in ERTH's base rates on the same basis as was used in establishing ERTH Power's ROE in base rates.

- ***Response: ROE Excel Spreadsheet has been included with these IR responses ERTH Power 2019 Year End ROE Filing.xls and ERTH Power 2019 Year End ROE Filing Revised.***

b) Please summarize and quantify the drivers of the 2019 overearnings and indicate if the drivers are ongoing or one-time events.

- ***Response: ERTH Power notes that included in the 2019 results are Lost Revenue recoveries for prior years for both of the merged entities (2017 and 2018 for ERTH Main and 2013 to 2018 for ERTH Goderich). 2019 results include a one-time prior period recovery of $568,000 for lost revenues as a result of CDM activities performed by the LDC's. West Coast Huron Energy was a smaller LDC and as such had never submitted an LRAMVA claim over the prior years and as such one large analysis and application was completed in 2019 to calculate and recover these amounts. ERTH Main utilizes a third party contractor to calculate these complex amounts on its behalf and undertakes this process every few years to minimize third party costs which are eventually passed along through rates. These lost revenue amounts significantly impact the ROE calculation of ERTH for 2019 as they are all recognized in 2019 but are all prior period amounts. The following table details the amounts by year and former entity:***

	LRAMVA		
	WCHE	ERTH	Total
2013	-$ 8,377	$ -	-$ 8,377
2014	-$ 4,278	$ -	-$ 4,278
2015	$ 3,363	$ -	$ 3,363
2016	$ 25,053	$ -	$ 25,053
2017	$ 35,261	$ 399,870	$435,131
2018	$ 35,386	$ 54,350	$ 89,736
Carrying Charges	$ 3,923	$ 23,804	$ 27,727
Total	**$90,331**	**$478,024**	**$568,355**

- ***If these amounts were not included in the calculation of ERTH Power's 2019 ROE, the results would not have exceeded the dead-band. ERTH Power did review the LRAMVA issue with board staff and as such did not raise the issue in its application as we were informed that the LRAM amounts needed to be included in the calculation of ROE. We believe that given the prior period nature of these amounts they should have been excluded from the calculation.***
- ***In addition, if one looks at the performance of the predecessor utilities, since 2015, there has been only a single instance in which one of the LDCs earned more than the deemed. Historically, WCHE fell short by at least 200 basis points annually.***

Year	*WCHE ROE (deemed%)(Actual)*	*ERTH ROE (deemed%)(Actual)*
2015	*(8.98)6.91*	*(9.09)8.89*
2016	*(8.98)4.40*	*(9.09)8.34*
2017	*(8.98)6.00*	*(9.09)8.58*
2018	*(8.98)6.46*	*(9.0) 10.38*
2019	*(9.0) 12.05*	

c) Is ERTH Power proposing any adjustments to its ROE calculation due to the drivers identified in part (b)? If yes, please provide the calculation and explain why these adjustments are appropriate for the regulatory ROE calculation.

- ***Response: Given that the amount for LRAMVA noted in part B is all related to prior period transactions these adjustments are appropriate and if removed from the calculation of ROE would result in ERTH Power being slightly over its approved deemed ROE value of 9.00% as detailed in the excel spreadsheet ERTH Power 2019 Year End ROE Adjusted, ERTH is not requesting a change in the ROE calculation going forward.***

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a) Please provide ERTH Power's Deemed ROE (2019 CoS) and Achieved ROE amounts ($) for 2019 and 2020.

- ***Response: ERTH Power's 2019 deemed ROE from its 2018 COS is 9.00% and achieved of $2,743,422 for 2019 including LRAMVA amounts and $2,324,681 excluding LRAMVA prior period revenues. ERTH Power is currently not in the position to provide 2020 values as it is currently working through its year end audit.***

b) Please provide ERTH Power's Deemed Regulated Equity (2019 CoS) and Achieved Regulated Equity amounts ($) for 2019 and 2020.

- ***Response: ERTH Power's deemed Equity from its 2018 COS application is $15,277,525 however this is for ERTH Power stand alone and does not include values for WCHE. From its last COS in 2013 the deemed equity amount was $3,105,574.***
- ***ERTH Power's merged 2019 equity amount achieved was $22,764,207. Given seven years have passed since WCHE's approved figure and an additional year for growth of ERTH Power main's rate base and the increased commodity costs from approved ($45,200,000 combined) to actual 2019 ($66,970,000) an almost 50% increase. This figure is in line with what would be expected.***

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a) Please provide the Forecast and Achieved ROE (%) for 2020.

- ***Response: ERTH Power is currently in the midst of finalizing its 2020 results for its external audit and forecasted figures will not be relevant or available until a fulsome review of capital spending, capital work in progress and unbilled revenues has been completed.***

b) Please provide the Achieved ROE (%) for 2020 excluding the impacts of COVID-19.

- ***ERTH Power is not currently in a position to provide this figure as it currently is undergoing its 2020 year-end audit. ERTH Power notes that it is reviewing all aspects of the impact of COVID-19 and has not yet made a determination if it will be requesting any recoveries from its customers with respect to impacts upon its business due to COVID-19.***

c) Please provide the forecast ROE (%) for 2021 and provide all assumptions.

- ***Response: Until 2020 financials have been closed opening balances are not available and the ability to forecast 2021 is limited. It is the expectation of ERTH Power that the 2021 and 2020 results will be right around deemed for both years.***

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Ref: OEB Filing Requirements For Electricity Distribution Rate Applications - 2020 Edition for 2021 Rate Applications - Chapter 3 Incentive Rate-Setting Applications May 14, 2020 - 3.3.5 Off-ramps P33

The Filing Requirements state, "For each of the OEB'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 OEB approved return on equity. The OEB 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. A distributor whose earnings are in excess of the dead band is expected to refrain from seeking an adjustment to its base rates through a Price Cap IR or Annual IR Index plan."

Please explain why ERTH Power should be eligible for the Price Cap Index adjustment given its achieved ROE in 2019.

- ***Response: ERTH Power submits that the fact that 2019 included prior period revenues with respect to LRAMVA recoveries push the ROE results for 2019 above the 300 basis points allowed and that when removed from the calculation the resulting ROE is slightly above deemed and as such demonstrate that ERTH Power did not over-earn based upon the its normal operations.***