

BY E-MAIL

March 3, 2021

Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: Espanola Regional Hydro Distribution Corporation (Espanola Hydro)
Application for 2021 Electricity Distribution Rates
OEB Staff Interrogatories
Ontario Energy Board File Number: EB-2020-0020**

In accordance with Procedural Order No. 1, please find attached OEB staff's interrogatories in the above noted proceeding. Espanola Hydro and all intervenors have been copied on this filing.

Espanola Hydro's responses to interrogatories are due by March 25, 2021.

Yours truly,

Jerry Wang
Advisor, Electricity Distribution: Major Rate Applications & Consolidations

Attach.

**OEB Staff Interrogatories
Espanola Regional Hydro Distribution Corporation
2021 Cost of Service Application**

Exhibit 1 – Administrative Documents

**1-Staff-1
Updated Revenue Requirement Workform (RRWF) and Models**

Upon completing all interrogatories from Ontario Energy Board (OEB) staff and intervenors, please provide an updated RRWF in working Microsoft Excel format with any corrections or adjustments that the applicant wishes to make to the amounts in the populated version of the RRWF filed in the initial applications. Entries for changes and adjustments should be included in the middle column on Sheet 3 (Data_Input_Sheet). Sheets 10 (Load Forecast), 11 (Cost Allocation), and 13 (Rate Design) should be updated, as necessary. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note. Such notes should be documented on Sheet 14 (Tracking Sheet) and may also be included on other sheets in the RRWF to assist understanding of changes.

In addition, please file an updated set of models, as applicable, that reflects the interrogatory responses, including an updated Tariff Schedule and Bill Impact model for all classes at the typical consumption/demand levels (e.g. 750 kWh for residential, 2,000 kWh for GS<50, etc.).

**1-Staff-2
Return on Equity
Ref 1: Exhibit 1, Pages 13-14, 65**

Espanola Hydro provided the following table summarizing its achieved return on equity (ROE) over the past six historical years.

Year	2014	2015	2016	2017	2018	2019
% Deemed	9.12	9.12	9.12	9.12	9.12	9.12
% Achieved	28.00	15.91	6.29	2.45	4.12	-9.46

In the reference, Espanola Hydro explains that:

- 2014-2015 ROE was high due to rate mitigation measures implemented from the 2012 cost of service
- 2016-2019 ROE was low due to unfavourable distribution revenue and from not reaching the consumption levels projected in its 2012 cost of service application
- 2019 ROE was especially low due to higher administrative costs associated with the sale of Espanola Hydro

OEB staff notes that Espanola Hydro's ROE between 2016-2018 (i.e. the years without any unique circumstances) fluctuated significantly.

- (a) Please provide an analysis showing the factors driving the fluctuations in Espanola Hydro's achieved ROE in the historical years.

1-Staff-3 Responses to Letters of Comment

Following publication of the Notice of Application, the OEB received 2 letters of comment. Section 2.1.7 of the Filing Requirements states that distributors will be expected to file with the OEB their response to the matters raised within any letters of comment sent to the OEB related to the distributor's application. If the applicant has not received a copy of the letters, they may be accessed from the public record for this proceeding.

Please file a response to the matters raised in the letters of comment referenced above. Going forward, please ensure that responses to any matters raised in subsequent comments or letter are filed in this proceeding. All responses must be filed before the argument (submission) phase of this proceeding.

Exhibit 2 – Rate Base

2-Staff-4

Depreciation Expenses

Ref 1: Exhibit 2, Pages 25-26

Excluding the costs of land, OEB staff notes that the depreciable costs of substation 4 decreased from \$2,008,500 to \$1,949,234 (forecast vs. actual). This is a decrease of 3%.

On page 26, Espanola Hydro shows that the depreciation expense of substation 4 decreased from \$50,213 to \$39,391 (forecast vs. actual). This is a decrease of 22%.

- (a) Please explain why the depreciation expense decreased by 22% when the total cost of the depreciable assets only decreased by 3%.
- (b) Please provide the calculations of the depreciation expense for substation 4.

2-Staff-5

Depreciation Expenses

Ref 1: Chapter 2 Appendices, App.2-BA

Ref 2: Exhibit 2, Page 26

Espanola Hydro has rolled the substation 4 incremental capital module (ICM) into its fixed asset continuity schedule through adjustment entries made in the 2020 and 2021 continuity schedules under the “Adjustment Sub 4 ICM.” OEB staff notes that the 2021 entry only includes the annual depreciation, which matches the \$39,396 depreciation expense as noted on Page 26 of Exhibit 2 (it differs by \$5, which is immaterial).

For the 2020 entries, OEB staff notes a total depreciation expense associated with the ICM to be \$240,507. OEB staff understands this to be the accumulated depreciation associated with substation 4 from 2014 (when the ICM was approved) to 2020. This is a total of seven years. Since Espanola Hydro depreciates its asset on a straight-line basis, OEB staff expects the total accumulated depreciation recorded in 2020 to be $\$275,737 = (7 * \$39,391)$.

- (a) Please explain and show Espanola Hydro’s calculations of the ICM’s accumulated depreciation as recorded the 2020 continuity schedule. Please clarify the number of years’ worth of depreciation this represents.

2-Staff-6

ICM

Ref 1: Chapter 2 Appendices, Appendix 2-BA

In the above reference, OEB staff notes that Espanola Hydro has moved its substation 4 ICM assets into rate base by adding the gross book value and accumulated depreciation in the 2020 fixed asset continuity schedule. As per the [Ontario Energy Board Accounting Procedures Handbook Guidance, March 2015](#), ICM assets are added to the applicable fixed asset account once approval to dispose the ICM deferral accounts and approval to include the ICM capital assets into rate base have been obtained.

- a) Please confirm you agree with the statement above. If not confirmed, please explain.
- b) Please revise the 2020 and 2021 fixed asset continuity schedules to add the appropriate gross book value and accumulated depreciation for the ICM assets in 2021 instead of 2020.

2-Staff-7

Cost of Power

Ref 1: Chapter 2 Appendices, App.2-ZA and App.2-ZB

The following are the forecasted commodity prices Espanola Hydro has used in appendix 2-ZA:

Forecasted Commodity Prices		Table 1: Average RPP Supply Cost Summary*		non-RPP	RPP
HOEP (\$/MWh)	Load-Weighted Price for RPP Consumers			\$20.09	\$20.09
Global Adjustment (\$/MWh)	Impact of the Global Adjustment			\$106.94	\$106.94
Adjustments (\$/MWh)					\$1.00
TOTAL (\$/MWh)	Average Supply Cost for RPP Consumers				\$128.03

The forecasted supply costs have been updated by the OEB in its December 15, 2020 Letter Re: New Regulated Price Plan Prices Effective January 1, 2021. The HOEP \$/MWh is now \$20.87, GA \$/MWh is now \$83.62 and adjustments \$/MWh is now \$3.24.

- (a) Please update appendices 2-ZA, 2-ZB and Espanola Hydro's cost of power calculations.

- (b) Please use the updated Ontario Electricity Rebate of 21.2% in appendix 2-ZB.
- (c) Please update Espanola Hydro's working capital allowance calculations.

2-Staff-8
Capital Expenditures
Ref 1: Exhibit 2, Page 35

Owing to its small size, Espanola Hydro noted that it is susceptible to material changes in its annual capital expenditures due to availability of employees (e.g. leaves of absence, retirements, etc.).

- (a) Please list any material changes to historical capital expenditures as a result of a lack of available employees.
- (b) What plans and steps has Espanola Hydro taken to minimize the impact of employee availability?
- (c) Do Espanola Hydro's capital plans as presented in this application contain any contingency amounts to deal with risks associated with employee availability?

2-Staff-9
Capital Expenditures
Ref 1: Exhibit 2, Page 40
Ref 2: Chapter 2 Appendices, Appendix 2-AB

On page 40, Espanola Hydro noted that its average annual capital expenditures between 2016-2019 was \$474,093. Espanola Hydro has not provided the capital expenditures for 2016 in Appendix 2-AB, but OEB staff has calculated it by multiplying \$474,094 by four years and subtracting the capital expenditures in 2017-2019. By doing so, OEB staff calculates the 2016 capital expenditures to be \$356,372.

- (a) Please confirm if OEB staff's calculations are correct.
- (b) If yes to a), please explain why the 2016 capital expenditures were significantly less than the rest of the historical years.

2-Staff-10
Capital Additions
Ref 1: Chapter 2 Appendices, Appendices 2-AA, 2-AB, 2-BA

OEB staff notes that Espanola Hydro filed its application on December 31, 2020.

- (a) Please confirm if the capital additions for 2020 in Appendix 2-BA and capital expenditures for 2020 in Appendices 2-AA and 2-AB represent 2020 actual spending or was a forecast at the time of filing. If it is the latter, please update the evidence to reflect the most up-to-date values for 2020.

2-Staff-11

ICM

Ref 1: Exhibit 2, Page 44, Table 2-36

OEB staff notes that the ICM revenue requirement as shown in Table 2-36 for 2014 and 2021 don't reflect a full year's worth of revenue requirement. OEB staff assumes this is because the table reflects a pro-rated revenue requirement for the fiscal year (i.e. May-December for 2014 and January-April for 2021) to be able to be compared to the actual rate rider revenues. However, OEB staff notes that the 2014 and 2021 amounts added together is \$138,072, which does not represent a full year's worth of revenue requirement (even though May-December plus January-April make a full year).

- (a) Please explain how the ICM revenue requirement for 2014 and 2021 were calculated.

2-Staff-12

SAIDI/SAIFI

Ref 1: DSP, Pages 21-23

Defective equipment is one of the largest contributors to Espanola Hydro's outages.

- (a) What asset classes are the largest contributors to outages?
- (b) If available, please provide a table showing the number of historical customer interruptions per asset class and a table showing the number of historical customer hours of interruption per asset class. As well, please provide a table showing the SAIDI contribution per asset class and a table showing the SAIFI contribution per asset class.

2-Staff-13
Cost Performance
Ref 1: DSP, Page 25

Espanola Hydro noted that its 2019 cost performance per customer was \$758 / customer and was an 11% increase over 2018 due to higher administrative costs from the sale of Espanola Hydro to North Bay Hydro.

Espanola Hydro further noted that its projected 2020 cost per customer is \$761, a modest 0.37% increase over 2019.

- (a) Given that the sale and associated costs of the sale of Espanola Hydro was a one-time event that occurred in 2019, please explain why there is not a corresponding decrease in Espanola Hydro's projected cost performance in 2020.

2-Staff-14
O&M Costs
Ref 1: DSP, Page 28, Table 2-12

As shown in table 2-12, Espanola Hydro's O&M cost per customer and per line have increased by an average of 7% annually. OEB staff notes that this is significantly above inflation.

- (a) Given the limited growth of Espanola Hydro's distribution system, please explain the large increases in system O&M.

2-Staff-15
System Losses
Ref 1: DSP, Page 31

Espanola Hydro had system losses of 6% in 2017 and averaged 4.2% over 2015-2019.

- (a) What is the reason for the large amount of system loss in 2017?
- (b) What steps has Espanola Hydro taken since its last cost of service application to reduce its system losses?

2-Staff-16
System Renewal
Ref 1: DSP, Page 40

Espanola Hydro noted that the health index of its MS1 is very poor and along with MS2 and MS3 need to be renewed/replaced within the next ten years.

- (a) Does Espanola Hydro have plans for replacing these substations already? If so, when does Espanola Hydro expect to replace these substations?
- (b) What are Espanola Hydro's contingency plans in an N-1 event where one substation is taken out of service?

2-Staff-17
System Renewal
Ref 1: DSP, Page 54
Ref 2: Chapter 2 Appendices, Appendix 2-AA

Espanola Hydro employs a run-to-failure strategy for its distribution transformers and has an annual budget to replace these transformers. OEB staff notes that the "OH Transformer Renewal" program has a budget in 2021 that is significantly higher than the historical years.

- (a) Please explain the reason for the larger budget for transformer replacement program. Does Espanola Hydro expect to experience more overhead transformer failures than it has historically?

2-Staff-18
System Renewal
Ref 1: DSP, Page 65

As noted by Espanola Hydro, limited or no investments into system renewal generally increase system O&M as remaining assets continue to age and increase the probability of failure.

- (a) Has Espanola Hydro done any analysis on the impact of system renewal spending on system O&M? Has Espanola Hydro considered increasing system renewal spending to help offset and reduce system O&M? If yes, please provide the analysis; if no, why not?

2-Staff-19

Customer Service

Ref 1: DSP, Page 15

Ref 2: Exhibit 4, Page 6

Espanola Hydro's Customer Care Department fields calls from customers. As indicated in the DSP, staff turnover resulted in longer average talk times and therefore decreased the number of calls answered on time.

In Exhibit 4, Espanola Hydro noted that it has a services agreement with PUC Services Inc. One of the functions contracted out to PUC Services Inc. is customer service.

- (a) Please explain if the "Customer Care Department" refers to employees of PUC Services Inc. that are contracted for Espanola Hydro's customer service.
 - i. If yes, what assurances does Espanola Hydro have from PUC Services Inc. that Espanola Hydro's customer service quality would not be impacted by future potential staff turnover at PUC Services Inc.?
 - ii. If no, please explain why answering calls is not a function covered under the services agreement with PUC Services Inc. How many current Espanola Hydro employees work as customer service representatives? Is there any overlap between Espanola Hydro's Customer Care Department and the services it receives from PUC Services Inc.?

Exhibit 3 – Operating Revenue

3-Staff-20

Connection forecast

Ref 1: Exhibit 3, Page 5

Ref 2: Tariff of Rates and Charges

Espanola Hydro stated that "For the 2020 Bridge Year and 2021 Test Year Street Lights have been updated from number of devices to number of connections." The tariff of rates and charges identifies that the charge is per connection.

- (a) Does Espanola Hydro propose to charge customers on a per connection or a per device basis?

3-Staff-21

Energy forecast

Ref 1: Exhibit 3, Pages 9, 11

Ref 2: Load forecast model, Act vs Pred Chart

Espanola Hydro has used explanatory variables for heating, cooling, the number of days in the month, and an indicator of the spring and fall months. No variables have been included related to CDM, a trend, or any indicator of economic activity. Over that time, Actual energy use reduced from 64.8 GWh in 2010 to 62.1 GWh in 2019.

Espanola Hydro explained that an adjustment has been made for changes in street lighting consumption in 2014 and 2020. This reflects a reduction from 617,088 kWh in 2013 to 368,606 kWh in 2014, and a further reduction to 224,919 kWh in 2020.

The Actual vs Predicted chart indicates that Actual consumption was higher than predicted in every year from 2010 to 2014, and less than actual in every year from 2015 to 2019.

- (a) Have any explanatory variables that exhibit a trend such as CDM, an indicator of economic activity, or a trend variable been attempted, if so, what were the results?
- (b) Has a dummy variable been attempted to test for the reduction in street lights in 2014, and if so, what was the result?
- (c) As a scenario, please provide a regression model and resulting forecast with a trend variable indicating 1 in January 2010, increasing by 1 each month, and reaching 120 in December 2019.

3-Staff-22

Other Revenues

Ref 1: Exhibit 3, Page 27

Ref 2: Chapter 2 Appendices, Appendix 2-JC

Ref 3: Exhibit 4, Appendix 4-A, Page 11, Schedule A

Espanola Hydro noted that it no longer performs water billing collections for the Town of Espanola.

- (a) When did Espanola Hydro stop performing this service?
- (b) OEB staff notes account 5315 – Customer Billing in Appendix 2-JC. Were the costs associated with performing this service recorded in this account? If yes,

was there a decrease in the annual costs recorded in this account due to no longer having to perform the service? If not, in which account were the costs associated with performing this service recorded?

One of PUC Services Inc.'s responsibilities as listed in the service agreement in reference 3 is for water billing/collection services.

- (c) Has the cost of the service agreement with PUC Services Inc. decreased to reflect the fact water billing/collection is no longer required?

Exhibit 4 – Operating Expenses

4-Staff-23

Billing and Collections

Ref 1: Exhibit 4, Page 7

Ref 2: BDR Report, Page 9, Table 2

Espanola Hydro noted that, although its billing and collection costs of \$121 per customer are high compared to other utilities, there are differences in how Espanola Hydro and other utilities categorize and record expenses, and that Espanola Hydro's total administrative costs per customer are reasonable.

- (a) Please detail how Espanola Hydro differs from other utilities in recording its billing and collection expenses.

The BDR Report has a similar table comparing Espanola Hydro's costs to other utilities, albeit using 2007 data.

- (b) OEB staff notes that, based on the 2007 data, Espanola Hydro's billing and collection costs per customer is \$75 and is close to the average of the comparator utilities in the table. Please explain the reason why Espanola Hydro's costs have increased from \$75 / customer (middle of the benchmarking group) to \$121 / customer (high end of the benchmarking group).
- (c) Is this increase due to a change in the way Espanola Hydro records its billing and collection expenses or is it because of an increase in costs? If the former, please explain the changes. If the latter, please explain the reason for the increase given that Espanola Hydro's customer base has not materially increased.

4-Staff-24

Regulatory Costs

Ref 1: Chapter 2 Appendices, Appendix 2-M

Ref 2: Exhibit 4, Page 41, Table 4-31

Ref 3: Exhibit 2, Page 31

In Appendix 2-M, under “Regulatory Costs (One-Time)”, the description for item 8 is incorrect.

- (a) Please confirm if item 8 with a cost of \$65,000 refers to costs related to the DSP and Asset Management Plan.
- (b) OEB staff notes that Espanola Hydro has deferred the preparation of a formal Asset Management Plan until after its merger with North Bay Hydro and the current plan is simply a continuation of the status quo. Please explain what costs are associated with the Asset Management Plan if it has been deferred and Espanola Hydro is simply maintaining the status quo.
- (c) For Espanola Hydro’s legal and consulting costs, please provide the actual costs incurred to date.
- (d) For the consultant costs, which consultants are these costs associated with?

4-Staff-25

Employees

Ref 1: Exhibit 4, Pages 15, 26

Espanola Hydro has 1.25 FTEs embedded in rate base for the administrative / financial / regulatory functions.

- (a) Please confirm that, when Espanola Hydro says that the office assistant resource increased to full time, this means that Espanola Hydro is increasing its FTE for these functions from 1.25 to 2 in the test year.
- (b) The costs being recorded in account 5615 for these FTEs have increased from \$0 in the 2012 test year to \$58,398 in the 2021 test year. If there are 1.25 existing FTEs embedded in base rates, please explain why the 2012 amount is \$0. Does the \$58,398 amount correspond to the costs of both FTEs?

4-Staff-26

OM&A

Ref 1: Exhibit 4, Page 19 (Appendix 2-JB)

Ref 2: Exhibit 4, Page 26 (Appendix 2-JC)

For line clearing account 5135, Appendix 2-JB shows a net increase of \$28,639 (- \$14,201 + \$63,850 - \$21,010) from the 2012 test year to the 2021 test year. For the same account, Appendix 2-JC shows a net decrease of \$101,051 from the 2012 test year to the 2021 test year.

- (a) Please reconcile the two tables. Have line clearing costs increased or decreased?

4-Staff-27

Purchasing Policies

Ref 1: Exhibit 4, Pages 38-39

Espanola Hydro's purchasing policies require authorization from the Chief Financial Officer for purchases above certain amounts.

- (a) Given that Espanola Hydro no longer has a Chief Financial Officer, who now grants authorization?
- (b) For amounts that require the president or treasurer – are these management roles currently filled by PUC Services Inc.?
- (c) Who reviews and grants authorization for the costs associated with PUC Services Inc. service agreement? Does PUC Services Inc. authorize these costs as management for Espanola Hydro?

4-Staff-28

Third Party Contracts

Ref 1: Exhibit 4, Pages 39

Ref 2: Exhibit 4, Appendix 4-A, Schedule B

- (a) Please provide a breakdown of the costs for the services agreement with PUC Services Inc. as noted in Table 4-29.
- (b) Please reconcile the costs with the fee schedule as detailed in the service agreement with PUC Services Inc. in Appendix 4-A, Schedule 'B' – Fees.

- (c) OEB staff notes that the year-over-year increases for the service agreement exceed inflation (10% increase in 2018 and 6% increase in 2019). Please explain the reason for the increases in costs for the service agreement.
- (d) What are the 2021 costs for the service agreement that Espanola Hydro has included in its 2021 OM&A budget?

4-Staff-29

Capitalization Policies

Ref 1: Exhibit 4, Page 43

Ref 2: Exhibit 1, Page 21

Espanola Hydro stated that it does not apply the half-year rule; instead, Espanola Hydro records a full year's worth of depreciation in the year of acquisition.

In Exhibit 1, Espanola Hydro noted that one of the differences between its capitalization policy and North Bay Hydro Distribution Limited's capitalization policy is that North Bay Hydro Distribution Limited does apply the half year rule – the impact to Espanola Hydro's rates is immaterial.

- (a) Given that Espanola Hydro expects to adopt North Bay Hydro Distribution Limited's capitalization policy in the anticipated future merger in 2022, has Espanola Hydro considered adopting the half-year rule starting in this cost of service so to conform to North Bay Hydro Distribution Limited's capitalization policy?

4-Staff-30

LRAMVA Recovery Period

Ref 1: Exhibit 4, Pages 77-79

Ref 2: Appendix 4-K

Espanola Hydro has requested to recover its LRAMVA balance over five years.

- (a) Please provide a table that shows the rate impacts of recovering the LRAMVA balance over 1, 2, 3, and 4-year periods.
- (b) Please discuss if Espanola Hydro has had any discussion with the Municipality of Espanola related to the recovery of its street lighting LRAMVA balance. As part of your response, please indicate if the Municipality would be amenable to a shorter recovery period.

Exhibit 5 – Cost of Capital

5-Staff-31

Promissory Note

Ref 1: Exhibit 5, Page 5

Espanola Hydro stated that it expects to finalize in 2021 a promissory note with North Bay Hydro Distribution Limited for \$230,000.

- (a) Has Espanola Hydro finalized the terms of this promissory note? If yes, please provide a copy of the promissory note.

Exhibit 6 – Calculation of Revenue Deficiency or Sufficiency

N/A

Exhibit 7 – Cost Allocation

7-Staff-32

Weighting Factors

Ref 1: Exhibit 7, Page 2

The services weighting factors for all rate classes except residential are less than 1.0. Espanola Hydro indicates that it relied on costs of labour, materials, outside costs, as well as discussions with staff in the development of weighting factors.

The weighting factor for meter reading is 1.0 for all metered rate classes.

- a) Please provide the derivation of the services weighting factors. In doing so, please detail which costs are paid by Espanola Hydro, and explain when a customer would be responsible for some or all of their service connection.
- b) Does Espanola Hydro use the same process to read all meters regardless of capacity? If not, please provide a breakdown of meter reading costs, by rate class used to derive the weighting factor.

Exhibit 8 – Rate Design

8-Staff-33

Rate Design

Ref 1: Revenue Requirement Work Form, Sheet 13. Rate Design

Ref 2: Cost Allocation Model, Sheet O2 Fixed Charge|Floor|Ceiling

Espanola Hydro is proposing to increase the fixed charge for the GS > 50 rate class from \$196.43 to \$229.37 – this is already above the ceiling of \$57.77

- a) Please provide the variable charge that would result from keeping the GS > 50 fixed charge at \$196.43.
- b) Please provide the variable charge that would result from keeping the GS > 50 fixed charge at \$57.77.

8-Staff-34

Retail Transmission Service Rates

Ref 1: RTSR Model, sheet 4. UTRs and Sub-Transmission

Ref 2: EB-2020-0030, Decision and Rate Order, December 17, 2020

Espanola Hydro has used the 2020 Hydro One Sub-Transmission rates for 2021.

As noted at the second reference, the OEB has approved updated sub-transmission rates for Hydro One Networks Inc. effective January 1, 2021.

- a) Please update the RTSR model to reflect the Hydro One Sub-Transmission rates and the UTRs issued on December 17, 2020.

8-Staff-35

Low Voltage Charge

Ref 1: Exhibit 8, Pages 10-12

As noted in the IR above, the OEB has issued a Decision and Rate Order setting new rates for Hydro One Networks Inc. effective January 1, 2021. OEB staff notes that Espanola Hydro's projected 2021 low voltage costs are based on Hydro One Networks Inc.'s 2020 rates.

- (a) Please update Espanola Hydro's projection of low voltage costs, allocation to rate classes, and corresponding low voltage charges.

8-Staff-36

Regulatory Charges

Ref 1: Exhibit 8, Page 9

Ref 2: Tariff of Rates and Charges

The tariff of rates and charges includes a Wholesale Market Service (WMS) Rate of \$0.0034 / kWh. This is comprised of two charges, WMS and Capacity Based Recovery (CBR).

(a) Please work with OEB staff to revise the tariff to reflect the two separate charges.

8-Staff-37

Loss Factor

Ref 1: Chapter 2 Appendix 2-R

Ref 2: Tariff of Rates and Charges

Espanola Hydro indicated that it experienced loss factors of 1.0399 in 2015, 1.0566 in 2016, and in each year from 2017 to 2019, the loss factor was at least 1.0800.

OEB staff has compared the Wholesale kWh A(1) to the RRRs:

	Appendix 2-R	RRRs	Variance
2015	61,027,107	60,115,154	911,953
2016	59,711,876	59,057,437	654,439
2017	58,757,254	58,172,799	584,455
2018	60,659,212	59,752,614	906,598
2019	61,089,144	59,963,198	1,125,946

OEB staff has compared the Retail kWh from row D to the RRRs:

	Appendix 2-R	RRRs	Variance
2015	58,759,087	58,365,911	393,176
2016	56,644,799	56,279,165	365,634
2017	55,047,910	54,516,683	531,227
2018	57,210,184	56,923,775	286,409
2019	57,482,828	57,288,172	194,656

The proposed tariff of rates and charge indicates a secondary loss factor of 1.0673, and a primary loss factor of 1.0573. It also indicates a primary metering allowance of 1.00%

The secondary loss factor of 1.0673 divided by 1.01 (accounting for the 1% primary metering adjustment) is 1.0567.

- (a) Please explain the causes of the increase in losses from the 2015-2016 period to the 2017-2019 period.
- (b) Please reconcile the differences between the quantities in Chapter 2 Appendix 2-R and the RRR filings.
- (c) Please explain how the primary loss factor of 1.0573 was arrived at as opposed to the more conventional 1.0567 that would result from a secondary loss factor of 1.0673.

8-Staff-38

Bill Impacts

Ref 1: Exhibit 8, pages 16-20

Ref 2: Tariff and Bill Impact Model, sheet 6. Bill Impacts

Three strategies to mitigate bill impacts are proposed including moving the sentinel lighting revenue to cost ratio only to 80%, rather than increasing to the same level as Residential. Despite this, the sentinel rate class has a total bill impact before taxes of \$2.97, or 15.21%. The bill impact is a result of an increase of \$3.53 to distribution charges, partially offset by rate riders.

- (a) Has Espanola Hydro considered phasing in the increase to 80% revenue-to-cost over a period of more than one year as an additional form of mitigation?
- (b) Has Espanola Hydro informed its sentinel light customers of the expected increase?
- (c) Please discuss why further rate mitigation for the sentinel light rate class is not necessary.

8-Staff-39

Bill Impacts

Ref 1: Exhibit 8, Page 20

Ref 2: Exhibit 6, Page 4

Espanola Hydro stated that the greater than 10% bill impact to its low volume residential customers is mainly due to the change in the cost allocation model for the street lighting

class (due to the OEB's change in cost allocation policy for the street lighting class on June 12, 2015) and the fixed/variable transition.

OEB staff notes that Espanola Hydro's revenue requirement underpinning its base rates has increased significantly since its last rebasing. According to reference 2, there is a revenue deficiency of \$449,736, or increase of 25% above estimated 2021 revenues at existing rates.

- (a) Please provide an estimate and breakdown of the effect on the bill impact of the following components on low volume residential customers: the fixed/variable transition, cost allocation policy changes, and increase in revenue requirement.
- (b) To the extent that the bill increase is caused by Espanola Hydro's proposed increase in revenue requirement, please discuss whether it would be appropriate for further rate mitigation measures for the residential rate class.

Exhibit 9 – Deferral and Variance Accounts

9-Staff-40

Deferral and Variance Accounts

Ref 1: Exhibit 9, Page 10

Ref 2: DVA Continuity Schedule

Typically, large balances are not expected for Account 1588 as it should only hold the variance between commodity costs based on actual line losses and commodity revenues calculated using values for line losses as approved by the OEB in the utility's last rebasing application. Based on RRR data filed for ERHDC for Account 4705 Cost of Power, OEB staff calculates the annual net activity (i.e. transactions plus principal adjustments) from the DVA Continuity Schedule as a percentage of annual Account 4705 to be as follows:

	Net Activity in Account 1588 (\$)	Account 4705 (\$)	% of net activity compared to Account 4705
2019	(96,681)	5,885,077	-1.6%
2018	(174,291)	5,446,768	-3.2%
2017	193,301	6,034,566	3.2%
2016	(38,418)	6,697,627	-0.6%
2015	345,897	6,222,538	5.6%
Cumulative	229,808	30,286,576	0.8%

- (a) Please confirm this calculation or provide a revised calculation.
- (b) For year(s) where the percentage is greater than +/-1%, please provide an explanation as to why the Account 1588 activity would be high in consideration of line losses.

9-Staff-41

Deferral and Variance Accounts

Ref 1: Exhibit 9, Page 4

Ref 2: DVA Continuity Schedule

At the above-noted reference, Espanola Hydro stated:

A clerical error was spotted in 2015 that has resulted in a net adjustment of - \$258,839 in account 1588 and \$258,839 in account 1589. Subject to this correction, ERHDC has complied with the OEB guidance of February 21, 2019 on the accounting for accounts 1588 and 1589.

- (a) Please explain in further detail the nature of the error and what measures or process changes have been implemented to prevent similar errors from repeating.

9-Staff-42

Deferral and Variance Accounts

Ref 1: Exhibit 9, Page 4

Ref 2: DVA Continuity Schedule, Tab 2a

OEB staff notes that there are no recorded amounts under account 1580 – sub-account CBR Class B. As per the OEB's accounting guidance issued on July 25, 2016 (https://www.oeb.ca/oeb/Documents/Regulatory/CBR_Accounting_Guidance_20160725.pdf), distributors are expected record CBR charges, costs, and variances in separate sub-accounts starting January 1, 2016.

- (a) Please clarify if there are no variances for the CBR component, or if the CBR variances are currently recorded as part of the balance of the general WMS account 1580.
- (b) If the latter, please explain why Espanola Hydro has not followed the OEB's July 25, 2016 accounting guidance.