

**Wellington North Power Inc.**  
**2012 Rate Rebasing Application**  
**EB-2011-0249**

**Board Staff Interrogatories**

Pursuant to Procedural Order No. 1, the following are Board staff's interrogatories in Wellington North Power Inc.'s ("WNP") 2012 Cost of Service Application, EB-2011-0249.

**Letters of Comment**

**1. Reference:** Notice of Application and Hearing

Following publication of the Notice of Application and Hearing, the Board has received no letters of comment to date.

- a. Please confirm whether WNP has received any letters of comment, and if so, please file a copy of the letters of comment.
- b. Please confirm whether a reply was sent from WNP for each. If confirmed, please file the reply with the Board. Please ensure that the author's contact information except for the name is **redacted**.
- c. If not confirmed, please explain why a response was not sent and confirm if WNP intends to respond.

**Conservation and Demand Management**

**2. Reference:** Decision and Order EB-2010-0215, EB-2010-0216

In Appendix A of the Board's Decision and Order on CDM Targets, EB-2010-0215, EB-2010-0216, WNP was given the following CDM targets: a 2014 Net Annual Peak Demand Savings of 0.930 MW, and a 2011-2014 Net Cumulative Energy Savings of 4.520 GWh.

- a. What plans and programs/projects does WNP have to achieve these targets?
- b. If any costs associated with these plans and programs/projects are included in the 2012 test year revenue requirement please state the amount(s), describe the program(s)/project(s), and state why they should be included in the revenue requirement.

**3. Reference:** LRAM, Exhibit 9, Schedule 7, page 781

WNP states that it does not intend to seek an LRAM claim at this time, as it had filed an LRAM claim in its 2010 IRM proceeding. Board staff also notes that the Filing Guidelines

state in Chapter 3, page 21 that if a distributor does not file for the recovery of 2010 LRAM or SSM amounts in its 2012 rate application, it will forego the opportunity to recover LRAM or SSM for this legacy period.

- a. Has WNP recovered its lost revenues due to CDM activities for all years up to and including 2010?
- b. If not, is it WNP's intention to forego these lost revenues?

## **Rate Base**

### **4. Reference:** Meter Expense, Exhibit 2, Tab 2, Schedule 3

WNP's 2009 continuity table shows additions of \$319,876 for Meter Expense.

- a. Are these smart meters purchased?
- b. How is this amount related to the \$426,181 smart meters purchased as at 2009 as shown in the smart meter cost recovery evidence at Exhibit 10?
- c. Please explain the entry of (\$300,900) in 2010 Additions to Account 1860.
- d. Please explain the opening balances of \$577,899 for smart meters and \$359,770 for smart meter communications systems in 2011. How are these items related to the smart meter costs in Exhibit 10?

### **5. Reference:** Cost of Power, Exhibit 2, Tab 4, Schedule 2

Board staff notes that WNP's cost of power calculations are based on the RPP Report for the period from November 1, 2010 through October 31, 2011.

- a. Please update the calculations to reflect the RPP Report effective May 1, 2012.

### **6. Reference:** Exhibit 4, Tab 1, Schedule 1, page 376: Exhibit 2, Tab 2, Schedule 3, pages 200-204

In Table 4-1, WNP provided a summary of operating costs including the amortization expenses as well as the Closing Fixed Asset Continuity Schedules from 2008 to 2012.

A table is provided below showing the amortization expenses in Table 4-1 versus the closing gross fixed assets for 2008 to 2012 found in E2/T2/S3/P200-204.

**Table 1**

<b>YEAR</b>	<b>CLOSING FIXED ASSETS PER YR.-\$</b>	<b>AMORTIZATION EXPENSES - \$</b>
2008	9,767,059	322,156
2009	10,181,113	351,957
2010	10,569,965	376,379
2011	12,020,128	402,649
2012	12,493,187	358,142

Board staff notes that the closing fixed assets are consistently increasing from 2008 to 2012 while the amortization expenses were also consistently increasing from 2008 to 2011 but decreased from 2011 to 2012.

- a. Please explain why there is decrease in amortization expenses in 2012 when the closing fixed assets increased consistently from 2008 to 2012.

Below are the amortization expenses under the "Additions - Accumulated Depreciation" columns of E2/T2/S3/P200-204 from 2008 to 2012.

**Table 2**

<b>YEAR</b>	<b>ACCUMULATED DEPRECIATION</b>
	<b>ADDITIONS - \$</b>
2008	393,818
2009	436,961
2010	446,347
2011	474,872
2012	462,192

- b. Please explain why the amortization expenses in Table 1 are different from the amortization expenses in Table 2.
- c. Which are the correct depreciation expense additions?

**7. Reference:** Exhibit 2, Tab 3, Schedule 3, Table 2-16 to 2-21  
Exhibit 2, Tab 1, Schedule 1, Table 2-2

WNP provided the fixed asset additions and disposals in Tables 2-16 to 2-21. Below is a comparison of the 2008 to 2012 fixed asset additions and disposals in Tables 2-16 to 2-

21 and the fixed asset additions provided in the Fixed Asset Continuity Schedules in E2/T3/S3/PP200-204 and the difference per year.

- a. Please explain these discrepancies and confirm the correct amounts.
- b. Please provide any corrections needed to fixed assets and rate base for 2008-2012 and other related components of the 2012 revenue requirement.

### ADDITIONS

<b>2008 Additions</b>	Amount \$	<b>2009 Additions</b>	Amount \$	<b>2010 Additions</b>	Amount \$
<b>Total Per Table 2-17</b>	<b>1,688,213</b>	<b>Total Per Table 2-18</b>	<b>563,983</b>	<b>Total Per Table 2-19</b>	<b>242,484</b>
<b>Total Additions per Table 2-16, 2008 FA Continuity Sch.E2/T2/S3/P200</b>	<b>1,435,546</b>	<b>Total Additions per Table 2-16, 2009 FA Continuity Sch.E2/T2/S3/P201</b>	<b>673,123</b>	<b>Total Additions per Table 2-16, 2010 FA Continuity Sch.E2/T2/S3/P202</b>	<b>421,750</b>
<b>DIFFERENCE</b>	<b>252,667</b>	<b>DIFFERENCE</b>	<b>(109,140)</b>	<b>DIFFERENCE</b>	<b>(179,266)</b>

<b>2011 Additions</b>	Amount \$	<b>2012 Additions</b>	Amount \$
<b>Total Per Table 2-20</b>	<b>498,952</b>	<b>Total Per Table 2-21</b>	<b>895,520</b>
<b>Total Additions per Table 2-16, 2011 FA Continuity Sch.E2/T2/S3/P203</b>	<b>516,428</b>	<b>Total Additions per Table 2-16, 2012 FA Continuity Sch.E2/T2/S3/P204</b>	<b>983,803</b>
<b>DIFFERENCE</b>	<b>(17,476)</b>	<b>DIFFERENCE</b>	<b>(88,283)</b>

## DISPOSALS

	2008	2009	2010	2011	2012
Disposal per:					
Table 2-17	(\$28,055)				
Table 2-18		(\$182,477)			
Table 2-19		<u>(76,592)</u>	(\$32,898)		
Table 2-20		(259,069)		(\$3,935)	
Table 2-21					(\$510,744)
Disposal Per					
Table 2-16	<b>( 34,384)</b>	<b>(259,069)</b>	<b>(32,898)</b>	<b>(\$3,935)</b>	<b>(510,744)</b>
<b>DIFFERENCE</b>	<b>(6,329)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Capital Expenditures

**8. Reference:** Capital Projects, Exhibit 2, Tab 5, Schedule 5, Table 2-56

Table 2-56 provides the categories for WNP's capital projects, which include asset management, critical, customer-driven, future-proofing system, obligation of code, performance management, software, system reliability and safety, and working conditions and environment.

- Please provide a table giving the capital expenditures for each category by year, and the percentage of that category's expenditure of the total yearly expenditure for the years 2008-2012.
- Using the same categories, please provide a table with WNP's 5 year forecast capital program, 2013 – 2017.

**9. Reference:** Capital Projects, Exhibit 2, Tab 5, Schedule 2

- Please provide a table for each year from 2008 to 2012 showing, for each capital budget item, the budgeted cost, the actual cost, the variance from budget and the in service date.

**10. Reference:** 2008 Capital Budget Variances, Exhibit 2, Tab 5, Schedule 2

WNP's Table 2-52 shows that 2008 actual capital expenditures exceed the amount approved by the Board by \$458,521. WNP's variance analysis for 2008 states that it spent \$37,000 less than the budgeted amount for a Radial Boom Derrick truck. Other variances for 2008 include \$307,642 for contingency and \$164,700 for a single bucket truck.

- a. Please explain the variance in spending in 2008.

**11. Reference:** 2012 Capital Project Descriptions, Exhibit 2, Tab 5, Schedule 6

Board staff notes that 26% of the capital projects proposed for 2012 are customer-driven, however WNP did not forecast contributions.

- a. Are any of these projects eligible for contributions? If not, please explain.

**12. Reference:** 2012 Capital Project Descriptions, Exhibit 2, Tab 5, Schedule 6

Board staff notes that the 2012 capital budget includes \$324,500 for various office renovations, as well as certain items that represent office equipment for WNP staff (e.g. laser printer, laptops, printers). The total amount of these items is \$347,500, or 35% of the total capital budget.

- a. Please describe the approval process that supports the inclusion of these items in the 2012 capital budget.
- b. Please provide the business cases that support these projects.
- c. Please explain why all of the renovation projects are required in one year.

**13. Reference:** Asset Management Plan, Exhibit 2, Tab 6, Schedule 1

WNP has extended the 5-year asset management plan as proposed by Rodan to an 8-year period.

- a. Please explain the criteria used by WNP to prioritize the capital projects that are included in its proposed 5-year plan in Table 6-7.

## Operating Revenue

**14. Reference:** Exhibit 3, Tab 2, Schedule 1, Table 3-1

Board staff notes that the 2009 Historic purchase load varies from other years by approximately 7% to 9%. WNP explains this variance as the result of the economic recession that began in September 2008, and particularly, the impact of the recession on three automotive customers (the “sensitive customers”). WNP identifies further impacts on consumption by these customers in 2011 in the wake of the Japanese tsunami.

- a. Please provide separate tables of historic purchase load as prepared in Table 3-1 for the three sensitive customers and all other customers. Please include further columns for the 2011 and 2012 forecast loads for both the sensitive customers and other customers.

- b. Please explain the impact of the Japanese tsunami on the three customers.
- c. Please quantify and explain the adjustments made to the 2009 and 2011 historical information in the Power Purchase Model.
- d. How has WNP considered the operational changes made by the three customers at the end of 2008 in its load forecast?
- e. Were any adjustments made to address economic impacts to other customers?
- f. In preparing the separate forecast for 2011 and 2012 for the three sensitive customers, did WNP consult with these customers regarding their operational plans for 2011 and 2012? If so, what was the outcome? If not, why not?
- g. Please provide the results that would occur for a scenario that incorporates all three adjustments and all variables (an “all yes” scenario).

**15. References:** Exhibit 3, Tab 2, Schedule 1, Tables 3-8 to 3-12

WNP indicates that it has incorporated weather effects from 2004 to 2010 in its forecast, due to the effects of global warming. It has provided 10 and 20 year data for comparison purposes.

- a. Please explain the data relied upon by WNP to determine that six years was the appropriate time period to incorporate the effects of global warming.
- b. Please explain the use of two different weather stations over two different time periods for degree-day data.
- c. On page 340, WNP states in its evidence that the 20 year data is sourced from the Windsor weather station, however the footnote to Table 3-9 indicates that the data sources are Owen Sound and Collingwood. Please clarify.
- d. Please explain the results of Tables 3-11 and 3-12, which appear to indicate higher rates of change through the adjustment in degree days applied in rate classes that are not weather sensitive.
- e. Please provide the percentage of WNP's customers that rely on electricity as a source of space heating, as compared to other energy sources such as natural gas.

**16. Reference:** Exhibit 3, Tab 2, Schedule 1, Table 3-14

Board staff notes that in addition to a regression analysis, another method to develop a load forecast is to base it on historical averages.

- a. Please update Table 3-14, Actual vs. Predicted Purchases, to incorporate 2011 actual kWh purchases.

- b. For each of 2009, 2010, 2011 and 2012, please prepare an alternate forecast based on the average of the prior five years' weather normalized actual consumption. This may be done on a total forecast basis, rather than by rate class. Please use the data from tables 3-4 and 3-9.
- c. Please prepare a comparison of actual and predicted results, similar to those provided in Table 3-14, for the alternate forecasts prepared in response to part a, above. Please ensure that the actual results in the table are weather normalized.

**17. Reference:** Exhibit 3, Tab 3, Schedule 2, Table 3-30

Board staff notes considerable variability in the amounts shown in Accounts 4375 and 4380 – Revenues and Expenses from Non-Utility Operations.

- a. Please explain the variances between 2008 and 2009; between 2009 and 2010; and between 2010 and 2011.
- b. Please explain why the revenues from non-utility operations have decreased by 55%, while the expenses from non-utility operations have decreased by only 26%.
- c. On page 360 of WNP's evidence, it indicates that Accounts 4375 and 4380 are used for Ontario Power Authority Program funding and expenses. Please explain WNP's plans to achieve 10% and 20% of its CDM targets, as contained in its evidence at page 349, in light of the reductions in over 50% for both revenues and expenses in these accounts between 2010 and 2011.

**18. Reference:** Exhibit 3, Tab 3, Schedule 2, Table 3-30

At page 361 of its evidence, WNP indicates that Other Operating Revenue will continue to decrease as a result of changes in codes relating to low income customers.

- a. Please explain the code changes referred to in the above statement, as well as the expense types impacted.
- b. Please quantify the effects of these code changes on the various expense types.
- c. In light of the above statement, please explain the approximately 45% increase in late payment charges between 2008 and 2012.

## **Operating Costs**

**19. Reference:** Exhibit 4, Tab 2, Schedule 9



Board staff notes significant increases in WNP's Salaries and Expenses between the amounts approved by the Board in 2008 and those forecast for 2012.

- a. WNP states at page 447 that time and expenses for preparation of the 2008 cost of service application was allocated to regulatory expenses. Are these amounts included in the information provided in Table 4-24?
- b. Similarly, are there other compensation amounts that have been recorded elsewhere in WNP's accounts, such as within the smart meter deferral accounts? Are these amounts included in Table 4-24?
- c. Does Table 4-24 included compensation amounts that have been capitalized?
- d. In the event that there are compensation amounts recorded elsewhere in WNP's accounts, please provide an updated Table 4-24 that includes all compensation paid to all WNP employees.
- e. Based on updated information provided in response to part d, above, please provide a table showing average salaries for each of the categories of executive, management, operations and administration for each of 2008 approved, 2008 actual, 2009, 2010, 2011, and 2012. Please include the change % for each year, as well as the overall change % from 2008 approved to 2012.
- f. Please provide an explanation for all year-over year variances that exceed the rate of inflation.
- g. Please provide the compensation increases awarded by WNP for each year.
- h. Did WNP receive Board of Directors' approval for these salary increases? Please provide evidence of this approval, if available.
- i. Please provide a breakdown of training costs incurred by year, as well as forecast for 2012.

**20. Reference:** Exhibit 4, Tab 2, Schedule 11, page 463

WNP states at page 463 of its evidence that its salary levels are benchmarked against salary levels for neighbouring utilities.

- a. Please provide the benchmarking information that WNP has relied upon to develop its salary levels.

**21. Reference:** Exhibit 4, Tab 2, Schedule 3, page 414

WNP states that higher expenses were incurred in 2011 for Board of Directors conferences and seminars.

- a. Please provide expenses incurred for Board of Directors' conferences/seminars for 2008, 2009, 2010, 2011 and forecast for 2012.
- b. Please provide a list of the conferences/seminars attended, the objectives of each of the conferences/seminars and the total expenses incurred for each one.

**22. Reference:** Exhibit 4, Tab 2, Schedule 2, page 391

WNP states that Administrative and General Expenses were higher in 2010, partially due to the addition of the Special Purpose Charge of \$27,212.

- a. Please confirm that the Special Purpose Charge was recorded in Deferral Account 1521, and does not contribute to WNP's operating cost variances. Otherwise, please explain how the SPC affected Operating Expenses.

**23. References:** Exhibit 4, Tab 2, Schedules 1 and 2

Board staff notes numerous references to Operating Costs incurred between 2008 and 2011 that appear to be related to smart meter implementation, including:

- Page 389: producing and distributing smart meter information to customers;
- Page 391: costs incurred for data conversion to a new CIS to accommodate smart metering expenses; working with ODS companies to ensure data transmitted and received; testing billing system to ensure that smart meter data is billable and accurate;
- Page 392: billing and collection expense variances related to updating business processes for smart meters; preparing and testing for TOU pricing, etc.;
- Page 407: meter readers recording two full cycles of data for each meter installed, meter data storage;
- Page 408: CIS and billing system for smart meters;
- Page 409: dedicated billing resource for MDM/R testing.
  - a. Please itemize the costs of these smart meter activities.
  - b. Please confirm that these cost items are not also included in the smart meter deferral accounts proposed for disposition in this proceeding.
  - c. If these expenses are not included in the smart meter deferral accounts, please explain why not.

## Cost of Capital

**24. Reference:** Exhibit 5, Tab 1, Schedule 1

Table 5-5 appears to calculate interest cost based on the closing principal balance at year end.

- a. Please confirm that this is the case.
- b. For each of WNP's long term loans, please provide a continuity table that shows monthly principal and interest payments and calculates annual interest paid.

## Cost Allocation and Rate Design

**25. Reference:** Exhibit 7, Tab 2, Schedule 1

Table 7-6 indicates significant changes between the revenue-to-cost ratios generated by the cost allocation model and the 2008 ratios approved by the Board.

- a. Please describe any changes in WNP's cost allocation methodology that have occurred since the last Board-approved rates in EB-2007-0693.
- b. Please provide an analysis of the factors that result in the significant changes in the ratios as shown in the table.

**26. Reference:** Low Voltage Charges, Exhibit 8, Tab 7, Schedule 1

- a. Please explain the derivation of the \$145,889.78 amount to be allocated for Low Voltage Charges.
- b. Please explain the relationship between the total amount of \$320,665 in Table 8-11 and the information contained in Table 8-10.

**27. Reference:** Loss Adjustment Factors, Exhibit 8, Tab 8, Schedule 1

- a. Please explain the use of a 6 year average to calculate loss factors, rather than the 5 years preferred time period, as specified in Chapter 2 of the Filing Requirements.
- b. Please explain the derivation of a loss factor of 1.0616 for a primary metered customer.

## Smart Meter Cost Recovery

**28. Reference:** Loss Adjustment Factors, Exhibit 8, Tab 8, Schedule 1

Table 10-6 shows costs incurred for smart meters beginning in 2007. WNP received authorization to proceed with smart meter implementation through O. Reg. 427/06 as amended through O. Reg. 235/08 on June 25, 2008. WNP's Attestation Letter of the Fairness Commissioner is dated August 1, 2008.

- a. Please describe the nature of the costs incurred for smart meters prior to authorization to proceed.

**29. Reference:** AMI Selection, Exhibit 10, Tab 1, Schedule 5

WNP entered into final contact negotiations with the best value bidder; however it states that these negotiations became stalled.

- a. Please explain how the negotiations became stalled.

**30. Reference:** Smart Meter Funding and Cost Recovery Guideline, G-2011-0001

At page 18 of the Guideline, it states that the Board expects that the majority (i.e. 90% or more) of the total program costs for which the distributor is seeking recovery will be audited.

- a. Please confirm that WNP's 2011 smart meter costs have been audited.

**31. Reference:** Transition to Time-of-Use Pricing, Exhibit 10, Tab 1, Schedule 9

WNP was granted an exemption for Time-of-Use pricing implementation until January 31, 2012 through EB-2011-0114.

- a. Please provide a status update regarding WNP's transition to Time-of-Use pricing.

**32. Reference:** Cost Variance, Exhibit 1-, Tab 1, Schedule 15

Table 10-9 indicates that there are no variances to the original budget of \$1.2 million. Table 10-5 indicates total capital and OM&A costs incurred of \$1.087 million.

- a. Please provide the original capital and OM&A budgets on the basis of the components contained in Table 10-6.
- b. Please explain any variances exceeding the materiality threshold.

**33. Reference:** Smart Meter Model, Sheet 3, Tax Rates

WNP has entered tax rates into the smart meter model of 26.5%, 26.5%, 25%, 24.5%, 22.5%, 21% and 19.5% for the years 2006 to 2012 respectively.

- a. Please confirm that the tax rates contained in WNP's 2012 PILs workform are the minimum tax rates, and that the tax rate underpinning WNP's rates for 2012 is 15.5%.
- b. Please confirm that the tax rates underpinning WNP's rates for 2008 to 2011 are 16.5%, 16.5% 16.0% and 15.5%, respectively.

**34. Reference:** Smart Meter Model, Sheet 3, Return on Equity

WNP has entered a Return on Equity of 8.68% for 2008 to 2011. The rate approved by the Board in EB-2007-0693, which and underpins rates for 2008-2011 was 8.57%.

- a. Please correct the model to include the return on equity of 8.57%.

**35. Reference:** Smart Meter Model, Sheet 8, Funding Adder Revenues

WNP has included interest on the balance of the Smart Meter Funding Adder Revenues until June 2012.

- a. Please confirm that WNP has applied for an effective date of May 1, 2012 and that interest on the balance collected from customers should cease in accordance with the effective date.
- b. Please correct the interest entries on Sheet 8 of the model to remove interest expense after May 1.

**36. Reference:** Smart Meter Costs, Exhibit 10, Tab 1, Schedule 3, Table 10-5

Board staff has prepared the following table to calculate the average per meter cost for installed smart meters, on both a capital expenditures and total (capital and operating costs) basis.

	2007	2008	2009	2010	2011	2012	Total	
Capital	\$ 55,374	\$ 47,841	\$ 458,913	\$ 375,542	\$ 41,345	\$ 1,200	\$ 980,215	
OM&A		\$ 35	\$ 3,986	\$ 25,973	\$ 58,957	\$ 17,654	\$ 106,605	
Number of Smart Meters		90	243	3246	20		3599	
							<b>Total</b>	<b>Average per meter</b>
							<b>Total (capex + opex)</b>	
							\$1,086,820	\$ 301.98
							<b>Capex only</b>	
							\$ 980,215	\$ 272.36

Total exc. costs beyond minimum functionality	\$1,046,731	\$ 290.84
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- a. Please confirm or correct these numbers.
- b. In applications to date, smart meter costs have typically averaged below \$200 per meter on a total cost (capex plus opex) basis. This is particularly so when smart meter deployment only involves the Residential and GS < 50 kW (i.e., there are no deployments “beyond minimum functionality” for other metered customer classes like GS > 50 kW). Please provide further explanation of WNP’s circumstances that support its costs higher than average and of efforts that WNP took during its smart meter deployment to control its capital and operating costs for the program.

**37. Reference:** SMDR, Exhibit 10, Tab 3, Schedule 1, Table 10-12

WNP appears to have allocated SMFA revenue on the basis of the revenue requirement allocated to the two classes. In recent applications (e.g. Orangeville EB-2012-0039), the Board has determined that it is preferable to calculate the SMFA revenues per class on the basis of the revenues collected from the separate classes, with GS >50kW revenues divided evenly between the Residential and GS <50 kW classes.

- a. Please confirm that WNP has allocated these revenues on the basis of the revenue requirement allocated to the two classes.
- b. Does WNP have information from its billing system to provide the actual revenues collected by rate class per year?
- c. If the information is not available, please calculate SMFA revenues based on the average number of customers in each class per year, multiplied by 12 months, multiplied by the applicable SMFA for the period.

**38. Reference:** Stranded Meters, Exhibit 10, Tab 2, Schedule 1

WNP states that the proceeds on scrapped meters are captured in Account 1555.

- a. Please provide the proceed amounts, in total and on a per meter basis.

**39. Reference:** Stranded Meters, Exhibit 10, Tab 2, Schedule 1, Table 10-10

WNP states that it does not have sufficient information to split the stranded meter costs between the rate classes, and that using the same allocation methodology as for the SMDR does not make sense and would be inequitable to one or both classes.

- a. Please explain this statement.
- b. Please describe the functionality of the mCare system discussed at page 408 of WNP's evidence, to facilitate the tracking of removal of older mechanical meters.
- c. What was the cost of the mCare system?

**40. Reference:** Smart Meter Model

- a. Please provide an updated smart meter model reflecting any changes resulting from the above interrogatories.

## **Green Energy Act Plan**

**41. Reference:** GEA Plan vs. Asset Management Plan

- (i) Exhibit 2/Tab9/Sch1/p.278
- (ii) Exhibit 2/Tab9/Sch1/p.285/Planned Development of Wellington North Power Inc's Distribution System to Accommodate Generation Connections
- (iii) Exhibit 2/Tab9/Sch1/p.286/Table 2
- (iv) Filing Requirements<sup>1</sup>, Part I, Section 2, Province-wide Recovery of Certain Connection-related Costs

At reference (i), WNP indicates that it has identified four categories of work necessary to support renewable generation: re-conductoring; pole replacements; individual asset replacements; and individual transformer replacements. In addition, WNP states in part that:

As detailed in Exhibit 2 / Schedules 5 and 6, there are capital projects planned by Wellington North Power Inc. to continue to address the above four categories. In addition, further measures of planned work by the LDC are identified in the Asset Management Plan as described in Exhibit 2.

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<sup>1</sup> Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence (EB-2009-0397) \_March 25, 2010 version

WNP indicates at references (ii) and (iii) that it has a 5 year plan but it is unclear whether this plan addresses both renewable generation connection and smart grid, and whether this 5 year plan is strictly the GEA plan or the asset management plan whose portions are linked to the GEA plan activities. At reference (ii), WNP states in part that:

The Distributor has developed a 5 year system investment plan which has identified a number of capital projects that will require attention, to begin improvements and/or implementation of smart grid technology and system reliability.

At reference (iii), WNP states in part that:

The following (Table 2) indicates various projects to be completed over a five year period, to improve system capacity, reliability, efficiency, and accommodate renewable generation.

- a. Please clarify whether smart grid related activities referenced at (ii) are foreseen over the 5 year GEA plan horizon.
- b. Please clarify whether activities to support the connection of renewable generation are contained, in part or wholly, within WNP's current asset management plan.
- c. Please indicate whether Table 2 at reference (iii) strictly reflects GEA plan activities.
- d. If activities to support the connection of renewable generation are partially incorporated in WNP's current asset management plan, please indicate which ones they are and the associated level of expenditures.
- e. If applicable, and keeping in perspective reference (iv), please differentiate and list work associated with the connection of renewable generation that is strictly a component of the GEA plan and apportion the costs appropriately, indicating the level of expenditure both capital and OM&A that would be associated with such activities.
- f. Please revise Table 2 accordingly.

**42. Reference:** GEA Plan  
(i) Filing Requirements, Part V, Section 2, bullet point 4  
(ii) Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09<sup>2</sup>, Paragraph 3.2.2.3, Basic Benefit Assessments For Basic GEA Plans

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<sup>2</sup> [http://www.ontarioenergyboard.ca/OEB/Documents/EB-2009-0349/Board\\_Report\\_Determining\\_Direct\\_Benefits\\_20100610.pdf](http://www.ontarioenergyboard.ca/OEB/Documents/EB-2009-0349/Board_Report_Determining_Direct_Benefits_20100610.pdf)



(iii) Exhibit 2/Tab9/Sch1/p.285/Planned Development of  
Wellington North Power Inc's Distribution System to  
Accommodate Generation Connections

Reference (i) points to: "the method and criteria that will be used to prioritize expenditures in accordance with the planned development of the system".

Reference (ii) recognizes two distinct types of work related to the connection of renewable generation, namely Expansion and Renewable Enabling Improvements (REI) that give rise to specific cost recovery treatment from the distributor's ratepayers under the *Framework*.

At reference (iii), WNP addresses the forecast of future renewable connections, stating that:

Wellington North Power Inc. currently has six 10 kW microFIT connections, ten 10kW pending connections and one 100 kW FIT application. We anticipate all of these to be connected over the five year period.

The 100 kW FIT capacity exempt approved Rooftop Solar Application is anticipated to be connected to the distribution system by December-01-2012. To accommodate this connection Wellington North Power has prepared the necessary upgrade required to the distribution plant by replacing 300m of #2 ACSR to 336MCM at an estimated cost of \$15,000.00. This enhancement will also benefit an area of potential renewable generation growth.

- a. In accordance with the Filing Requirements at reference (i), please provide the Board with WNP's general strategy and prioritization methodology for connecting embedded generation.
- b. Please clarify whether the work estimated at \$15,000 at reference (iii) to connect a project is already included in the asset management plan.
- c. The planned work is characterized as "enhancement", is that Expansion or REI? Does the \$15,000 cost estimate account for capital only, or are OM&A costs included?
- d. At reference (iii), you indicate that the 17 projects in the pipeline will be connected within 5 years. Using the table below as a guide, please indicate the work that will be undertaken, and the feeder associated with it.

- e. Will system Expansion/REI activities result in premature asset replacements?  
When applicable please give an estimate of the remaining useful life of the  
“replaceable” asset and indicate in each case whether there is a residual value.

PROJECT X	FEEDER	EXPECTED ONLINE DATE	ACTIVITY	COST ESTIMATE
			<b>SYSTEM EXPANSION ACTIVITIES</b>	
			Building a new line to serve the connecting customer	
			Rebuilding a single-phase line to three-phase to serve the connecting customer	
			Rebuilding an existing line with a larger size conductor to serve the connecting customer	
			Rebuilding or overbuilding an existing line to provide an additional circuit to serve the connecting customer	
			Converting a lower voltage line to operate at higher voltage	
			Replacing a transformer to a large MVA size	
			Upgrading a voltage regulating transformer or station to a larger MVA size	
			Adding or upgrading capacitor banks to accommodate the connection of the connecting customer	
			<b>RENEWABLE ENABLING IMPROVEMENTS ACTIVITIES</b>	
			Modifications to, or the addition of, electrical protection equipment	
			Modifications to, or the addition of, voltage regulating transformer controls or station controls	
			The provision of protection against islanding (transfer trip or equivalent)	
			Bidirectional reclosers	
			Tap-changer controls or relays	
			Replacing breaker protection relays	
			SCADA system design, construction and connection	
			Any other modifications or additions to allow for and accommodate 2-way electrical flows or reverse flows	
			Communication systems to facilitate the connection of renewable energy generation facilities	

**43. Reference:**

GEA Plan Rate Impacts

(i) Exhibit 2/Tab9/Sch1/p.278

(ii) Filing Requirements, Part III, Time of Filing of GEA Plan

(iii) Filing Requirements, Part VII, Capital and OM&A Deferral

Accounts for Renewable Generation Connection or Smart Grid Development

(iv) Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09, Paragraph 3.2.2.3, Basic Benefit Assessments For Basic GEA Plans

OM&A costs associated with the implementation of the GEA plan are not reflected in WNP's current application.

WNP's GEA plan does not indicate how the distributor will recover costs associated the implementation of the plan; that said, reference (i) indicates that no rate rider is sought:

As part of this 2012 Cost of Service application, Wellington North Power Inc. is not requesting for a GEA rate rider. Currently, when the LDC is planning capital projects, it ensures that the expenditure would facilitate the connection of embedded generation. If and when a GEA project is required, the Wellington North power Inc. would submit a separate application to the OEB.

Reference (ii) indicates that distributors are required to file with the Board GEA plans as of their cost of service applications from year 2012 onwards unless directed to do otherwise by the Board.

Reference (iii) points to the deferral accounts twinned with the GEA plan.

- a. Please confirm that no additional human resources will be required to implement the GEA Plan.
- b. Please indicate what OM&A expenditures, if any, will be associated with the GEA plan capital expenditures.
- c. Please clarify why WNP would choose to submit a separate application to the Board when specific deferral accounts as at reference (c) have already been created to record OM&A and capital expenses related to renewable connections and smart grid activities.
- d. Please outline WNP's proposal for recovery of costs associated with the implementation of the GEA plan.
- e. If feasible, please provide an estimate of the direct benefits accruing to WNP's ratepayers.

**44. Reference:** Distribution System Matters & System Constraints  
(i) Exhibit 2/Tab9/Sch1/p.281  
(ii) Exhibit 2/Tab9/Sch1/p.288/OPA letter

At reference (i), WNP has indicated that its distribution system is embedded with Hydro One's supply.

The OPA notes in its letter that:

WNP's supply point at Hanover TS is currently constrained by the Bruce area limit. [...]

The OPA will be unable to award contracts to capacity allocation required projects in the Bruce region until this constraint has been addressed through the new Bruce to Milton transmission line.

- a. As per the Filing Requirements, please confirm that appropriate discussions and consultations with the host distributor have taken place.

## **Disposition of Account 1562 – Deferred PILs**

**45. Reference:** Interest Expense: 2001 through 2005 SIMPIL Models

Board staff notes that when the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in sheet TAXCALC as an extra deduction in the true-up calculations.

For the tax years 2001 to 2005:

- a. Please provide a table for the years 2001 to 2005 that shows all of the components of WNP's interest expense for the purposes of the interest true-up calculation and the amount associated with each type of interest. Please ensure that the table balances back to all of the interest expense listed in the audited financial statements.
- b. Did WNP have interest expense related to liabilities other than debt that is disclosed as interest expense in its financial statements?
- c. Did WNP net interest income against interest expense in deriving the amount it shows as interest expense in its financial statements and tax returns? If yes, please provide details to what the interest income relates.
- d. The Board decided interest expense used to calculate the interest claw-back variance should not include interest on customer deposits.<sup>3</sup> Please exclude interest expense on customer security deposits in interest expense for purposes of the interest true-up calculation.

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<sup>3</sup> Hydro One Brampton, EB-2011-0174, December 22, 2011. Kingston Hydro, EB-2011-0178, April 19, 2012. Innisfil Hydro, EB-2011-0176, April 19, 2012.

- e. Did WNP include interest income on customer security deposits in the disclosed amount of interest expense in its financial statements and tax returns?
- f. Interest on IESO prudentials is a stand-by fee for providing, but not drawing on, a line of credit. The Board decided that this interest expense relates to debt and should be included in the interest claw-back variance calculations.<sup>4</sup> Please include interest on IESO prudentials in interest expense for purposes of the interest true-up calculation.
- g. Did WNP include interest carrying charges on regulatory assets or liabilities in interest expense?
- h. Did WNP include the amortization of debt issue costs, debt discounts or debt premiums in interest expense? If the answer is yes, did WNP also include the difference between the accounting and tax amortization amounts in the interest true-up calculations? Please explain.
- i. Did WNP deduct capitalized interest in deriving the interest expense disclosed in its financial statements? If the answer is yes, did WNP add back the capitalized interest to the actual interest expense amount for purposes of the interest true-up calculations? Please explain.
- j. If a revision has been made to the SIMPIL interest claw-back calculations, please file the revised SIMPIL models and update the PILs continuity schedule and final balance for disposition in Excel format.

**46. Reference:** Exhibit E1, Tab 1, Schedule 5, page 21

WNP is requesting Board approval to establish a Meter Data Management / Repository (MDM/R) Deferral & Variance account on May 1, 2012.

- a. Please explain why WNP needs the MDM/R Deferral & Variance account?
- b. Has WNP incurred actual costs for MDM/R and if yes, please list the type of costs and the dollar amount by type.

**47. Reference:** Exhibit E2, Tab 2, Schedule 3, pages 200-204;  
Exhibit E11, Schedule 2, pages 831-834, Tables 11-2 to 11-5;  
Article 220, APH: Account 1860, page 67

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<sup>4</sup> Burlington Hydro, EB-2011-015, March 20, 2012. Kitchener-Wilmot Hydro, EB-2011-0179, April 4, 2012. Thunder Bay Hydro Electricity Distribution Inc., EB-2011-0197, April 4, 2012.

Board staff is unaware of Uniform System of Accounts (USoA) account 1861 that WNP is using to record smart meter costs. Article 220 of the APH prescribes Account 1860 to record cost installed of meters or devices related to smart meters.

- a. Please clarify if WNP should be using Account 1860 instead of Account 1861 for smart meter and smart meter communications. If so, please update Tables 11-2 to 11-5.

**48. Reference:** Exhibit E2, Tab 3, Schedule 1, page 205, Table 2-15  
Exhibit E11, Schedule 2, pages 831-834, Tables 11-2 to 11-5

WNP provided the depreciation periods used under CGAAP and MIFRS using the IFRS depreciation periods recommended by the Kinectrics Study in Table 2-15. WNP has a depreciation period of 5 years related to Account 1955, Communications Equipment in Tables 11-4 to 11-5 under MIFRS instead of 8 years defined in Table 2-15.

- a. Please determine the appropriate depreciation period for communications equipment and update Tables 11-4 to 11-5.
- b. Please specify the depreciation period for Account 1935, Stores Equipment in Tables 11-2 to 11-5.
- c. Please update the depreciation periods in the tables for these 2 accounts.

**49. Reference:** Exhibit E2, Tab 2, Schedule 3, pages 200-204;  
Exhibit E11, Schedule 2, pages 831-835, Tables 11-2 to 11-6;  
s. 2.7.7 of Chapter 2 of the Filing Requirements for Transmission and Distribution Applications, June 22, 2011

WNP provided the Fixed Asset Continuity Schedules for 2008 -2012 under CGAAP and MIFRS showing both the costs and accumulated depreciation. However, Board staff notes that WNP did not provide the supporting schedules to show how the depreciation expenses were calculated for each of the period 2008 to 2012 for both CGAAP and MIFRS.

- a. Please provide the detailed calculations of the depreciation expenses for 2008-2012 under CGAAP and MIFRS as required by s.2.7.7 of the Filing Requirements, including, but not limited to:
  - the underlying PP&E assets, including gross capital costs and accumulated depreciation;

- revised useful lives;
  - depreciation rates;
  - any fully depreciated assets; and
  - use of the half year rule
- b. Please provide a reconciliation of the depreciation expense calculated in part a, above with the depreciation expenses found in the 2008 to 2012 Fixed Asset Continuity Schedules for both CGAAP & MIFRS.

## **DEFERRAL & VARIANCE ACCOUNTS (DVA)**

**50. Reference:** Exhibit E9, Schedule 2, page 765;  
Exhibit E9, Schedule 5, page 777;  
DVA Continuity Schedule

WNP states that it is not seeking disposition of Account 1508, Sub account IFRS Costs. However, WNP has shown a claim for recovery of \$9,748 under Account 1508, Other Regulatory Assets in Table 9-6.

- a. Please confirm if WNP is seeking disposition of the costs related to IFRS in this proceeding. If WNP is not seeking the disposition of the IFRS costs, please update DVA Continuity Schedule for Account 1508, Sub account IFRS and Table 9-6.
- b. Please confirm if the recorded costs in Account 1508, sub account IFRS Transition Costs are one time administrative incremental IFRS transition costs.
- c. Please provide an update on WNP's IFRS implementation status.

**51. Reference:** Exhibit E9, Schedule 2, page 768-769;  
Exhibit E9, Schedule 2, page 777, Table 9-6;  
Exhibit E9, Schedule 8, page 782, Table 9-7;  
DVA Continuity Schedule  
S 2.12.1, s.2.12.2 of Chapter 2 of the Filing Requirements

WNP states that it is not seeking disposition of balance Account 1592, Harmonized Sales Tax (HST)/OVAT/ITC account. Sections 2.12.1 & 2.12.2 of Chapter 2 of the Filing Requirements for Transmission and Distribution Applications expects electricity distributors to dispose of Account 1592 balances in the 2012 COS rebasing.

- a. Please explain why WNP is not requesting for disposition of the balance as at April 30, 2012 in Account 1592.
- b. Please confirm the Account 1592 balance as at April 30, 2012 and update the DVA Continuity Schedule, Tables 9-6, 9-7, and Appendix T-2.
- c. Please confirm that WNP does not intend to continue using sub account 1592 for the test year and going forward. If this is not the case, please explain.

**52. Reference:** Exhibit E9, Schedule 4, page 774, Table 9-5;  
Staff Discussion Paper: Transition to IFRS-Implementation in an  
IRM Environment: Appendix A-2 dated March 31, 2011;  
Exhibit E11, Schedule 1, page 826, Table 11-1;  
Exhibit E11, Schedule 5, page 839, Table 11-11

WNP has used the average balance in the PP&E Deferral account in Table 9-5 in the calculation of the return on PP&E Deferral account (Average balance: \$95,377 times WACC: 6.2% equal \$5,917) instead of using the closing balance in the PP&E Deferral account at transition date as in Appendix A-2 of March 31, 2011 Staff Discussion Paper: Transition to IFRS-Implementation in an IRM Environment.

- a. Please update Tables 9-5, 11-1, 11-11 and other applicable evidence, e.g. depreciation schedule, if required, using the example in Appendix A-2.

**53. Reference:** Exhibit E9, Schedule 8, page 782, Table 9-7;  
2012 EDDVAR Rate Rider Calculations: Sheet 1;  
Exhibit E3, Tab 2, Schedule 1, page 735, Table 3-26;  
EDDVAR Report, EB 2008-0046, Table 1

WNP has provided the billing determinants for each rate class for RPP and non RPP for Account 1588 Power and Account 1588, sub Account GA in the 2012 EDDVAR Rate Rider Calculations, Sheet 1. WNP has used the same billing determinants for both RPP and non RPP rate rider calculations.

- a. Please provide RPP and non RPP rate riders using the appropriate billing determinants and show the detail calculations and please update Table 9-7 if needed.



## **MODIFIED INTERNATIONAL FINANCIAL STANDARDS (MIFRS)**

**54. Reference:** Exhibit E4, Tab 2, Schedule 1, page 386;  
Exhibit E1, Tab 3, Schedule 3, page 95 and 111 note 13 of 2010 AFS;  
Exhibit E1, Tab 3, Schedule 4, page 122;  
Exhibit E1, Tab 3, Schedule 5, page 132;  
Section 2.7.4 of Chapter 2 Filing Requirements;

In note 13 of the 2010 Audited Financial Statements (AFS), WNP showed Post Employment Benefits Obligation of \$103,322. WNP showed amounts of \$112,351 for 2011 and \$117,407 for 2012 in its Pro forma statements for Employee Future Benefits under current liabilities.

- a. Please confirm if WNP has any unamortized gains or losses at the time of transition (January 1, 2011). Please state the dollar amount if any.
- b. What is the proposed regulatory treatment of these amounts – are these amounts incorporated anywhere in the revenue requirement? Please explain.
- c. WNP stated that it has an actuarial valuation report completed in 2011. Please provide a copy of this report.

**55. Reference:** Section 2.3.5 of Chapter 2 Filing Requirements

Utilities are required to identify in their rates application the financial differences and resulting revenue requirement impacts arising from the adoption of MIFRS accounting. The particulars of this requirement are set out in the Board Report and the amendments posted November 8, 2010 and March 15, 2011.

- a. Please identify the indirect costs and overhead/burden that have been capitalized under CGAAP and expensed under MIFRS or expensed under CGAAP and capitalized under MIFRS.
- b. Please provide the financial differences and the resulting financial impact on revenue requirements and rate base with regards to the change in accounting policy on the capitalization or expensing of indirect costs and overhead/burden under MIFRS.