VERIDIAN CONNECTIONS INC. RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION ("VECC") INTERROGATORIES – GENERIC ISSUES HEARING

RP-2005-0020/EB-2005-0529

Generic Issue #1: Smart Meters

VECC's Question 1.1:

Reference: Application

a) Please provide complete details of the type of costs to be recorded in the proposed Smart Meter Deferral Account including:
   - period for which costs are to be tracked
   - capital costs:
   - operating costs (distinguish direct costs and indirect for example back office costs),

b) Is interest to be charged on the accounts and if so provide details of rates etc?

c) Does the applicant have estimates of the unit capital and operating costs for residential meters? If so please provide capital and annual operating costs.

d) When will the Applicant request that the balance of each account, including carrying charges, be examined and disposed of by the Board?

e) How will the Board judge prudence and how will the prudently incurred costs be allocated to rate classes?

Veridian Connections Inc. Answer to Question 1.1:

a) Refer to response to Board staff interrogatory number 3.

b) Refer to response to Board staff interrogatory number 3.

c) Unit capital and operating costs for residential smart meters are provided in Schedule 3-1 (page 4 of 5) of Veridian's 2006 rate application, and are also provided in response to VECC interrogatory number 1.2 a).

d) As required under section 78, subsection (6.2) of the *Ontario Energy Board Act*, the Board has established its 'Guidelines for Reviewing Electricity LDCs Variance and Deferral Accounts' (issued September 28, 2005). Veridian expects that review and disposition of the smart meter variance accounts would be determined by the Board, and would be consistent with these guidelines.

e) Refer to response to VECC interrogatory number 1.1 d), above.

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VECC's Question 1.2:

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.

Veridian Connections Inc.'s Answer to Question 1.2:

a) Tables 1, 2 and 3 have been completed and are attached to this interrogatory response.

b) Veridian confirms that the smart meter Tier 1 Rate Base and Distribution Expense Adjustments requested for 2006 relate only to smart meter costs incremental to those included in Veridian's approved CDM plan. See Table 3 below for the incremental 2006 smart meter amounts.

c) Veridian's 2006 rate application requests approval for variance accounts to record the differences, if any, between its smart meter rate base and distribution expense adjustments and actual smart meter costs. These variance accounts would provide protection to both Veridian and its customers against the uncertainties relating to the costs and timing of smart meter installations. If the Board approves the establishment of these variance accounts, changes in the government's smart meter strategy would be reflected in the variance account balances, which would be routinely addressed under the Board's 'Guidelines for Reviewing Electricity LDCs Variance and Deferral Accounts'.

Table #1 – Smart Meter Program

	2006 Total # of Customers to be Converted	2005/06 to be Converted Under CDM Plan	2006 Convers. Incremental to CDM Plan	Future Conversion Schedule		
				2007	2008	2009
Residential	85577	500	17015	17015	17015	17015
GS < 50 kW	7310	0	1462	1462	1462	1462
GS 50 to 200 kW	709	709	0	0	0	0
GS >200 kW	120	120	0	0	0	0
Total	93716	1329	18477	18477	18477	18477

Table #2 – Cost Assumptions

	Per Unit Installed Capital Cost	Depreciation Period	Annual Per Unit Operating Costs
Residential	$250	15 years	$12.36 (incremental)
GS < 50 kW	$250	15 years	$12.36 (incremental)
GS 50 to 200 kW	N/A	N/A	N/A
GS >200 kW	N/A	N/A	N/A
Total	N/A	N/A	N/A

<u>Table #3 – Incremental 2006 Smart Meter Costs (per Application)</u>

	2006 SM Capital Expenditures (over 3rd Tranche)	**Depreciation**	**Operating Expense**
Meters:			
Residential	$4,253,700	$283,583	$210,306
GS < 50 kW	$365,600	$24,374	$18,075
GS 50 to 200 kW	Nil	Nil	Nil
GS >200 kW	Nil	Nil	Nil
Other (Specify)	Nil	Nil	Nil
#1 #2			
Total	$4,619,350	$307,957	$228,381

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Generic Issue #2.1: Deferral Accounts – Regulatory Costs

VECC's 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)

Expense Item	**2006 Application**	**2004 Actual**	**2003 Actual**	**2003 Actual**
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.

Veridian Connections Inc. Answer to Question 2.1.1:

a) Actual regulatory expenses recorded in account 5655 for the years 2002 to 2004, and amounts included in Veridian's 2006 rate application are detailed in the following table.

Note the following changes and points of clarification pertaining to this table:

2004 Actual: A new line has been added to the section "Regulators' Fees/Charges" and included in Subtotal (1) for OEB ordered intervenor costs.

2006 Application: This column includes only amounts incremental to 2004 Actual, as 2004 is the Test Year for the 2006 Application. The total for this column equals the requested Tier 1 adjustment for OEB Annual Assessment and Other Fees Paid to Energy Regulators, in the amount of $154,145.

Total Customers: Total number of customers/connections corresponds to the calculations in Sheet 6-2 of the Veridian EDR Model

Total Energy Distributed: This calculation corresponds to Demand Data-kWh set out in Sheet 6-2 of the EDR Model

Expense Item	**2006 Application**	**2004 Actual**	**2003 Actual**	**2002 Actual**
Regulators' Fees/Charges				
OEB Base Levy	$132,518	$157,196	$101,058	$185,410
Other OEB Charges		$4,979		$500
Other Energy Regulatory Fees (specify) - ESA	$21,627	$14,089		
OEB Ordered Intervenor Costs		$7,273		
Subtotal (1)	$154,145	$183,537	$101,058	$185,910
In House Costs				
Staff .Compensation				
Other Costs				
Subtotal (2)				
Outsourced Services				
Legal Services				
Consultants		$1,866		
Other Costs - Printing and Customer Notifications		$2,709	$815	$691
Subtotal (3)		$4,575	$815	$691
TOTAL Reg. Expense	$154,145	$188,112	$101,873	$186,601
Total Customers		118,097	114,393	113,569
Total Energy Distributed		2,280,372,501	2,262,794,349	2,282,061,131
Reg. Costs/Customer		$1.59	$0.89	$1.64

b) OEB Base Levy charges are assessed and invoiced on a non-calendar basis. In 2002 charges were accrued at year-end in the amount of $81,660, which applied to 2003. This accounting treatment served to overstate Regulatory costs in 2002 and understate Regulatory costs in 2003.

c) The Veridian staff positions involved in formal cases before the Board and other regulatory bodies is dependent upon the nature of the individual proceedings, and therefore varies. However, the following 2004 positions have been involved in past written or oral proceedings before the Board:

- Executive Vice President, Veridian Connections Inc.
- Executive Vice President and Secretary Treasurer, Veridian Corporation
- Manager of Regulatory Affairs and Key Projects, Veridian Corporation
- Manager Corporate Planning, Veridian Corporation
- Corporate Planning Supervisor, Veridian Corporation

d) As can be seen from the above table, Veridian does not assign staff costs to account 5655, hence there are no FTE's associated with in-house staff costs pertinent to Account 5655.

e) No in-house costs have been reported in the table.

f) All of the costs for which Veridian seeks approval to record in a new Regulatory Expense variance account, are charged to USoA account 5655.

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VECC's 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?

Veridian Connections Inc. Answer to Question 2.1.2:

a) Veridian proposes that the Regulatory Expense variance account would apply for costs incurred in 2005, and all subsequent years.

b) Veridian seeks approval for 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 Veridian is an applicant, respondent, intervenor or participant.
   - Actual intervenor, consultant and legal costs associated with regulatory consultations and proceedings initiated by the Board, and in which Veridian is a participant.

c) As Veridian requests the difference, if any, between the amounts recoverable in the OEB approved revenue requirement on account of these costs and those actually incurred, the expense level included in the 2006 Rate Application, which would be eligible for inclusion in the variance account, is nil. Expenses associated with Veridian's 2006 rate application are an example of costs not incurred in the historic 2004 test year. Veridian is not able to demonstrate the magnitude of these and other potential regulatory costs with any degree of accuracy.

d) Expenses associated with Veridian's 2006 rate application are an example of costs not incurred in the historic 2004 test year. Veridian is not able to demonstrate the magnitude of these and other potential regulatory costs with any degree of accuracy.

e) Veridian has not developed a precise accounting model for the application of this variance account. It is the company's expectation 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) Veridian has requested that only the differences, if any, between the amounts recoverable in OEB-approved revenue on account of regulatory costs and those actual costs incurred. 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) As required under section 78, subsection (6.2) of the *Ontario Energy Board Act, 1998*, the Board has established its 'Guidelines for Reviewing Electricity LDCs Variance and Deferral Accounts' (issued September 28, 2005). Veridian expects that review and disposition of the regulatory expense variance account would be determined by the Board, and would be consistent with these guidelines.

i) Refer to above response to VECC interrogatory 2.1.2 h).

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

VECC's Question #2.2.1

Reference: Schedule 10.6

a) Is the Applicant currently aware of any potential load displacement projects that could affect revenues for 2006?

b) 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?

Veridian Connections Inc. Answer to Question 2.2.1:

a) Veridian is aware of only one small-scale load displacement project planned within its service territory. It is approximately 50 kWs in size, and is not expected to affect distribution revenues for 2006.

b) The amount of advance notice given by a customer for a load displacement project is dependent on many variables including the size of the generator, the business needs of the customer, and the need for distribution system changes to support the proposed generator. The volume of load displacement generation projects experienced by Veridian in its service territory has been small, so it is difficult to assess what a 'typical' notice period might be.

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

VECC's 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.

Veridian Connections Inc. Answer to Question 4.1.1:

a) Veridian has not proposed any rate impact mitigation measures as part of its 2006 rate application; therefore it does not expect any associated short-fall in revenue.

b) Not applicable.

VERIDIAN CONNECTIONS INC. RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION ("VECC") INTERROGATORIES – GENERIC ISSUES HEARING

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

VECC Question #4.2.1

Reference: EDR 2006 Model – Tab 5.1, Tab 7.2 and Tab 8.5

a) Please confirm that the Applicant is 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

Veridian Connections Inc. Answer to Question 4.2.1:

a) Veridian's distribution network is partially embedded in Hydro One Network's distribution system. Veridian is not a host distributor.

b) Veridian understands that the 'LV Wheeling charges' referred to in the question are meant to include all host LDC low voltage charges as specified on page 13 of the Board's 2006 Distribution Rate Handbook. Veridian's 2006 application includes $1,754,815.16 of host low voltage charges, which equals:

- 4.01% of the total distribution revenue requirement, and;
- 1.29% of the total rate base.

c) Veridian did not include in its application, a request for approval for a Low Voltage Charge deferral or variance account. Veridian believes that the OEB recognized both the need for inclusion of LV Wheeling charges in the calculation of an LDC's revenue requirement and also the uncertainty of the calculation and estimate of this expense. This was evident in the Report of the Board on the 2006 Distribution Rate Handbook (RP-2004-0188 – dated May 11, 2005) Ref. Page 17 "The Board does see merit in Hydro One's proposal for post-May 2006 LV rates. LV rates do need to be built into the rates of embedded distributors. Distributors will be allowed to adjust for the Hydro One LV charges based on the currently approved rate. The RSVA Connection account can be used to record the difference between the currently approved amount and the amount that is ultimately payable to Hydro One."

It is Veridian's belief that the Board recognized that LV Wheeling charges to be a unique type of distribution expense, as the 2004 "test year" did not include this expense and no updated information on costs/rates were available as these rates would be established concurrent to the LDC's 2006 Rates. The use of the RSVA Connection account for the recording of the difference between the approved amount and the actual amounts payable to Hydro One was established to reduce the risk to both ratepayers and LDC's for a highly uncertain expense approved for recovery in 2006 rates.

It would not be appropriate to credit revenues based on the LV cost adders per Tab 8.5, to any variance or deferral account for LV Wheeling costs incurred. Revenues associated with the recovery of LV wheeling charges would not be treated or recorded differently than revenues associated with the recovery of any other distribution expense. A specific allocation methodology was used within the 2006 EDR Model to recover these charges within rates, but the revenues associated with this allocation are not directly affected by the actual level of the distribution expense any more than any other distribution expense. Levels of revenue recovery vary with customer growth or reduction, variations in consumption due to weather or load growth or reduction, not in direct relation to an LDC's distribution expense levels. By the Board's recommendation of using the RSVA Connection account to record the difference between the currently approved distribution expense amounts and the amount that is ultimately payable to Hydro One, both the ratepayers and the LDC's are safeguarded from the high uncertainty of estimating this particular distribution expense.

d) As stated in c) above, it is Veridian's belief that the OEB, through its Report of the Board on the 2006 Distribution Rate Handbook, intended that the the RSVA Connection account be used for recording the difference between the approved distribution expense amount and the actual amounts payable to Hydro One and that no new variance, deferral or RSVA account would be required.

e) Not applicable. Veridian is not a host distributor.

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

VECC's 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)

Veridian Connections Inc. Answer to Question 4.3.1:

a) During 2002 to 2004, Veridian experienced three (3) individual bad debt occurrences exceeding its materiality threshold of $52,336, as defined on page 46 of the Rate Handbook.

b) Details of the individual bad debt occurrences exceeding the materiality threshold during 2002 to 2004 are provided in the following table:

Year	Individual Occurrences of Material Bad Debt			Total Bad Debt for Year
	Customer	Amount	Rate Class	
2002	Customer A	$ 74,665.97	Interval >50kW	$390,685.62
2003	Customer B	303,720.34	Interval >50kW	959,939.00
2004	Customer C	100,166.25	Interval > 50kW	647,776.28

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VECC's 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 3rd 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?

Veridian Connections Inc. Answer to Question 4.3.2:

a) Veridian does not have a documented "Bad Debt Policy" that addresses the circumstances outlined in the question.

b) Veridian's business practices related to bad debt are as follow:

Procedures for Collection of Final Bills

Final bills are processed based on the requested move out date provided by the customer.

All deposits are posted to the account balance at the time of final bill preparation to reduce the outstanding amount of the final bill.

Final Bill Collection Timeframe

Day	Procedures
0	Invoice mailed to customer
15	Due date of all final bills is 15 days after issuance
25	Ten days after due date, a final bill collection letter is issued. This notice advises the customer that if payment is not received within 7 days the account could be listed with a collection agency. In the event of notification of a skip or a history of non-payment where no forwarding address has been provided, the account is listed directly with a collection agency.
31	Seven days after due date of the final bill notice, a 2nd level notice is run. At this time the final bill account arrears are either cross applied to another of the customer's active accounts with Veridian, if one exists, or the account is listed with a collection agency. Any account with outstanding arrears over $50.00 is listed with the collection agency.

Write off Procedures

Write offs are calculated on an annual, but not a calendar year basis, for the period of May 31st of the previous year to June 1st of the current year. Final bill arrears outstanding for more than 180 days (6 months) are applied to the bad debt account.

Prior to posting the journal, all accounts are again reviewed for any payments or accounts where arrears can be posted to alternate, current active accounts held by the same customer.

Collecting on Bad Debt Accounts

When an active account holder is found to have had a previous Veridian account under which bad debt had accrued, the bad debt amount is applied to the current account and notice is sent to the customer. The active account is then subject to current collection practices.

c) For the years 2002 to 2004, Veridian' recovery rate for bad debt write offs ranged between 4% and 8%.

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<u>VECC's Question #4.3.3</u>

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?

Veridian Connections Inc. Answer to Question 4.3.3:

a) The establishment of a deferral account for material bad debt would not necessarily reduce Veridian's business risk, as disposition of the deferral account balances would still be subject to Board review and approval. Moreover, business risk associated with bad debt is influenced by many other factors (i.e. rising commodity prices, economic conditions, etc.) so the impact of a deferral account should not be considered in isolation.

It should also be noted that, under the provisions for the Electricity Distribution Rate Handbook, distributors have always have recourse to a 'Z factor adjustment' for the recovery of material bad debt, based on a threshold of .25% of a utility's net assets. The establishment of a deferral account for material bad debt as defined in on page 46 of the current Rate Handbook would reduce this threshold somewhat, but not to an extent that would significantly impact overall business risk.

b) An individual material bad debt occurrence equal to Veridian's materiality threshold of $52,336, would have a 0.055% impact on Veridian's after-tax ROE.

Calculation:

Rate Base	**$135,819,903**
Deemed Equity @ 45% of Rate Base	**$61,118,956**
Return before material bad debt @ 9% ROE	**$5,500,706**
Assume marginal tax rate of 36.12%	
Return after material bad debt = $5,500,706 – ($52,336 * (1-36.12%))	**$5,467,274**
ROE after material bad debt = $5,467,274 / $61,118,956	**8.945%**