



**Vulnerable Energy Consumers' Coalition (VECC)**

**Generic Issue #1: Smart Meters**

**Interrogatory**

**Question #1.1**

Reference: Tab B, page 19

- 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.

**Table #1 – Smart Meter Program**

	<b>2006 Total # of Customers to be Converted</b>	<b>2005/05 to be Converted Under CDM Plan</b>	<b>2006 Convers. Incremental to CDM Plan</b>	<b>Future Conversion Schedule</b>		
				<b>2007</b>	<b>2008</b>	<b>2009</b>
Residential						
GS < 50 kW						
GS 50 to 200 kW						
GS >200 kW						
Total						



**Table #2 – Cost Assumptions**

	<b>Per Unit Installed Capital Cost</b>	<b>Depreciation Period</b>	<b>Annual Per Unit Operating Costs</b>
Residential			
GS < 50 kW			
GS 50 to 200 kW			
GS >200 kW			
Total			

**Table #3 – Incremental 2006 Smart Meter Costs (per Application)**

	<b>2006 SM Capital Expenditures (over 3<sup>rd</sup> Tranche)</b>	<b>Depreciation</b>	<b>Operating Expense</b>
Meters:			
Residential			
GS < 50 kW			
GS 50 to 200 kW			
GS >200 kW			
Other (Specify)			
#1			
#2			
Total	(per EDR Model Tab ADJ1)	(per EDR Model Tab ADJ3)	(per EDR Model Tab ADJ3)

**Response**

- a) See attached Tables 1, 2 and 3 for Hydro Ottawa’s Smart Meter Costs for the 2006 test year that are incremental to the OEB-approved CDM plan.
- b) Hydro Ottawa’s proposed rates are based on a forward test year: \$15,772,762 in capital costs (net of amortization), \$543,888 in depreciation expense and \$744,895 in incremental operating costs were included for Smart Meters.
- c) If the government regulations require either a different schedule than the one filed or different types of meters than assumed, then Hydro Ottawa would request the Board to establish a variance account.



**Table #1 – Smart Meter Program**

	2006 Total # of Customers to be Converted	2005/06 to be Converted Under CDM Plan	2006 Conversion Incremental to CDM Plan	Future Conversion Schedule		
				2007	2008	2009
Residential	54,684	200	54,484	54,484	54,484	54,484
GS < 50 kW	4,783	0	4,783	4,783	4,783	4,783
GS 50 to 200 kW	1,000	0	1,000	1,000	0	0
GS >200 kW	730	730	0	0	0	0
Total	61,197	930	60,267	60,267	59,267	59,267

**Table #2 – Cost Assumptions**

	Per Unit Installed Capital Cost	Depreciation Period	Annual Per Unit Operating Costs
Residential	\$250	15	\$12.36
GS < 50 kW	\$250	15	\$12.36
GS 50 to 200 kW	\$1,500	15	\$12.36
GS >200 kW	\$1,500	15	\$12.36
Total			

Note: Costs and Depreciation Period from the Board's Smart Meter Implementation Plan, notes to Appendix C-2, Table 2.

**Table #3 – Incremental 2006 Smart Meter Costs (per Application)**

	2006 SM Capital Expenditures (over 3 <sup>rd</sup> Tranche)	Depreciation	Operating Expense
Meters:			
Residential	\$13,620,950	\$454,032	\$673,420
GS < 50 kW	\$1,195,700	\$39,857	\$59,115
GS 50 to 200 kW	\$1,500,000	\$50,000	\$12,360
GS >200 kW	\$0	\$0	\$0
Other (Specify)			
#1			
#2			
Total	\$16,316,650	\$543,888	\$744,895
	(per EDR Model Tab ADJ1)	(per EDR Model Tab ADJ3)	(per EDR Model Tab ADJ3)



## Generic Issue #2.1: Deferral Accounts – Regulatory Costs

### Interrogatory

#### 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>Expense Item</b>	<b>2006 Application</b>	<b>2004 Actual</b>	<b>2003 Actual</b>	<b>2003 Actual</b>
Regulators' Fees/Charges				
OEB Base Levy				
Other OEB Charges				
Other Energy Regulatory Fees (specify)				
Subtotal (1)				
In House Costs				
Staff Compensation				
Other Costs				
Subtotal (2)				
Outsourced Services				
Legal Services				
Consultants				
Other Costs (Specify)				
Subtotal (3)				
TOTAL Reg. Expense				
Total Customers				
Total Energy Distributed				
Reg. Costs/Customer				
Reg. Costs/kWh Distributed				

- 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) See the following table.

<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	\$840,000	\$223,154	\$275,779	\$301,735
Other OEB Charges (cost awards)	30,000	0	0	3,138
Other Energy Regulatory Fees (specify)	0	0	0	0
Subtotal (1)	870,000	223,154	275,779	304,873
In House Costs (see comments below)				
Staff Compensation	0	0	0	0
Other Costs	0	0	0	0
Subtotal (2)	0	0	0	0
Outsourced Services				
Legal Services /Consultants	150,000	14,887	104,953	34,400
Consultants (included above)				
Other Costs (Advertising)	5,000	0	0	not available
Subtotal (3)	155,000	14,887	104,953	34,400
<b>TOTAL Reg. Expense</b>	<b>\$1,025,000</b>	<b>\$238,041</b>	<b>\$380,732</b>	<b>\$339,273</b>
Total Customers	283,285	274,025	269,191	264,520
Total Energy Distributed (sales)	7,570,363,688	7,514,934,356	7,483,288,320	7,470,558,036
Reg. Costs/Customer	3.62	0.87	1.41	1.27
Reg. Costs/kWh Distributed	0.00014	0.00003	0.00005	0.00004

- b) The Board has a different fiscal year than Hydro Ottawa. Therefore, the "OEB Base Levy" is based on nine months from the cost assessment of the OEB's current fiscal year and three months from the cost assessment of the previous fiscal year. In 2004, Hydro Ottawa recorded in Account 1508 OEB cost assessments for the OEB's fiscal year (starting April 1st) that



were incremental to the amount recorded for 1999. Cost assessments in 2005 were also recorded in Account 1508. No cost assessments were recorded in Account 1508 for 2002 or 2003. The forecast for 2006 is based on a 10% increase in the OEB 2005/2006 costs for the fiscal year 2006/2007. It is anticipated that Hydro Ottawa will be expected to pay cost awards in 2006 related to the 2006 EDR and the cost allocation process. An amount of \$30,000 was included in the 2006 forecast, although admittedly it is difficult to forecast the appropriate amount with any certainty.

Hydro Ottawa has not recorded internal staff compensation costs in account 5655, only those external costs directly attributable to regulatory activities (see c) below).

Legal and consulting fees have been tracked together as professional services. For 2006 and 2004, all of the professional services are related to legal fees. For 2003 and 2002 most of the costs relate to legal fees, but some fees related to consulting resulting from OEB proceedings (expert witnesses) or rate applications. A significant increase is estimated for 2005 related to legal and consulting costs for preparing and prosecuting the 2006 EDR Application. Costs related to the 2006 EDR Application and cost allocation process are included for 2006.

Hydro Ottawa has budgeted \$5,000 in 2006 for advertising expenses related to publication of one notice of application in two major daily newspapers. The last notice of application related solely to Hydro Ottawa was in 2002. The cost would have been approximately the same, but the costs were included in general advertising costs and therefore are not available.

All regulatory costs in 2004 related to the development and approval of Hydro Ottawa's CDM plan were included in Account 1565 and therefore are not part of regulatory costs for that year.

- c) Hydro Ottawa's regulatory services function has responsibilities beyond those of a traditional regulatory department including retail settlement, wholesale IESO transactions, compliance with market rules, revenue and cost of power forecasting (including unbilled revenue), as well as some finance responsibilities (such as regulatory assets). To determine the portion of compensation related to regulatory activities requires a subjective allocation. Compensation for the regulatory services function is part of the overall Finance department and therefore part of general administrative costs. In 2006, the department will include eight staff including two dedicated to retail settlement. Of the remaining six staff people, approximately two-thirds of their time is spent on regulatory activities, roughly approximating an FTE of four as follows:

<u>Position</u>	<u>Estimated % of time</u>
Director, Regulatory Services	50%
Manager, Rates and Revenue	50%
Senior Regulatory Engineer	100%
Regulatory Analyst	100%
Regulatory Analyst	50%
Regulatory Accountant	50%



- d) Hydro Ottawa has not recorded internal labour costs in Account 5655 and therefore has not included these costs in the table in a) above.
- e) The costs reported in the table in a) above do not include any allocated overheads or staff-related costs.
- f) Hydro Ottawa does not record costs in any other USoA account that would qualify for a regulatory cost deferral account except as follows:
- regulatory costs incurred for the current OEB-approved CDM program that have been recorded in Account 1565, and
  - costs assessed from the Electrical Safety Authority (ESA) included in operations expenses.



## **Generic Issue #2.2: Deferral Accounts – Revenue Losses Attributable to Unforecasted Distributed Generation**

### **Interrogatory**

#### **Question 2.2.1**

Reference: Tab B, page 100

- a) Would the Applicant's proposed 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) Is the Applicant currently aware of any potential load displacement projects that could affect revenues for 2006?
- d) How far in advance (i.e., months) of the actual installation of load displacement generation would the Applicant typically expect to become aware of such a project?

### **Response**

- a) Hydro Ottawa's Standby Rates, as proposed, would apply to load displacement generators equal to or greater than 500 kVA. Any new projects of this magnitude are subject to ESA approval and Hydro Ottawa has typically been notified early in the development process. It is Hydro Ottawa's intention to advise all such customers of the Standby Charge during the project's start-up phase.

Generators below the 500 kVA threshold will not be subject to the Standby Charges at this time. Any new generator installations are subject to ESA approval and Hydro Ottawa will be aware of the projects. If the number and frequency of such installations increases, Hydro Ottawa will consider the need for Standby Charges for generators below 500 kVA.

In its 2006 EDR Application, Hydro Ottawa chose to mitigate the rate impact to customers with load displacement generators equal to or greater than 500 kVA by arbitrarily setting the Standby Charges at 50% of the proposed level. The proposed rate is set at the Distribution Variable Rate for the relevant customer class. Therefore, during the period of mitigation, there would be a revenue shortfall if new generators were installed. It is Hydro Ottawa's intention to review the Standby Charges following the completion of the cost allocation process in 2006 and an adjustment may be sought for rates effective May 1, 2007.

- b) Any revenue shortfall in 2006 would result from the proposed rate mitigation and any generators below 500 kVA for which the Standby Charges do not apply; please see the response to a) above.





- c) All existing and currently proposed generator installations for 2006, equal to or greater than 500 kVA, have been accounted for in the forecast revenue from Standby Charges.
- d) The installation of load displacement generation takes several months from concept to commissioning. It would be likely that Hydro Ottawa would be aware of any such plans five to six months in advance of the installation. This assumes the customer is following the required process including approvals from the ESA.



## **Generic Issue #3: Generalized Standby Rates for Load Displacement Generation**

### **Interrogatory**

Question: #3.1

Reference: Tab B, page 100

- a) Did Hydro Ottawa consider any other alternative methodologies for establishing Standby Rates?
- b) If so, briefly describe what they were and why they were rejected.

### **Response**

- a) Hydro Ottawa did not consider other alternatives for Standby Charges. Hydro Ottawa believes that full recovery of the distribution volumetric charge is the appropriate option.

The proposed rates are intended to recover the distribution volumetric charges to the full capacity of the installed generation. They are also designed to allow customers to contract for as much or as little standby supply as they require. This allows customers the flexibility to manage their usage as well.

The rates do include penalties if the customer is unable to reduce loads below the contracted amount. This ensures that the amount contracted for standby capacity is appropriate for the installation.

- b) Not applicable.



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

### Interrogatory

#### Question #4.1.1

Reference: Chapter 13, page 112

- a) If the OEB were to establish deferral accounts for rate mitigation revenue shortfalls, would the Applicant seek recovery of the anticipated shortfalls due its proposed mitigation measures?
- b) If yes, what is currently the expected size of the 2006 revenue shortfall?

### Response

- a) Chapter 13 of the Handbook requires mitigation if the total bill increase for any customer class or group exceeds 10%. Hydro Ottawa did not have any customer classes that had total bill increases exceeding 10% but did choose to mitigate the Sentinel Lights and the Standby Charge impacts. The Standby Charges are new in 2006 and Hydro Ottawa was cognizant that the added charges were significant and customers must be allowed time to factor these costs into their operating expenses. In addition, the Monthly Service Charge for Un-metered Scattered Loads was set at 50% of the Monthly Service Charge for the General Service <50 kW class, as per the directions in the Handbook. The total anticipated revenue impact from the above changes is as follows:

Un-metered Scattered Load Adjustment	(\$167,600)
Standby Charge	\$353,916
Standby Charge Mitigation	(\$172,397)
Sentinel Lights Mitigation	(\$517)
Total	\$13,402

As the overall impact of Hydro Ottawa's introduction of Standby Charges, rate mitigation and adjustment for Un-metered Scattered Load is very small, no adjustment was made for the difference. If the Standby Charges are not approved and the offsetting revenue was not realized, Hydro Ottawa would seek to record the revenue shortfall from Un-metered Scattered Load in a deferral account.

- b) There is no revenue shortfall from rate mitigation. The significant cause of an expected revenue shortfall for Hydro Ottawa is the implementation of the 2006 rate increase on May 1, 2006 as opposed to January 1, 2006. In contrast, the expenses used to determine the distribution revenue requirement are for the full 2006 calendar year. This results in a forecast revenue shortfall of approximately \$9.9 million in 2006.



## **Generic Issue #4.2: Other Deferral Accounts: Low Voltage Charge Variations**

### **Interrogatory**

#### **Question #4.2.1**

Reference: Tab B, page 104 and Tab H - EDR 2006 Model – Tab 5.1, Tab 7.2 and Tab 8.5

- a) Please confirm that the Applicant an Embedded Distributor – but is not a Host Distributor.
- b) Please provide a schedule that indicates what the LV Wheeling charges included in the Application are as a percentage of:
  - Total Distribution Revenue Requirement (per Tab 5.1)
  - Total Rate Base
- c) If the OEB were to establish deferral accounts for LV Wheeling cost incurred by Embedded Distributors, would it be appropriate to credit to the account the revenues received from customers based on the LV cost adders per Tab 8.5? If not, why not?
- d) Would it be more appropriate to consider the account a variance account similar to RSVA's?
- e) If the Applicant is a Host Distributor, please complete and provide Schedule 10.7

### **Response**

- a) Hydro Ottawa is an Embedded Distributor, as a result of having a number of delivery points embedded in Hydro One's adjacent service area, but is not a Host Distributor.
- b) Hydro Ottawa assumes that the term "LV Wheeling charges" refers to all low voltage charges that it will begin to receive from Hydro One in 2006 including Shared LV Lines, Shared DS and Specific Lines charges. Hydro Ottawa's calculated value for low voltage charges for 2006 is \$1,217,295 consisting of \$725,089 for Shared Lines and \$492,206 for Shared DS and Specific Lines. The \$492,206 for Shared DS and Specific Lines was inadvertently included in expenses twice (once in Account 5665 and a second time in expenses for Stations) instead of including the \$725,089 for Shared Lines. Therefore the total amount for Low Voltage charges in the 2006 EDR Application was only \$984,412, not \$1,217,295 as calculated. This following table presents the LV Charges as a percentage of Total Distribution Revenue Requirement and Total Rate Base (per Tab 5.1 of the 2006 EDR Model):



LV Charges in Application	Service Revenue Requirement as per Tab 5.1	% of Service Revenue Requirement	Rate Base	% of Rate Base
\$984,412	\$128,650,340	0.77%	\$516,455,749	0.19%
Revised LV Charges	Service Revenue Requirement as per Tab 5.1	% of Service Revenue Requirement	Rate Base	% of Rate Base
\$1,217,275	\$128,650,340	0.95%	\$516,455,749	0.24%

- c) If the Board were to establish deferral accounts for LV charges incurred by Embedded Distributors, it would be appropriate to credit to the account the revenues received from customers based on the LV cost adders per Tab 8.5 of the 2006 EDR Model. However, for Hydro Ottawa, the revenues received from customers based on the LV cost adders per Tab 8.5 would not represent Hydro Ottawa's total Low Voltage Charges as explained in b) above. The following table outlines the original Low Voltage rate adjustments and the revised ones:

Class	Original LV cost adders		Revised LV cost adders	
	\$/kWh	\$/kW	\$/kWh	\$/kW
Residential	0.00007		0.00014	
GS < 50 kW	0.00006		0.00013	
GS > 50 kW < 1500 kW		0.0269		0.0539
GS > 1500 kW < 5000 kW		0.0276		0.0553
Large User		0.0313		0.0627
Sentinel Lights		0.0197		0.0395
Streetlights		0.0193		0.0386
Un-metered Scattered Load	0.00006		0.00013	

Note that this revision would not change the total revenue requirement or the proposed rates.

- d) Hydro Ottawa concurs that a variance account may be the more appropriate approach.
- e) Hydro Ottawa is not a Host Distributor.



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

### **Interrogatory**

#### **Question #4.3.1**

Reference: Tab B, pages 67-69

- 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) Over the years 2002 to 2004, Hydro Ottawa did not have any individual bad debt write offs in excess of its materiality threshold of \$162,000 or 0.2% of Distribution Expenses as defined by the Handbook.
- b) Not applicable.



## **Interrogatory**

### **Question #4.3.2**

Reference: Tab B, pages 67-69

- 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) Hydro Ottawa does not have a formal policy that specifies when overdue accounts are assigned to a collection agency, but does have a Consumer Security Deposit Policy included as Schedule 1. Hydro Ottawa’s “Consumer Security Deposit Policy” complies with the requirements of the Distribution System Code. The policy is applied consistently as a risk mitigation measure, to the maximum limits allowed.
- b) The following is Hydro Ottawa’s practice:
  - At 19 days from issue, the final bill is due.
  - At 22 days a Reminder Notice is mailed, due within 7 days.
  - At 30 days, the Peoplesoft CIS moves the debt to a write-off work list, to be reviewed and remitted to a collection agency. At this stage, the CIS has deemed the debt to be at risk.
  - Between 60 and 90 days, the outstanding debt is assigned to a collection agency, after internal efforts to trace and collect the debt from the account holder have been exhausted. Any amount collected during this process is applied against the write-off.
- c) On average, collection agency recoveries ranged from 5% to 10% of the amounts written off during the period 2002 – 2004.



## **Interrogatory**

### **Question #4.3.3**

Reference: Tab B, pages 67-69

- 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) Material bad debts, as defined in the Handbook, are individual bad debt write offs that exceed \$162,000. Hydro Ottawa has not incurred an individual bad debt write off of this magnitude from 2002 to 2004. Therefore, while the impact of such a bad debt write-off can be noticeable, the probability of having a bad debt write-off above the materiality limit is low. Material bad debts are unusual and difficult to predict, and therefore are not typically part of an LDC's revenue requirement. The establishment of a deferral account for these unusual amounts would be appropriate. A deferral account in itself does not reduce risk because recovery is not certain. Furthermore, the 2000 Electricity Distribution Rate Handbook provided a Z factor mechanism that allowed LDCs to record and seek recovery for extraordinary events.

However, LDCs also incur a significant risk for bad debts below the materiality limit. This includes charges for transmission, wholesale market and commodity charges that are supposed to be a pass-through, and are significantly higher in total than distribution charges. Changes to the Distribution System Code in 2004 have increased an LDC's risk by prohibiting the collection of consumer security deposits if the consumer has a good payment record, even if there is information regarding a deteriorating credit rating. Therefore, LDCs no longer have a tool for mitigating bad debt risks due to changing economic climates. Security deposits also must be returned to General Service customers after a set period of time if the payment history is good. LDCs therefore hold significantly fewer security deposits than before this code change, also increasing their business risk.

- b) The following shows a 0.05% impact on Hydro Ottawa's after-tax ROE for a single bad debt occurrence equal to Hydro Ottawa's materiality threshold of \$162,000.

Rate Base = \$516,455,749

Equity @ 40% of rate base = \$206,582,300





Return before material bad debt @ 9% ROE = \$18,592,407

Return after material bad debt = \$18,592,407 - 162,000 (1-36.12%) = \$18,488,821

New ROE = \$18,488,821 / \$206,582,300 = 8.95%