

Board Staff Interrogatories
2009 Electricity Distribution Rates
Northern Ontario Wires Inc. ("NOW")
EB-2008-0238

ECONOMIC ASSUMPTIONS

1. Ref: N/A

- a. Given the general economic situation in Ontario has NOW assessed the situation and identified any specific issues that may have a material impact on its load and revenue forecasts and bad debt expense forecast?
- b. If so, please indicate if NOW will be updating its current application, in whole or in part, to address any material impacts. If yes, please provide an estimate of the timing of the update.

2. Ref: E 2 / T 3 / S 1, 2 and E 4 / T 2 / S 3

- a. Please provide a list of criteria and the rationale that NOW has used in the prioritization and selection of 2009 maintenance and capital projects in its application.
- b. Please identify, individually, maintenance and capital programs, if any, that NOW may consider as a candidate for a deferral, cut, or partial adjustment, given the current economic situation. Please identify these programs, if any, in a ranking order that NOW would consider, using a ranking of "1" as the first suitable candidate, ranking of "2" as the second suitable candidate, ranking of "3" as the third suitable candidate, etc.
- c. Please identify the rationale for the selection of these maintenance and capital programs and projects.
- d. Please describe the expected impacts on NOW's revenue requirement, operations and service quality and reliability to customers if the identified programs are reduced, deferred or cut during the economic downturn.

OPERATING COSTS

General

3. Ref: E 4 / T 1 / S 1

The figures in the table below are taken directly from the public information filing in the Reporting and Record-keeping Requirements (“RRR”) initiative of the OEB. The figures are available on the OEB’s public website. Please confirm the utility’s agreement with the numbers for OM&A, which are summarized in the table below.

	2002	2003	2004	2005
Operation	\$ 236,221	\$ 206,447	\$ 283,318	\$ 229,355
Maintenance	\$ 105,955	\$ 109,748	\$ 91,322	\$ 127,990
Billing and Collection	\$ 453,857	\$ 574,011	\$ 614,895	\$ 535,294
Community Relations	\$ 4,409	\$ 2,162	\$ 776	\$ 2,600
Administrative and General Expenses	\$ 1,129,056	\$ 850,771	\$ 801,133	\$ 726,337
Total OM&A Expenses	\$ 1,929,498	\$ 1,743,139	\$ 1,791,444	\$ 1,621,576

4. Ref: E4 / T2 / S1

Please identify the inflation rate used for the 2009 OM&A forecast and the source document for the inflation assumptions.

5. Ref: E4 / T2 / S6 / p1

The impact of an aging workforce is an operating issue for many utilities. Is an aging workforce an issue for NOW? If so, please provide a description of the utility’s plan to address the aging workforce issue.

6. Ref: E4 / T1/ S1

Are there any cost efficiency programs at the utility that are in place now or contemplated in the test year? If so, please describe the programs and include a cost benefit analysis.

Non-Recurring Items

7. Ref: E4 / T 2 / S3

The evidence in the above reference indicates that approximately \$62,000 of the \$185,000 or 8.7% increase between 2007 actual OM&A and 2008 Bridge is due to non-recurring expenditure items in 2008.

- Please confirm that this is correct; if not please provide the correct amount of non-recurring costs budgeted in 2008.
- Please clarify whether or not NOW eliminated these non-recurring work or expenditure items in its 2009 OM&A forecast.

- c. The 2009 OM&A forecast is little changed from the 2008 bridge. Please identify the new work activities or items in 2009 which are utilizing the funds in 2008 related to non-recurring activities.
- d. Please identify any non-recurring expenditure items (in excess of \$10,000) that are included on the 2009 OM&A forecast.

Shared Services

8. Ref: E4 / T2 / S4 / p1

The evidence indicates that NOW has a Services Agreement with its affiliate, Cochrane Telecom Services (“CTS”) and that on January 1, 2007, five management positions were moved from CTS to NOW while NOW’s remaining labour requirements continue to be provided by CTS.

- a. Please explain what prompted the transfer of the five management positions from CTS to NOW.
- b. Please confirm that CTS is the only affiliate from whom NOW purchases services.
- c. Please provide a copy of the current Services Agreement between NOW and CTS.
- d. Please confirm that there are no corporate service costs allocated to NOW.
- e. Please confirm whether NOW provides services to its affiliate(s). If so, please elaborate.

Compensation

9. E4 / T2 / S7 / p1

The two tables in the above reference show the number of full time equivalents (“FTE”) for 2009 at 4.2 for NOW and at 12.3 for CTS. The evidence indicates that five management positions were transferred to NOW. Please explain why the total FTEs for NOW is shown to be 4.2

10. Ref: E4 / T2 / S7 / p1

Please provide the base salary percentage increases budgeted for 2008 and 2009 broken down by major employee grouping (e.g., executive, management, unionized workers).

Regulatory Costs

11. Ref: E4 / T2 / S2 / p4

Evidence indicates that there is \$17,875 for regulatory expenses in the 2009 OM&A. Please indicate whether any or all of the \$17,875 reflects the amortized portion of (i) actuals from previous years, (ii) cost forecasted to be incurred in 2008 (iii) costs forecasted to be incurred in 2009. If so, please specify the amortization periods.

Miscellaneous

12. Ref: E4 / T2 / S1 / p1

NOW's OM&A forecast appears to include \$87,576 for "Other Interest Expense". Please elaborate on the nature of this expense and clarify whether it is included in NOW's calculation of its revenue requirement for 2009.

RATE BASE AND CAPITAL EXPENDITURES

General

13. Ref: E2

Please provide information for the period 2006 to 2009 in the following table format:

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Allowed Return on Equity (%) on the regulated rate base				
Actual Return on Equity (%) on the regulated rate base				
Retained Earnings				
Dividends paid to shareholders				
Sustaining capital expenditures (excluding smart meters)				
Development capital expenditures (excluding smart meters)				
Operations capital expenditures				
Smart Meters capital expenditures				
Other capital expenditures (please specify)				
Total capital expenditures (including smart meter meters)				
Total capital expenditures (excluding capital expenditures)				
Depreciation expense				
Construction Work in Progress				
Rate Base				
Number of Customer Additions (total)				
- Residential				
- General Service < 50 kW				
- General Service > 50 kW, Intermediate and Large Use				
Number of Customers (total, December 31)				
- Residential				
- General Service < 50 kW				
- General Service > 50 kW, Intermediate and Large Use				

Transportation Equipment

14. Ref: E2 / T2 / S2 and E2 / T2 / S3

On page 2 of the first reference above, NOW shows an increase in gross fixed assets in account 1930 – Transportation Equipment of about \$220,000 in 2007. This is followed by an increase in 2008 of \$267,500, which NOW has documented on page 4 of the second reference above (\$225,000 corresponds to a new bucket truck and a new pick-up truck). In the 2009 test year, NOW forecasts expenditures in this account of \$25,000. Please provide documentation on the capital expenditures of \$220,000 in 2007 in this asset category.

Asset Management

15. Ref: E2 / T3 / S4 / p2

At the above reference, NOW provides a very brief description of an annual capital budget planning process. Please provide further description of NOW's processes, by providing the following:

- a. Does NOW's annual capital budgeting process assess and prioritize projects beyond the next budget year? If not, why not?
- b. How does NOW assess the condition of assets? Does NOW formally conduct, or have someone else conduct on NOW's behalf, asset condition studies?
- c. How do analyses of asset condition, reliability performance and other parameters, factor into NOW's capital budget planning?
- d. What, if any, capital projects for 2008 and 2009 have been budgeted and prioritized based on asset condition and asset management analyses and results?

Service Reliability

16. Ref: N/A

- a. Please provide reliability performance data for NOW's service area in the following table format.

	All Causes of Interruptions			All Interruptions except for Loss of Supply (Cause Code 2)		
Year	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
2002						
2003						
2004						
2005						
2006						
2007						

- b. Please indicate any reliability indicator and year where performance was out of standard, meaning that it was higher than the range of the previous years. For

any such case, please provide an explanation for the decreased reliability and the actions taken by, or being taken by, NOW to address the issue.

Working Capital Allowance

17. Ref: E2 / T4 / S1

- a. Please provide a derivation of the cost of power expense used in the determination of the working capital allowance. Please identify the commodity price, wholesale market service charge and retail transmission charges used in the calculation.
- b. Does NOW concur that the working capital allowance should be updated at the time of the Board's decision based on the most current RPP price then available? If not, please explain.

Short Term Debt

18. Ref: E6 / T1 / S4

In the table shown under Item 2 "Weighted Average Cost of Capital", NOW has not included a short-term debt component in the proposed capital structure for the 2009 Test Year for the purposes of calculating the Weighted Average Cost of Capital ("WACC").

Section 2.1.1 of the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report") states that:

"The Board has determined that short-term debt should be factored into rate setting, and that a deemed amount should be included in the capital structures of electricity distributors. **The short-term debt amount will be fixed at 4% of rate base.**" [Emphasis in Original]

The Board Report states the following in section 2.2.2:

The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers' acceptance rate plus a fixed spread of 25 basis points. This is consistent with the Board's method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers' acceptance rate as published on the Bank of Canada's website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor's rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates." [Emphasis in original]

- a. If NOW is proposing not to include a short term debt component in the 2009 Test Year for the purposes of setting its revenue requirement and distribution rates, please provide the reasons that NOW is proposing to deviate from the Board Report.
- b. If NOW is proposing to comply with the Board Report, please provide NOW's estimate of the short-term debt rate, showing the calculations, data used and identifying in detail the sources of the data used.
- c. Please identify if NOW is proposing that the deemed short-term debt rate would be updated based on January 2009 *Consensus Forecasts* and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If NOW is not proposing to follow the methodology documented in section 2.2.2 of the Board Report, please provide NOW's reasons for varying from the Board Report.
- d. Please provide a calculation of the WACC as shown in the table in Exhibit 6 / Tab 1 / Schedule 4, using a long-term debt component of the deemed capital structure of 52.7%, a deemed short-term debt component of 4.0% and a short-term debt rate of 4.47%, and an equity component of 43.3%.

SMART METERS

Rate Adder

19. Ref: E1 / T1 / S6

At the above reference, NOW states:

Northern Ontario Wires has not included any costs with respect to smart metering in this rate application. In its current rates NOW has approval for \$0.26 per customer per month to cover the costs for Smart Metering. NOW was unsure of how these costs were to be handled in this rate process and requests that the Board approve the appropriate change in rates for this initiative.

On October 22, 2008, the Board issued Guideline G-2008-0002 – Smart Meter Funding and Cost Recovery, providing information to distributor and other parties with information on finding and cost recovery related to authorized smart meter activities.

- a. Please confirm whether NOW is seeking approval for continuation of its existing smart meter rate adder of \$0.26 per month per metered customer.
- b. If NOW is not seeking approval for continuation of the smart meter rate adder of \$0.26 per month per metered customer, please clarify what approval NOW is seeking with respect to smart meter funding or cost recovery. Please provide supporting explanation for NOW's proposal and detailed calculations of the proposed smart meter rate adder, if applicable. Such support should comply with the filing requirements documented in G-2008-0002.

- c. Please confirm whether or not NOW's proposed distribution rates documented in Exhibit 9 / Tab 1 / Schedule 5 include the existing smart meter rate adder of \$0.26 per month for metered customer classes.

TAXES AND PAYMENTS IN LIEU OF INCOME TAXES ("PILS")

PILs Calculation

20. Ref: E4 / T3 / S1

For all years shown, please provide a detailed breakdown of "Other Additions" and "Other Deductions" shown in the table of Income Tax Calculations.

Audited and Pro Forma Financial Statements

21. Ref: E1 / T3 / S1 and E1 / T3 / S2

NOW's Audited Financial Statements for 2007, with 2006 restated, and pro forma financial statements for 2008 bridge and 2009 test years show the following actual and forecasted financial performance for NOW:

	2007 Audited Financial Statements		Pro forma Financial Statements	
	2006 (restated)	2007 actual	2008 bridge	2009 test
Net Income from Operations before Taxes	\$141,737	\$216,737	-\$160,957	\$266,624
PILS	\$24,640	\$40,972	\$55,811	\$60,503
Net Income (Loss)	\$117,097	\$175,819	-\$216,768	\$206,121

Please provide further explanation of NOW's forecasted operating loss for the 2008 bridge year, and the factors contributing to this loss.

LOAD FORECAST

General

22. Ref: N/A

Please provide the following information regarding the accuracy of NOW's previous load forecasts:

What was the forecast error of NOW's load forecast in 2004, 2005, 2006, 2007 and year-to-date 2008 (i.e. variance and percent variance between total normalized actual load and forecast load, by rate class if available)?

Customer Connections

23. Ref: E3/ T2 /S2 / p1

- a. At the above reference, NOW states “Over all the three communities serviced by NOW Inc. are not growing. Cochrane and Kapuskasing are relatively stagnant while Iroquois Falls has experienced a decrease and continues to experience a slow decrease...”.

Please provide any external reports or forecasts (for example, regional economic forecasts from the national Banks or Housing Outlook reports from CMHC) used to support the above claim.

- b. Please explain the methodology and assumptions used to forecast the number of customers in the Residential, GS<50 and GS 50 to 4999 rate classes in the Bridge and Test years. If these assumptions are based on factors such as housing or population trends then please provide the studies/reports supporting the assumptions.
- c. Please prepare a test year customer forecast for the Residential, GS<50 and GS 50 to 4999 rate classes, using a linear trend method with customer data from 2002 to 2007. Please also provide the impact on the proposed test year load and revenue forecast if this alternate forecast is adopted.

Weather Normalization

24. Ref: E3/ T2 /S1 / p1

- a. At the above reference, the evidence indicates that the IESO weather correction factors are adjusted by a “NOW Factor” of 2.101. Please explain how the “NOW factor” was derived and the reasons for the adjustment.
- b. A number of applicant distributors have adopted the Hydro One weather correction factors to normalize load in recent Cost of Service rate applications. Please explain NOW's rationale for using IESO factors rather than Hydro One weather correction factors.
- c. Please develop a test year weather normal forecast using a linear trend method based on 20 years (1988 – 2007) of weather data from an appropriate weather station that reflects the weather in NOW's service area. Please prepare an econometric test year load forecast for the Residential, GS<50 and GS 50 < 4999 rate classes, using appropriate explanatory variables and the above weather normalization. Please identify the impact on the proposed test year load and revenue forecast if this alternate forecast is adopted.

Load and Revenue Forecast

25. Ref: N/A

Please provide the 2006 Board-approved load and revenue forecast.

26. Ref: E3 / T1 / S2 /p1

Please explain with detailed calculations the derivation of the 2008 and 2009 distribution revenue forecast provided at the above reference. If available, please file the electronic worksheets.

27. Ref: E3 / T2 / S2 /p1

At the above reference NOW states, "The residential class utilized the full historical bandwidth (2002-2007) to generate the weighted average consumption profile".

- a. Please explain the reasons for the significant decline in Residential load in 2003.
- b. Please provide the impact on the test year Residential load and revenue forecast if the 2003 load and customer data are excluded from the multi-year trend analysis.
- c. The average growth from 2002 to 2007 in Residential normalized use per customer is 1.3% or an average annual increase of 100 kWh. The 2009 test year Residential average normalized use per customer is forecast to be 7,916 kWh. This represents a 3% decline from 2007 or a decrease of 229 kWh. Please explain the reasons for the significant forecasted decline in the test year normalized average use compared to 2007.

28. Ref: E3 / T2 / S2 /p2 and p4

At the above reference, NOW states "Essentially, NOW created a multi-year average consumption per customer (customer class specific) and applied that average consumption to forecasted customers." [Emphasis added] Further, at the second reference above NOW provides the derivation of the Residential rate class multi-year average consumption per customer used to develop the load forecast.

Please provide the multi-year average consumption per customer for the GS<50 and GS 50 to 4999 rate classes, used to forecast the test year load.

29. Ref: E3 / T2 / S2 /p2

At the above reference NOW states, "The GS<50 and GS 50 to 4999 customer classes had some significant re-categorization between these classes at the end of the fiscal year 2005, as a result a two year weighted average normalized consumption and load forecast has been created." [Emphasis added]

Please prepare a test year load forecast for the GS<50 and GS 50 to 4999 rate classes using multi-year data from 2002 to 2007. What is the impact on the proposed test year load and revenue forecast for GS<50 and GS 50 to 4999 rate classes if this alternate forecast is adopted?

30. Ref: E3 / T2 / S2 /p3

From the above reference, please explain how the "2009 Non-Normalized Weighted Average" values were identified and calculated and how these have been used in the calculation of the test year load forecast.

Revenue Offsets

31. Ref: E3 / T1 / S2 / p1

The "Other Distribution Revenue" item decreases from 2007 actual to the bridge year by an amount of \$51,896. Please explain the reason for this expected decrease in 2008, and describe how it affects the forecast of Other Distribution Revenue in 2009 if at all.

32. Ref: E3 / T1 / S2 / p1 and E3 / T3 / S1

A history and projection of "Miscellaneous Service Revenue" is shown in the last row of the referenced table in Tab 3. The same data entries are found in the row for Specific Service Charges in the referenced table in Tab 1.

- a. Please clarify whether this is the revenue from Specific Service Charges in both tables. If not revenue from Specific Service Charges, please provide a brief description of the revenue items included as Miscellaneous Service Revenue.
- b. The amount approved in the 2006 revenue requirement (EB-2005-0020/EB-2005-0398) for Specific Service Charges is included in the referenced tables as "Other Distribution Revenue" or "Other Electric Revenues". Please confirm that this item is the revenue from Specific Service Charges. Alternatively, please provide a brief description of the nature of revenue described as "Other Distribution Revenue" or "Other Electric Revenues".

33. Ref: E9 / T1 / S5

NOW provided its proposed list of specific service charges for 2009 as part of its proposed rate schedule in the reference above.

- a. Please explain why the proposed specific service charges identified at the above reference do not include the \$2,000 general administration fee for unauthorized energy use identified at section 2.4.6 in NOW's Conditions of Service.
- b. Please provide a description of when the \$2,000 general administration fee would be applied, how the level of the charge was determined and the amount of revenue associated with the charge on an annual basis from 2002 to 2007.

COST ALLOCATION AND RATE DESIGN

Low Voltage

34. Ref: E2 / T4 / S1 / p3

The forecast cost of LV Charges in Account 4750 is \$219,054.56, unchanged from the 2007 actual cost.

- a. Please describe the services received, if other than Shared Lines, and please provide the annual kW amounts billed to NOW in 2007.
- b. Please confirm that the cost forecast is made on the basis of the prices that prevailed in 2007.

- c. Please provide an update of the forecast cost using rates that may be expected to prevail in 2009, for example the applicable sub-transmission rates applied for by Hydro One in EB-2007-0681 if these are applicable.

35. Ref: E3 / T1 / S1

The description of operating revenue includes Low Voltage Wheeling. Please describe the revenue that is included under this description, and whether it is gained from NOW's customers or from any embedded distributor(s).

36. Ref: 2006 Electricity Distribution Rates – RP-2005-0020/EB-2005-0398

In NOW's previous re-basing, rate adders were approved for NOW's distribution rates for the purpose of recovering Low Voltage costs. For example, the volumetric rate for the Residential class included a rate adder of \$0.0018 per kWh (shown in Worksheet 8-2 'Low Voltage/Wheeling Adjustments' in the 2006 EDR model). The Uniform System of Accounts provides Account 4075 to record revenue from this source, and the total should match as closely as possible the amount in Account 4750 which is forecast to be \$219,055.

Please provide the amounts recorded by NOW in 2006 and 2007 in Account 4075 "Billed – LV", and the balances if any in Account 1550 "LV Variance Account". (If these accounts were not used, please describe how the amounts were recorded and the amounts that would have been recorded in accounts 4075 and 1550 if they had been used.)

37. Ref: N/A

NOW's application does not appear to address how the cost of LV charges will be recovered from its customers.

- a. Please identify the LV adder that is included in this application for each rate class.
- b. Please provide the amount billed to each rate class in the account 4068 "Billed -- CN" in a recent year, and calculate the proportion billed to each class.
- c. Please confirm whether the forecast cost of LV service (Account 4750) will be allocated to the rate classes in these same proportions. If not, please describe how the cost is intended to be allocated.

Cost Allocation

38. Ref: E10 / T1 / S2

- a. Please provide for the record of this application an electronic copy of NOW's cost allocation study EB-2007-0003 (rolled-up Informational Filing). Please provide Run 1 or Run 2, whichever is more relevant to this application.
- b. Please compare the proposed Monthly Service Charge for the GS 50 – 4999 kW class with the ceiling amount in Sheet O2 'Fixed charge\Floor\Ceiling'. In light of this comparison, please provide the rationale for decreasing the Monthly Service Charge for this class by less than 2%, while decreasing the volumetric charge by 54%.

39. Ref: E8 / T1 / S2 and E9 / T1 / S8

- a. NOW proposes to lower the revenue to cost ratio for Unmetered Scattered Load from 127% to 103%, yet the calculated impact on the Delivery sub-total for this class in Exhibit 9 is an increase of 93%. In contrast, the Residential class would have an increase in its revenue to cost ratio from 98% to 103% and would experience an impact of only 22% (1000 kWh, Delivery sub-total). Please confirm that the calculations underlying these situations are accurate, and if they are accurate please provide an explanation of the seeming contradiction (i.e. the class whose revenue to cost ratio is increasing has a smaller impact than the class whose ratio is decreasing).
- b. Please provide a calculation of the revenue to cost ratio for the GS 50 - 4999 kW class that would result if the rate for Streetlighting is lower than proposed, such that the revenue to cost ratio for Streetlighting is 50%, and the rate for the GS 50 - 4999 kW class is higher than proposed so that it compensates for the lower revenue from Streetlighting.
- c. Please provide a calculation of the bill impact for Streetlighting and a representative customer in the GS 50 – 4999 kW class resulting from the hypothetical rates in part b.

Retail Transmission Rates

40. Ref: *Electricity Distribution Retail Transmission Service Rates, Guideline G-2008-0001, October 22, 2008*

Under the Board's Guideline, NOW is expected to file an update to its Cost of Service application with evidence to support a change in its retail transmission service rates ("RTSRs"). The adjustment in RTSRs is intended to eliminate future growth in the Applicant's variance accounts that are related to the pass-through of transmission costs.

- a. Please file a table showing two years of NOW's wholesale Network and Connection costs, and its retail billings for Network and Connection service to its retail customers.
- b. Please provide an analysis of the variances between costs and the corresponding revenues, and any trends in these amounts.
- c. Please file proposed RTSR rates for each customer class that are an adjustment to the currently approved RTSRs and would recover the wholesale cost of transmission service assuming that the Interim rates charged by Hydro One to embedded distributors effective May 1, 2008 had been in effect during the 2-year period in part a). Please provide the calculations used to derive the proposed RTSR rates.

Deferral and Variance Accounts

41. Ref: E5 / T1 / S1

NOW is not applying for disposition of balances of any deferral or variance accounts, and has not filed the balances in any accounts.

- a. Please provide a continuity schedule for the above accounts using the Excel spreadsheet attached. (Please note that forecasting principal transactions beyond December 31, 2007 and the interest on those transactions in columns AM – AP is optional.)
- b. The continuity schedule provides a sub-total for the accounts: 1508, 1518, 1525, 1548, 1570, 1571, 1572, 1574, 1582, 1590, 1592, 1595, and 2425. Please provide rate riders that would dispose of the net balance of the accounts listed. Please include details of how the individual balances would be allocated to customer classes and the length of time over which the rate rider would be charged or rebated.

Loss Factors

42. Ref: E4 / T2 / S9

- a. Please clarify whether electricity is delivered directly to NOW from a transformer station operated by Hydro One Transmission, or alternatively whether the power is delivered to NOW through an LV line(s) operated by Hydro One Distribution.
- b. If the latter, please confirm whether the kWh amounts shown in the first row of the referenced table are described by Hydro One as “total kWh with losses” or simply “total kWh”.
- c. The approved loss factor for Hydro One Distribution to apply to its deliveries to embedded distributors is 1.034. Please confirm that this factor is not included in the total loss factors requested in this application.