

**2006 ELECTRICITY DISTRIBUTION RATE APPLICATION  
GENERIC ISSUES PROCEEDING: RP-2005-0020/EB-2005-0529**

**RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION  
INTERROGATORIES ON GENERIC ISSUES**

**ENWIN POWERLINES: EB-2005-0359**

**VECC Question #1.1:**

Reference: EDR 2006 Model, Tabs ADJ 1 and ADJ 3  
Schedule 3-1

- a) Please complete the following attached Tables 1, 2 and 3 for the Applicant's Smart Meter Costs included in Proposed 2006 Rate Application (over and above the 2005 Approved CDM plans).
- b) Please confirm the amounts for the Tier 1 Rate Base and Distribution Expense Adjustments requested for 2006 – in excess of the 2005 approved CDM plan..
- c) Indicate what action the Applicant will take (vis-à-vis it's requested 2006 Rates) if the government regulations require either a different schedule than the one filed or different types of meters than assumed in the Application and t specified as filed proposal.

**Response:**

- a) The Applicant has not included any amounts for incremental Smart Meter Costs in the 2006 Rate Application filing.
- b) The Applicant assumes that this question pertains to incremental Smart Meter expenditures. The Applicant has not included any amounts for incremental Smart Meter Costs in the 2006 Rate Application filing.
- c) The Applicant has not included any amounts for incremental Smart Meter Costs in the 2006 Rate Application filing.

**VECC Question #2.1.1:**

Reference: 2006 EDR Model Tab 2-2 and Tab ADJ3

- a) Please complete the following table with respect to the costs included in Regulatory Expenses (Account 5655)
- b) Please provide Explanatory Notes for all material increases/decreases from 2002-2006.
- c) Provide a list of 2004 positions involved in regulatory matters regarding the OEB and other Energy Regulators.
- d) Provide the number of FTEs for 2004 associated with the reported staff compensation (i.e., salaries and benefits) in the table.
- e) Please indicate whether the reported in-house costs in Table 1 include any allocated overheads or staff-related costs other than direct compensation. If so, please explain how the amounts to be included were determined.
- f) If the OEB were to establish a deferral account for Regulatory Costs and permit utilities to record their costs of consultants, legal counsel and direct incremental disbursements, does the Applicant record costs in any other USoA accounts that it considers would qualify. If so, please indicate the nature of such costs, where they would be reported, and the amounts the Applicant incurred in 2002-2004.

**Response:**

a) Costs included in account 5655 (regulatory expenses)

<b>Expense Item</b>	<b>2006 Application</b>	<b>2004 Actual</b>	<b>2003 Actual</b>	<b>2002 Actual</b>
Regulators' Fees/Charges				
OEB Base Levy	153,772	34,226	117,921	134,570
Other OEB Charges				
Other Energy Regulatory Fees (specify) – ESA fees	21,854			
Subtotal (1)				
In House Costs				
Staff Compensation				
Other Costs				
Subtotal (2)				
Outsourced Services				
Legal Services				

Consultants				
Other Costs (Specify)				
Subtotal (3)				
TOTAL Reg. Expense	175,626	34,226	117,921	134,570
Total Customers	83,816	83,816	82,529	81,146
Total Energy Distributed	3,150,532,011	3,150,532,011	3,166,787,645	3,312,348,573
Reg. Costs/Customer	2.10	.41	1.43	1.66
Reg. Costs/kWh Distributed	.000056	.000011	.000037	.000041

b) There is a significant difference between the 2003 and 2004 amounts due to change in accounting treatment for the OEB cost assessments. Effective 2004, these costs are to be charged to another account (account 1508 – other regulatory assets). Therefore, these costs are reported in a different account for most of 2004. The difference between 2004 and 2006 amounts are due to ESA fees being reported here for the rate application in the amount of \$21,854 (represents incremental increase). The balance relates to incremental OEB assessed fees being reported here, as a required Tier 1 adjustment.

c) List of 2004 positions involved in regulatory matters regarding the OEB and other Energy Regulators:

Manager, Regulatory Affairs  
 President

In addition, there were several positions in our affiliate company that are involved in regulatory matters regarding the OEB and other Energy Regulators. These positions are:

CEO  
 Director of Finance  
 Controller  
 Manager, Settlement and Regulatory

d) There are no amounts reported for staff compensation in the above table.

e) There are no amounts reported for in-house costs in the above table.

- f) Enwin Powerlines Ltd. records legal, professional and consulting fees related to regulatory matters in account #5630. The amounts recorded in account #5630, related to regulatory matters, for 2002 – 2004 were as follows:

2002	\$57,286
2003	\$83,749
2004	Response to follow

**VECC Question #2.1.2:**

Reference: Application

- a) Please clarify for what years the requested Regulatory Expenses Deferral Account would apply (i.e., just 2006 or other years as well)?
- b) Please provide complete details of the specific types of costs the Applicant proposes would be recorded in the proposed Deferral Account.
- c) Please provide a schedule that sets out, for each type of cost the Applicant proposes as being eligible for inclusion in the Deferral Account, the expense level included in the 2006 Rate Application.
- d) Explain what are the unusual costs that have not been included in the 2006 Rate Application and demonstrate the potential materiality of such costs.
- e) Is interest to be charged on the accounts and if so provide details of rate that the Applicant proposes should be used?
- f) What is the Applicant's proposal as to when the balance of the account, including carrying charges, should be examined and disposed of by the Board?
- g) What is the Applicant's proposal as to the regulatory costs (per the 2006 Application) that should be recorded as a credit for purposes of the requested Regulatory Expense Deferral Account?
- h) How should the Board judge prudence (e.g., how should the Board ensure that utilities have not simply contracted out for 2006 and included in the Deferral Account the costs of regulatory-related activities that were performed in-house in 2004)?
- i) How should the recovery of prudently incurred costs be allocated to rate classes?

**Response:**

- a) The requested variance account would apply to costs incurred in 2005, and all subsequent years.
- b) The Applicant is seeking approval of a new or expanded variance account to allow the recording of the differences, if any, between the amounts recoverable in its OEB approved revenue requirement and actual Electrical Safety Authority fees and any such fees paid to any other energy regulator; actual intervenor, consultant and legal costs associated with regulatory proceedings in which Powerlines is an applicant, respondent,

intervenor or participant; and actual intervenor, consultant and legal costs associated with regulatory consultations and proceedings initiated by the Board, and in which Powerlines is a participant.

- c) The Applicant is seeking approval of a new or expanded variance account to allow the recording of the differences, if any, between the amounts recoverable in its OEB approved revenue requirement on account of these costs and those actually incurred. Accordingly, the expense level included in the 2006 Rate Application for costs that would be eligible for inclusion in this account is nil.
- d) Expenses associated with Powerlines' 2006 rate application are an example of costs not incurred in the historic 2004 test year. Please see Powerlines' response to OEB Staff Interrogatory No.1 on generic issues for an estimate of Powerlines' regulatory costs for ESA fees and regulatory costs associated with regulatory proceedings for 2005.
- e) Powerlines has not developed a precise accounting model for the application of this variance account. Powerlines anticipates that, should the Board approve the concept of a regulatory expense variance account, detailed accounting standards would be developed by the Board through a stakeholder consultation process, for consistent application by all distributors in the province.
- f) Refer to above response to VECC interrogatory 2.1.2 e).
- g) Powerlines is requesting that the differences, if any, between the amounts recoverable in OEB-approved revenue on account of regulatory costs and those actual costs incurred be recorded. The regulatory costs that should be recorded could be a debit if the actual costs exceed the approved costs and a credit if the actual costs are less than the approved costs.
- h) The OEB has issued 'Guidelines for Reviewing Electricity LDCs Variance and Deferral Accounts' (issued September 28, 2005) pursuant to Subsection 78(6.2) of the *Ontario Energy Board Act, 1998*. Powerlines anticipates that the review and disposition of the regulatory expense variance account would be determined by the OEB, and would be consistent with these guidelines.
- i) Refer to above response to VECC interrogatory 2.1.2 h).

**VECC Question #2.2.1:**

Reference: Schedule 10.6

- a) Would the Applicant's existing Standby Rates ensure ongoing recovery of required distribution revenues in the event that an existing customer installed load displacement generation?
- b) If not, please explain why.
- c) How far in advance (i.e., months) of the actual installation of load displacement generation does the Applicant typically become aware it will occur?
- d) Is the Applicant currently aware of any potential load displacement projects that could affect revenues for 2006?

**Response:**

- a) The standby rate included in our 2006 Rate filing is carried forward from the Applicant's legacy rates. As this rate has not been reviewed in recent years, the Applicant cannot confirm at this time if this rate at its current level would ensure the ongoing recovery of distribution revenues. The rate is not currently being applied. Please see the Applicant's response to VECC question 3.1, below.
- b) This rate was developed pre market opening and has not been recently reviewed.
- c) Notification from customers regarding possible load displacement generation varies with each situation. Although the Applicant has had customers inform it in advance that they may be contemplating load displacement projects, these discussions have typically been at a high level and did not involve any customer commitment to install load displacement generation.
- d) The Applicant has been informed of two potential load displacement projects, however has not received any details in respect of the potential projects, nor has it received any definitive confirmation of the customers' plans.

**VECC Question #3.1:**

Reference: Schedule 10.6

- a) Please provide a schedule setting out the Applicant's current Standby rate along with description of how it is applied?
- b) What was the methodology used to originally develop the Applicant's Standby rate?

**Response:**

- a) The current Standby Rate is \$0.56/kW. This rate has not been applied since market opening in May 2002. Prior to market opening, the standby rate was charged in instances where reserve facilities existed or had been built to handle situations when the customers' generator was not operational and they required supply of power though the Applicant's system. This rate was charged regardless of use of the reserve capacity. With the opening of the competitive electricity markets in May 2002, the Applicant no longer charged the standby rate, as it understood that the rate would be replaced by the monthly fixed distribution charge.
- b) A determination of annual rate of return was calculated based on the total Distribution System (Plant) costs at year end (Overhead, Underground, and Substation costs net of accumulated depreciation) multiplied by the LDC's annual rate of return. To this amount the annual maintenance costs and annual depreciation was added to arrive at a total annual cost. The monthly costs were then divided by the system peak to arrive at a Standby Rate of \$0.56/kW.



**Generic Issue #4.1: Other Deferral Accounts – Rate Mitigation Revenue Shortfalls**

**VECC Question #4.1.1:**

Reference: Schedule 13.1

- a) Please confirm that the Applicant does not expect any short-fall in revenue for 2006 as a result of proposed Rate Impact Mitigation measures.
- b) If this is not the case, please explain why and quantify the anticipated impact.

**Response:**

- a) The Application is not proposing Rate Impact Mitigation Measures.
- b) N/A

**VECC Question #4.2.1:**

Reference: EDR 2006 Model - Tab 7.2  
Schedule 10.7

- a) Please confirm that the Applicant is neither a Host Distributor nor an Embedded Distributor.
- b) If Applicant is a Host Distributor:
  - Does the 2006 Rate Application include a “rate” for wheeling to embedded distributors and, if so, please indicate what it is and provide a copy of Schedule 10.7?
  - If there is no “rate” for wheeling in the Application, please explain why not?
- c) If the Applicant is an Embedded Distributor:
  - Please explain why there are no costs for LV service included in the Application?

**Response:**

- a) The Applicant confirms that it is currently not a host or embedded distributor.
- b) The Applicant has recently had discussions with a nearby local distribution company that may require wheeling service from the Applicant. In the event that such service is required, the Applicant will file an application with the Board for a low voltage charge.
- c) The Applicant is not an Embedded Distributor.

**Generic Issue #4.3: Other Deferral Accounts – Material Bad Debt**

**VECC Question #4.3.1:**

Reference: EDR Model – Tab ADJ5 (Specific Distribution Expense)  
EDR Schedule 6-2 (Bad Debt Expense)

- a) Over the three years (2002-2004), how many individual bad debt occurrences did the Applicant experience that met the materiality threshold as defined by the Rate Handbook (page 46)?
- b) With respect to the response to part (a), please provide a schedule that for each of the three years lists the individual occurrences of material bad debt, the rate class the customer belonged to, the value of the bad debt and the total for the year. (Note: The actual name of the customer is not required)

**Response:**

- a) There were no material individual bad debt occurrences in 2004. In prior years, this level of detail was not available.
- b) Please see above.

**VECC Question #4.3.2:**

Reference: EDR Schedule 6-2 (Bad Debt Expense)

- a) Does the Applicant have an approved “Bad Debt Policy” that defines when overdue accounts are turned over to 3<sup>rd</sup> parties for collection, when overdue accounts are written off as bad debt, how are security deposits used to reduce the bad debt expense, the treatment of any subsequent recoveries, etc.? If so, please provide.
- b) If not, please outline what the Applicant’s practice is.
- c) What was the Applicant’s experience over 2002-2004 with actually recovering all/portion of a bad debt after it had been written off?

**Response:**

- a) The Applicant does have an internal bad debt policy, which is described as follows:

When a customer closes out their account, a final bill is produced with a due date 16 days into the future (not falling on a Saturday, Sunday or holiday). The account is reviewed on the evening of the 16th day to see if payment has been received. If no payment is recorded on the account, a reminder notice is generated and mailed out that evening reminding the customer that their final balance is unpaid.

Ten days after the mailing of the reminder notice, the account hits a 'write-off' listing for review by a CSR. If there is activity on the account (i.e. payment arrangement has been made), the CSR will leave the account alone and 30 days later it will be reported on the listing again if the unpaid balance has not been satisfied. So long as the customer commits to a payment arrangement and keeps such arrangements, we will not send the debt to a third party collector.

If, 10 days after the notice has been sent, the CSR finds that there is no forwarding address; the customer has not set up at another address; there is no indication as to where the customer may be, the CSR can send the debt to the Collections Agency immediately for pursuit by the third party collector. We provide the Collections Agency with any unique identifiers that the customer has provided us (i.e. date of birth, employer, etc.). We do not list any debt under \$50 but will keep record of this debt within our CIS system should the customer attempt to set up service in their name again.

**In Summary:**

Account is stopped and FINAL bill produced with DUE DATE 16 DAYS INTO THE FUTURE.

16 DAYS LATER - Account reviewed for payment. Automated reminder notice sent.

10 DAYS AFTER REMINDER (i.e. debt is now aged 26 days) - Account hits write off listing for review by CSR. If possible, arrangements made with customer. Failing arrangements or ability to track customer, account may be listed with Collections Agency.

30 DAYS AFTER FIRST LISTING ON REVIEW (i.e. debt aged 56 days) - Account reviewed again by CSR. If arrangements not kept, debt is listed with Collections Agency.

When the account is sent to a collections agency, the debt is transferred to a 'write-off' service agreement. This indicates that the debt may be collected but it also has the potential for being uncollectable and, therefore, written off to bad debts.

Payments collected by the third party agency are remitted on a monthly basis and applied fully against the appropriate customer account. Commissions to the collections agency are paid outside the CIS system through the Finance Dept.

Any time an account which holds a security deposit is finalized, the security deposit is applied to the final billing. Any debt still outstanding is pursued as outlined above. If the deposit fully satisfies the final billing and results in a credit balance, the customer is refunded the credit through a deposit refund cheque which is generated in our A/P system.

- b) Please see above.
- c) The estimated amount collected on previously recorded bad debts is \$290,000 for the period from 2002 – 2004.

**VECC Question #4.3.3:**

Reference: EDR Schedule 6-2 (Bad Debt Expense)

- a) Does the Applicant agree that if the OEB were to create a deferral account for material bad debt and allow for recovery in future rates this would reduce the Applicant's business risk? If not, why not?
- b) Based on the data in the Applicant's filing, please provide a schedule setting out the impact that a individual material bad debt (per the Handbook Definition) would have on the Applicant's after-tax Return on Equity?

**Response:**

- a) No, creation of a deferral account would not necessarily reduce the Applicant's business risk as disposition of the deferral account balances would still be subject to Board review and approval. In addition business risk associated with bad debt is affected by other factors, such as economic conditions, rising commodity prices, etc. Therefore, the creation of a deferral account in itself would not significantly reduce the Applicant's business risk.
- b) An individual material bad debt occurrence equal to the Applicant's materiality threshold of \$64,622, would have a 0.047% impact on after-tax ROE.

**Calculation:**

<b>Rate Base</b>	<b>\$194,103,641</b>
<b>Deemed Equity @ 45% of Rate Base</b>	<b>\$88,696,638</b>
<b>Return before material bad debt @ 9% ROE</b>	<b>\$7,982,697</b>
<b>Assume marginal tax rate of 36.12%</b>	
<b>Return after material bad debt = \$7,982,697 - (\$64,622 * (1-36.12%))</b>	<b>\$7,941,416</b>
<b>ROE after material bad debt = \$7,941,416 / \$88,696,638</b>	<b>8.954%</b>