

RP-2005-0200/EB-2005-0529/EB-2005-0428

WELLAND HYDRO-ELECTRIC SYSTEM CORP.

**RESPONSES TO VECC INTERROGATORIES
ON GENERIC ISSUES**

FILED DECEMBER 7, 2005

VECC INTERROGATORY #1.1

Generic Issue #1: Smart Meters

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?

Response:

- a) Welland Hydro intends to record all incremental capital costs and incremental operating costs associated with the procurement, ownership, installation, maintenance and operation of the smart meter program in the proposed Smart Meter Deferral Account

Welland Hydro intends to use the requested Smart Meter Deferral Account for costs incurred during calendar year 2006. This request was made with the expectation that the Board would address the recovery of smart meter related costs in 2006. Should the Board not address recovery in 2006, Welland Hydro would propose continuing to

- track capital and operating costs of the Smart Meter program until such time as the Board provides a mechanism to recover them in rates. The precise details of the capital and operating costs and the deferral accounts to be established will depend on the nature of the smart meter program ultimately developed and approved. A proposed program is currently being stakeholdered by the Ministry of Energy. Welland Hydro expects that the details of the treatment of costs in deferral accounts and rates will be developed by the Board and applied consistently across all LDCs in Ontario.
- b) Welland Hydro expects that the interest rate to be charged on any deferral accounts will be consistent with the Board's current policy on deferral accounts.
 - c) No
 - d) Welland Hydro expects that the examination and disposition of deferral accounts will be determined by the Board consistent with the provisions of subsection 78 (6.2) of the *Ontario Energy Board Act*. However, depending on the timing and nature of the costs recorded, Welland Hydro may apply to the Board for an examination and disposition of the balances recorded in the deferral accounts.
 - e) The method and process by which the Board will judge prudence and allocation of rate classes is ultimately an issue to be determined by the Board.

VECC INTERROGATORY #2.1.1

Generic Issue #2.1: Deferral Accounts – Regulatory Costs

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	23,963	23,963	16,703	16,703
Other OEB Charges				
Other Energy Regulatory Fees (specify)				
Subtotal (1)	23,963	23,963	16,703	16,703
In House Costs				
Staff Compensation				
Other Costs				
Subtotal (2)				
Outsourced Services				
Legal Services				
Consultants	2,050	2,050	2,525	2,525
Other Costs (Specify)				
Subtotal (3)	2,050	2,050	2,525	2,525
TOTAL Reg. Expense	26,013	26,013	19,228	19,228
Total Customers	28,462	28,462	28,476	28,476
Total Energy Distributed	475,848,444	489,398,304	469,186,420	469,186,420
Reg. Costs/Customer	\$.91	\$.91	\$.68	\$.68
Reg. Costs/kWh Distributed	\$ 0.00006	\$ 0.00005	\$ 0.00004	\$ 0.00004

- 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) The above table has been completed based on the best information available to Welland Hydro.
- b) Based on a material threshold, as per the 2006 Rate Handbook, of \$11,200 for distribution expenses for Welland Hydro there is no material increase/decrease shown in the table.
- c) Cost for positions involved in regulatory matters are not recorded in account 5655 and are not separately tracked in another account. However, the Applicant notes that its President/CEO, Director of Information Services, Director of Customer Service and Director of Finance have been involved in written and/or oral proceedings before the OEB.
- d) Not applicable.
- e) Not applicable.
- f) No.

VECC INTERROGATORY #2.1.2

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 Regulatory Expenses Deferral Account would apply for the costs that Welland Hydro incurs during the calendar year 2005 and 2006.
- b) The Regulatory Expenses Deferral Account would allow Welland Hydro to record the difference between (a) the regulatory expenses that are in the 2004 base year expenses and (b) the sum of the costs that Welland Hydro incurs during calendar 2005 and calendar 2006 in connection with the following:
 - (i) The Board's assessments, the ESA's fees, and the assessments or fees of any other energy regulator;
 - (ii) The fees and disbursements for legal and consulting services provided to Welland Hydro in preparing and prosecuting each of its applications to the Board;
 - (iii) The fees and disbursements for legal and consulting services provided to Welland Hydro in participating as a party, when there is no applicant, in proceedings before the board and participating in a consultation process, including a working group, that is initiated by the Board; and
 - (iv) The Board's costs and the costs awarded to other parties by the Board in proceedings where Welland Hydro is an applicant or intervenor or where, if there is no applicant, Welland Hydro is also a party and is ordered by the Board to pay all or part of such costs.
- c) Please see response 2.1.1 (a)
- d) The number of regulatory proceedings that Welland Hydro is currently involved in and expects to be involved in during 2006 requires Welland Hydro to engage external resources at levels beyond those included in the 2004 base year expenses. Uncertainty about the number and extent of regulatory processes makes it difficult to confidently estimate the costs Welland Hydro expects to incur to participate in regulatory matters during 2005 and 2006.
- e) Welland Hydro expects that the interest rate to be charged on any deferral accounts will be consistent with the Board's current policy on deferral accounts.
- f) Welland Hydro expects that the examination and disposition of the Regulatory Expenses Deferral Account will be determined by the Board consistent with the provisions of subsection 78 (6.2) of the *Ontario Energy Board Act*. However, depending on the timing and nature of the costs recorded, Welland Hydro may apply

to the Board for an examination and disposition of the balances recorded in the deferral accounts.

- g) Please see response to b)
- h) The method and process by which the Board will judge prudence is ultimately an issue to be determined by the Board.
- i) While the Board ultimately will decide the appropriate method to allocate regulatory costs across the rate classes, Welland Hydro sees no reason why these costs should be treated differently than other costs of providing distribution service.

VECC INTERROGATORY #2.2.1

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

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?

Response:

- a) Welland Hydro is not aware of any potential load displacement projects in that could affect revenues for 2006 or beyond.
- b) Not applicable

VECC INTERROGATORY #4.1.1

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

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) Not applicable as Welland Hydro is not proposing any mitigation measures.
- b) Not applicable.

VECC INTERROGATORY #4.2.1

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

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) Welland Hydro Applicant is neither a Host Distributor nor an Embedded Distributor.
- b) Not applicable
- c) Not applicable.

VECC INTERROGATORY #4.3.1

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

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) Three

- b) The following outlines the rate class, the material bad debt and the year it occurred for the three bad debt occurrences.

Rate Class	Amount	Year	Annual Amount
Larger user >50kW	284,806	2003	2003: 284,806
Larger user >50kW	170,077	2004	
GS > 50	54,942	2004	2004: 225,019

VECC INTERROGATORY #4.3.2

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?

Response:

- a) The Bad Debt Policy for final outstanding bills is set out at section 18 of Welland Hydro-Electric System Corp.’s Billing, Credit and Collection Policy and Procedures, and is excerpted here:

The security deposit will be applied to reduce the Final Outstanding Bill within 6 weeks of the closure of the account. If the security deposit is not sufficient to pay the entire Final Bill amount and the customer moves out of the utility’s service area and is no longer a Welland Hydro customer, utility staff will make an attempt to locate forwarding address information, including requesting the assistance of other utilities. If no results, the account is referred to the Collection Agency.

If the forwarding address is within Welland Hydro’s service area and the customer is moving into the new forwarding address location, the customer will be provided the option to transfer the balance to the new account or use the Security Deposit to pay the bill and a new Security Deposit will be calculated and requested for the new address.

- b) Not applicable
- c) Welland Hydro has been able to recover approximately 12% of all items sent to Credit Bureau for collection. During the years 2002 – 2004 the total dollars recovered have consistently been below materiality threshold as defined by the Rate Handbook (page 46).

VECC INTERROGATORY #4.3.3

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 an individual material bad debt (per the Handbook Definition) would have on the Applicant's after-tax Return on Equity?

Response:

- a) No, if the OEB were to create a deferral account for material bad debt and allow for recovery in future rates this would not necessarily reduce the Applicant's business risk. Welland Hydro would still be exposed to bad debt expense from non-material occurrences. Depending on the number of such occurrences and the underlying factors leading to any increase in their frequency or size, Welland Hydro's business risk could be higher or lower than the current level of business risk associated with bad debt.
- b) In accordance with the Rate Handbook an individual bad debt of \$11,200 would be classified as material for Welland Hydro. Assuming the bad debt expense is deductible for PILs purposes and assuming a tax rate of 18.62%, as per the Welland Hydro 2006 Tax Model, the after tax return on equity would decline by \$9,115.