BOARD STAFF INTERROGATORIES
CANADIAN NIAGARA POWER INC. (“CNPI”)
2013 ELECTRICITY DISTRIBUTION COST OF SERVICE RATES
July 13, 2012

General

1. Responses to Letters of Comment

Following publication of the Notice of Application, did CNPI receive any letters of comment? If so, please confirm whether a reply was sent from the applicant to the author of the letter. If confirmed, please file that reply with the Board. Please ensure that the author’s contact information except for the name is redacted. If not confirmed, please explain why a response was not sent and confirm if the applicant intends to respond.

2. Condition of Service

a) Please identify any rates and charges that are included in the applicant’s conditions of service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered.
b) If any rates or charges are identified in part a), please provide a schedule outlining the revenues recovered from these rates and charges from 2009 to 2011 and the revenue forecasted for the 2012 bridge and 2013 test years.
c) If any rates or charges are identified in part a), please explain whether in the applicant’s view, these rates and charges should be included on the applicant’s tariff sheet.

3. Updated RRWF

Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF with any corrections or adjustments that the applicant wishes to make to the amounts in the previous version of the RRWF included in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

4. Updated Revenue Requirement

Upon completion of responses to all interrogatories, please identify any adjustments to the proposed service revenue requirement that the applicant wishes to make relative to the original application.

Filing Requirements

5. Ref: E1/T1/S1

The Board in a letter dated January 26, 2012 identified those electricity distributors, which included CNPI, which it expected to file a cost of service application for 2013 rates. In this regard the Board indicated that applicants that wished to request cost of service rates effective January 1, 2013 should file their applications sooner, and no later than April 27, 2012.

The Board also expected that distributors filing applications in advance of any revisions to the Filing Requirements for Transmission and Distribution Applications would update their applications in due course to address any material changes that may be reflected in the revised Filing Requirements.
The Board on June 28, 2012 issued the filing requirements for 2013.
Please complete and file the following appendices, in addition to any others specifically identified in the interrogatories that follow: 2-A, 2-CA, 2-CB, 2-CC, 2-CD, 2-D, 2-EA, 2-F, 2-L, 2-M and 2-N.

6. Ref: E1/T1/S1

The Board's Conservation and Demand Management ("CDM") Guidelines for Electricity Distributors (EB-2012-0003) at page 3 notes that: "At a minimum, distributors must apply for disposition of the balance in the LRAMVA at the time of their Cost of Service rate applications. Distributors may apply for the disposition of the balance in the LRAMVA on an annual basis, as part of their Incentive Regulation Mechanism rate application, if the balance is deemed significant by the applicant." Board staff acknowledges that the final, verified results for CNPI's 2011 OPA-Contracted Province-Wide CDM programs are not currently available.

a) Does CNPI plan to update its evidence to indentify and/or seek disposition of variances between the final results of its 2011 CDM programs and the CDM savings reflected in CNPI's 2011 rates in this proceeding after it has received the final results from the OPA?

b) What is CNPI's plan for disposing of its LRAMVA in future applications?

Rate Base

Issue 2.1
Is the proposed CNPI – Fort Erie/Gananoque rate base for the test year appropriate?

7. Ref: E2/T1/S3 – Rate Base Variance

On page 1 CNPI – FE/EOP shows a gross downward adjustment on Gross Fixed Assets of $1.4M for 2009 through 2013 test year and an upward adjustment of accumulated depreciation of $286,946 in 2009, $329,457 in 2010, $371,968 in 2011, $414,478 in the 2012 bridge year and $456,989 in the 2013 test year. Please explain the reasons for these adjustments to rate base.

Issue 2.5
Is the CNPI – Fort Erie/Gananoque capital expenditure forecast for the test year appropriate?

8. Ref: E2/T4/S2 – Capital Expenditure Summary

a) Please provide an overall summary of capital expenditures over the past three historical years, the bridge year and the test year, showing capital expenditures, treatment of contributed capital and additions and deductions from Construction Work in Progress ("CWIP") as per *the* Filing Requirements issued June 28, 2012.
b) Please provide a table showing up-to-date spending on a proposed capital projects for the 2012 bridge year.
c) Please provide the expected in-service dates for those projects.

9. Ref: E2/T2/S5, p. 29 - 31 – Transportation Equipment

a) Please provide an overview of CNPI's current fleet for Fort Erie as well as Gananoque.
b) Please provide a summary vehicle replacement schedule for three historic years, the bridge year and the test year, including Year, Make and total costs.
c) Please provide CNPI's vehicle replacement policy.
d) Please provide a forecast of CNPI's proposed vehicle replacement in 2014, 2015 and 2016.
e) Please provide an allocation of CNPI's fleet to service its Port Colborne service territory.

10. Ref: E2/T3/S2, p.2 – Forecast Capital Expenditure

CNPI – FE/EOP provided a preliminary capital expenditure budget for the years 2013 through 2015.

a) Board staff noted that the forecasted capital budget for the 2013 includes General Expense Capital (GEC). The 2014 and 2015 forecast do not include any GEC. Please state if the 2013 capital forecast accounts for the proposed changes to CNPI's capitalization policy effective January 1, 2013.
b) If not, why not.

c) Please expand and re-file the table on E2/T3/S2/p.2 to include a forecast of the capital budget for the years 2016 and 2017 rate years.

Issue 2.6
Is the CNPI – Port Colborne capital expenditure forecast for the test year appropriate?

11. Ref: E2/T2/S11, p 5 – 6 – Overhead Services
E3/T2/S2 Appendix A, Table 7 & 8 – Load Forecast

On page 5 CNPI – PC shows capital expenditures of $71,000 in 2010 actual, $200,000 in 2011 actual (increase of 182%), $116,000 in the 2012 bridge year and $140,000 in the 2013 test year.

CNPI shows capital expenditures of $51,000 in 2010 actual, $135,000 in 2011 (165% increase), $122,000 in the 2012 bridge year and $125,000 in the 2013 test year. Costs prior to 2010 Overhead and Underground Service costs were aggregated under the category of new service lines. On page 6 under either category CNPI states that:

> *Projects in this classification are undertaken to install overhead facilities for service new customers or upgrade existing service lines in response to customer load growth. Projects in this category are customer-driven and cannot be deferred*

On page 11 and 12 E3/T2/S2, Appendix A CNPI shows a negative growth in customer numbers for 2011 actual and a decline in kW consumption for the Residential and GS<50 kW and USL customer classes. The GS>50, Street light and Sentinel light customer classes show significant load growth. Board staff further notes that CNPI has forecasted zero or negative load growth for all rate classes in the 2012 bridge and 2013 test years.

a) Please reconcile the above statement by CNPI for each category in E2/T2/S11 with the limited actual and forecast load growth and decline in customer numbers.
b) Please provide the up-to-date spending in this category.

12. Ref: E2/T2/S11, p 13 – Barrick Station Projects

CNPI is showing a capital expenditure of $144,000 in the 2012 bridge year and $179,000 in the 2013 test year. CNPI stated the following reasons:

> *Barrick DS is the oldest distribution substation in Port Colborne, being about 45 years old. It is located in a residential neighbourhood and consists of a single 27.6 kV – 4.16 kV power transformer and indoor switchgear contained in a building designed to look like a house. The switchgear and associated relaying is*

of an older design and is nearing the end of its useful life. Forecasted expenditures for 2012 Bridge Year and 2013 Test Year are for the replacement of the switchgear with a new lineup that meets modern design standards (such as Arc Proof ratings) and microprocessor-based protection systems. This project will be undertaken over 2012 and 2013 and will improve system security and safety by replacing aged equipment.

a) Please provide a list of all system elements of the Barrick DS (i.e. Transformer, Switchgear, and Protection System) including the respective age and condition of the element. Please elaborate on the overall condition of the DS and provide an estimate as to when this transformer might need to be replaced.
b) Please elaborate on the impact on CNPI – PC's distribution system if this project were to be deferred.

13. Ref: E2/T2/S11, p 15 – 16 – 43M11 Refurbishment Project

On page 15 CNPI – PC states shows new capital expenditures of $230,000 in the 2012 bridge year and $130,000 in the 2013 test year. CNPI states that this project is to rebuild sections of a feeder that are in deteriorating condition. CNPI also states that this project will relocate these sections to roadway allowances to facilitate better access for maintenance purposes.

a) Please provide further explanation on the condition of the feeder and provide a business case if one exists.
b) Please elaborate on the impact on CNPI – PC's distribution system if this project were to be deferred.

14. Ref: E2/T3/S2, p.2 – Forecast Capital Expenditure

CNPI - PC provided a preliminary capital expenditure budget for the years 2013 through 2015.

a) Board staff notes that the forecasted capital budget for the 2013 includes General Expense Capital. Please explain if CNPI has taken into account the proposed changes to its capitalization policy effective January 1, 2013.
b) If not, why not.
c) Please expand and re-file the table on E2/T3/S2/p.2 to include a forecast of the capital budget for the years 2016 and 2017 rate years.

Load Forecast and Operating Revenue

Issue 3.1
Is the load forecast methodology including weather normalization appropriate?

15. Ref: E1/T1/S1 p. 1 – Distribution Revenue Overview – FE/EOP

On page 1 CNPI provided an overview of distribution revenue for the Fort Erie and Gananoque service territory under the CGAAP accounting standard. Please provide the same table under ASPE and show the transition year under both standards.

16. Ref: E1/T1/S2 p. 1 – Distribution Revenue Overview – PC

On page 1 CNPI provided an overview of distribution revenue for the Port Colborne service territory under the CGAAP accounting standard. Please provide the same table under ASPE and show the transition year under both standards.

17. Ref: E3/T2/S1, Appendix A – Weather Normalized Load Forecast

CNPI used a Normalized Average use (NAC) methodology to determine a weather normal load forecast. On page 1, CNPI states that "while it may be possible to estimate a regression model using wholesale data for at least two of the three CNPI service areas, analysis suggests there are extenuating circumstances that would advise against using a Wholesale kWh based regression model".

a) Did CNPI attempt to run regression models for one or more of CNPI's service territories? If so, please provide any preliminary test results using a regression model for any or all of the three service territories and explain the difference in outcome to the NAC methodology.

18. Ref: E3/T2/S1, Appendix A, Table 1 and 8 - Weather Normalized Load Forecast

On page 12, CNPI states: "*For non-weather sensitive classes, no normalization is used for historical consumption. Forecast consumption is based on the most recent year's use per customer and the forecast customers in each class*."

Referencing to Table 8 of the above evidence, Board staff notes that the 2012 and 2013 consumption forecasts are calculated using average of growth rate percentages for the period from 2007 to 2011.

a) Please explain the methodology that CNPI has used to forecast the consumptions for non-weather sensitive classes.

b) If CNPI has used an arithmetic average to calculate percentages for the period from 2007 to 2011, please show the average used to determine the kWh load forecast.

c) Please update and file with the Board a revised load forecast for the 2012 bridge and 2013 test year using a simple linear tend method and calculate the variance from the proposed forecast consumption for 2012 and 2013.

19. Ref: E3/T2/S1, Appendix A - Weather Normalized Load Forecast for GS<50 – EOP

On page 8 CNPI states:

For the weather sensitive Residential and GS<50 classes, a normalized average use per customer (NAC) is calculated. The five year (2007-2011) average annual use per customer is used to define NAC for these classes, except for the GS<50 class for EOP. For this class, the 2009-2011average is used for normalizing historical 2009-2011 consumption and for forecasting 2012 and 2013. The 2005-2008 average[1] is used to normalize the historic consumption 2007 to 2008. This is due to the fact that use per customer in this class has changed, as can be seen in Table 5 and in the Appendix.

a) Please confirm that the 2012 and 2013 forecast is based on the average normalized historical consumption 2009-2011.
b) Please provide a load forecast for the GS<50 class using the five year (2007-2011) average annual use per customer, similar to the methodology used for the residential rate class.

20. Ref: E3/T2/S1, Appendix A

If CNPI has in the past completed internal annual forecast please provide the historical annual load forecast for the 2009, 2010 and 2011 rate years and corresponding actuals for those years for each of the three service areas.

a) Please also provide the variance from those actuals.

Issue 3.3
Is the impact of CDM appropriately reflected in the load forecast?

21. Ref: E3/T2/S2, Appendix A – CDM target reduction

a) Please explain how CNPI's CDM targets have been reflected in the proposed load forecast and confirm whether it is the net target or the gross target.
b) Please state how the CDM target has been allocated between FE/EOP and PC.

Issue 3.4

Is the test year forecast of other revenues appropriate?

22. Ref: E3/T3/S1 p. 1 - 2 – Revenues and Costs from Merchandise, Jobbing, Etc. – FE/EOP

In the table on page 1 CNPI shows a decline of $1,709,308 (74.35%) in the 2012 bridge year and $1,742,185 (75.78%) in the 2013 test year over 2011 actual in account 4325, Revenues from Merchandise, Jobbing, Etc. Similarly, account 4330 , Cost and Expenses of Merchandising, Jobbing, Etc. declined by $1,849,520 (87.71%) in 2012 and $2,051,110 (93.72%) over 2011 actual.

On page 2 CNPI states that "*Revenues generated from third party job orders includes revenues associated with the IT Service Agreements with each of CNPI's associated companies that use CNPI's SAP…. Revenues and costs in accounts 4325 and 430, respectively, generally offset and thus, are not forecasted for 2012 and 2013. The net revenue in prior years primarily relates to IT services provided to associated companies."*

a) Please provide the table showing all revenues and costs, including IT service revenues and costs.
b) Please show the net revenues related to CNPI's associated companies that use CNPI's SAP.
c) Please explain the increase in both revenues (276%) and costs (295%) in 2011 from 2009 actual.

23. Ref: E3/T3/S1 p. 1-3 – Gain/Loss on Disposition of utility property.

On page 3 CNPI stated that it did not forecast any gains or losses on disposition of utility or other property. Please explain why.

24. Ref: E3/T3/S1 p.3 – Cost Expenses of Non-Utility Operations

CNPI stated that "Revenues and costs for CDM offset each other. CNPI did not forecast any revenues or cost for the 2012 bridge and the 2013 test year. Please explain why.

Operating Costs

Issue 4.1
Is the proposed CNPI – Fort Erie/Gananoque forecast for total OM&A for the test year appropriate?

25. Ref: E1/T2/S1/p.1 and E4 – Operating Expenses

In the first reference CNPI stated:

Changes to the revenue requirement and rate base as a result of the change in accounting are included in Exhibit 11. Detailed schedules (e.g. revenue requirement workform, fixed asset continuity, revenue deficiency, etc.) have also been reproduced in Exhibit 11.
The schedules elsewhere in this document, including this Application Overview, are prepared using existing the accounting policy / estimate with exception of cost allocation and rate design (i.e. cost allocation and rate design are prepared under MIFRS).

Please reproduce all tables and schedules in Exhibit 4 showing the charges to CNPI's capitalization policy as a separate column.

26. Ref: E 4/T1/S1/p.1

Please provide an update of CNPI's – FE/EOP Operating Costs, year-to-date expenses in the same detail as shown in on the table on page 1 (i.e. Operations, Maintenance, Billing and Collecting, Community Relations, Administrative and General and Total OM&A Expenses). Also, please provide the figures for the corresponding period in 2010.

27. Ref: E4/T2/S5/p.1 and E3/T2/S2/p.11, Table 7

The table provided on page 1 of the first reference does not match the customer numbers forecast in table 7 of the second reference. Please reconcile the two tables and update the evidence if necessary.

28. Ref: E4/T2/S5/p.1, Appendix 2-l – OM&A cost per customer – FE/EOP

Appendix 2-l shows CNPI – FE/EOP's OM&A cost per customer to be $300 in the 2013 Test Year, up from the $293 for 2009 Board Approved, but more significantly up from $246 for 2009 actual.

a) Board staff notes that the customer numbers on Appendix 2-l does not match the proposed customer numbers in Exhibit 3. Please reconcile the two and update the evidence if necessary.
b) Please elaborate on how CNPI – FE/EOP's OM&A per customer compares to its peer group.

29. E4/T2/S2/Appendix 2-F

a) Please provide the increase in OM&A expenses between 2011 and 2013 that are due solely to the transition to MIFRS.

30. Ref: E4/T2/S2/Appendix 2-F and E10/T1/S1/p.1 - RRWF

On page 1 of E10/T1/S1/p.1 CNPI requests approval to include Smart Meter OM&A costs for 2013 into the 2013 Revenue Requirement Work Form.

a) Please provide the increase in OM&A in 2013 as compared to 2011 due to smart meter OM&A.
b) Please confirm whether or not CNPI included any revenue from the Smart meter funding adder in the Distribution Revenue of $10,830,301 (Distribution Revenue at Current Rates) as shown in the RRWF. If so, what is the amount and please re-run RRWF for 2013 excluding the Smart Meter rate adder from the calculation.

c)

31. Ref: E4/T2/S2 Appendix 2-E and Appendix 2-F – Summary of Operating Expenses – FE/EOP

Appendix 2-F shows that under Maintenance, the Maintenance of Meters grows from $203,490 in 2011, to $228,910 in 2012 and to $255,783 in the test year. Why is this expense increasing at this pace, even as CNPI has essentially completed its Smart Meter deployment?

32. Ref: E4/T2/S2 Appendix 2-F

CNPI shows a decrease in Miscellaneous Customer Service and Informational Expenses from $8,945 in 2009 to $7,621 in 2010 with increases following in 2011 to $10,168, $9,400 in 2012 and $18,500 in 2013. Please provide further explanation for these expenses, in particular how labour is allocated to this account.

33. E4/T3/S2/p.1 and E4/T3/S1/p.1 – Operation

In the detailed OM&A Cost Table CNPI shows a decrease of 28.55% in total Distribution Operations cost from 2009 Board-approved to 2009 actual. Board staff notes that in the variance analysis CNPI describes a re-allocation of labour to accounts 5016, 5065 and 5085. Please provide detailed explanations as to these decreases and describe the labour re-allocation in detail.

34. E4/T3/S2/p.2 and E4/T3/S1/p.1 – Maintenance

In the detailed OM&A Cost Table CNPI shows a decrease of 13.5% in total Distribution Maintenance cost from 2009 Board-approved to 2009 actual and a subsequent increase of 29% increase in the 2013 test year over 2009 actual. Please explain the decrease in 2009 actual from 2009 Board-approved and provide a more detailed trend analysis from 2009 Board approved and actual to the forecast for 2013..

35. E4/T3/S2/p.2 and E4/T3/S1/p.1 – Maintenance

Please provide CNPI's vegetation management schedule including tree trimming cycles. Please provide a detailed overview over all costs in the bridge and test year as well as proposed costs in the 2014 and 2015 rate years.

Issue 4.1
Is the proposed CNPI – Port Colborne forecast for total OM&A for the test year appropriate?

36. Ref: E 4/T2/S11/p.1

Please provide an update of CNPI – PC's Operating Costs, year-to-date expenses in the same detail as shown in on the table on page 1 (i.e. Operations, Maintenance, Billing and Collecting, Community Relations, Administrative and General and Total OM&A Expenses). Please also provide the figures for the corresponding period in 2010.

37. Ref: E4/T2/S5/p.1, Appendix 2-l – OM&A cost per customer – FE/EOP

Appendix 2-l shows CNPI – PC's OM&A cost per customer to be $303 in the 2013 Test Year, down from the $400 2009 Board Approved level.

a) Board staff notes that the customer numbers on Appendix 2-l does not match the proposed customer numbers in Exhibit 3. Please reconcile the two and update the evidence if necessary.
b) Please elaborate on how CNPI – PC's OM&A per customer compares to its peer group.

38. E4/T2/S11/

a) Please provide a table that shows a comparison between 2011 actual and the 2013 test year forecast.
b) Please provide the increase in OM&A expenses between 2011 and 2013 that are due solely to the transition to MIFRS.

39. Ref: E4/T2/S11/Appendix 2-F and E10/T1/S1/p.1 - RRWF

On page 1 of E10/T1/S1/p.1 CNPI requests approval to include Smart Meter OM&A costs for 2013 into the 2013 Revenue Requirement Work Form.

a) Please provide the increase in OM&A in 2013 as compared to 2011 due to smart meter OM&A.
b) Please confirm whether or not CNPI – PC included any revenue from the Smart meter funding adder in the Distribution Revenue of $5,011,916 (Distribution Revenue at Current Rates) as shown in the RRWF. If so, what is the amount and please re-run RRWF for 2013 excluding the Smart Meter rate adder from the calculation.

40. E4/T3/S6/p.2 and E4/T3/S5/p.1 – Maintenance

In the detailed OM&A Cost Table CNPI - PC shows a decrease of 18.82% in total Distribution Maintenance costs from 2009 Board-approved to 2009 actual and a subsequent increase of 34.5% increase in the 2013 test year over 2009 actual.

On page 2 of the first reference CNPI states that the increase of $106,134 from 2011 Actual to the 2012 Bridge year is primarily the result of increased forecast expenditures in Overhead Distribution Lines and Feeders – ROW Maintenance ($33,100 due to increased tree trimming) and Maintenance of Distribution of Distribution Station Equipment ($29,100).

Please provide a detailed overview of PC's Vegetation Management including the cycles used. Explain the decrease in 2009 actual as well as subsequent increases in further detail.

Issue 4.4
Is CNPI – Fort Erie/Ganaoque's proposed level of depreciation/amortization expense for the test year appropriate?

41. Ref: E4/T7/S2/Pages1-5: Appendices 2-M

Please confirm that depreciation expenses for the 2013 test year are based on revised useful lives according to the changes in CNPI's accounting policy. Please detail the changes per account.

Issue 4.5 Is CNPI – Port Colborne's proposed level of depreciation/amortization expense for the test year appropriate?

42. Ref: E4/T7/S2/Pages1-5: Appendices 2-M

Please confirm that depreciation expenses for the 2013 test year are based on revised useful lives according to the changes in CNPI's accounting policy and provide a table showing the changes per account.

Issue 4.6
Is the Proposed CNPI – Fort Erie/Gananoque forecast for Income Taxes for the test year appropriate?

43. Ref: E4/T8/S2/p.1

Please provide a live excel model of CNPI's tax calculation for FE/EOP.

Issue 4.6

Is the Proposed CNPI – Port Colborne forecast for Income Taxes for the test year appropriate?

44. Ref: E4/T8/S2/p.2

Please provide a live excel model of CNPI's tax calculation for PC.

Issue 4.8
Are the 2013 compensation costs and employee levels appropriate?

45. Ref: E4/T4/S1, Appendix 2-K and E4/T4/S1, Appendix B

On page 1 of Appendix B CNPI stated that the total complement of CNPI's FTEs carries out work for three business units: CNPI FE/EOP, CNPI PC and CNPI Transmission. CNPI further noted that it has reported the total CNPI payroll and headcount for 2012 Bridge and 2012 Test Year on an aggregate basis. Please file Appendix 2-K on an allocated basis for the FE/EOP and PC service territories.

46. Ref: E4/T4/S1, Appendix A and B

On page 5 of Appendix B CNPI stated that an SAP Analyst is planned to be hired for June 2012 and an Electrical Engineer is planned to be hired for July 2012. Please provide up-to-date status of these hires. Please clarify if the Electrical Engineer is a non-union position or a management position.

47. Ref: Ontario Municipal Employees Retirement System (OMERS) Pension Costs

OMERS announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013.

a) Please state whether or not CNPI's proposed pension costs include this increase.
b) If so, please provide the forecasted increase by years and the documentation to support the increases.
c) If not, please state how the applicant proposes to deal with this increase.
d) Please provide a projection of costs going forward.

Capital Structure and Cost of Capital

Issue 5.1
Is the proposed capital structure, rate of return on equity, short-term and long-term debt rate appropriate?

48. Ref: E5/T1/S1/p.2

On page 2 CNPI states that

> *In the second half of 2012, CNPI expects to borrow $8 million by way of affiliated long-term debt. The affiliated debt borrowing proceeds will primarily be used to finance the acquisition of the Port Colborne Hydro leased assets which closed on April 16, 2012. CNPI has used a deemed long-term debt rate of 4.41% for the 2013 Test …The Applicant recognizes that the deemed affiliated debt rate for the $8 million borrowing will be updated in accordance with Board guideline.*

a) Please provide the net book value ("NBV") and the purchase price premium (if applicable) of Port Colborne Hydro's legacy assets.
b) Please provide an explanation for the expected debt arrangements between CNPI and Fortis Ontario for the new debt in 2012. In particular, please explain how these terms reflect prudent and arms-length commercial arrangements that balance the cost to ratepayers and financial risk to CNPI and its shareholder.
c) Why are there no maturity date or repayment terms or fixed rates for these notes?
d) What alternative debt financing arrangements has CNPI considered for the new debt financing?
e) If available, please provide a copy of the debt instrument.

49. Ref: E5/T1/S1/p.2 – Long-term debt

Please provide a copy of the $30 million third party senior unsecured note dated August 14, 2003. Please advise what, if any, related transactions occurred contemporaneously or as part of a series with the issuance of that indebtedness, whether involving the Applicant or any of its affiliates.

50. Ref: E5/T1/S1/p.2; E5/T1/S4/p.1 & E5/T1/S5/p.1 – Promissory Note

Two of the debt instruments owned by CNPI are Promissory Notes due to Fortis Ontario its corporate parent. A copy of these Promissory Notes are provided in E5/T1/S4 and E5/T1/S5.

a) Each promissory note states that the existing note has no repayment terms but is callable by the parent company on demand. Can CNPI negotiate repayment with Fortis Ontario? Has it done so in the past? If so, what has (have) been the outcome(s)?
b) Please compare the existing debt rates of 6.13% ($15 million) and 7.62% ($5 million) to current market rates.

Smart Meters

Issue 6.1
Are the proposed quanta and nature of smart meter costs, including the allocation and recovery methodologies appropriate?

51. Ref: E10/T1/S1/p.21-27 – Smart Meter costs

On page 21, 25 and 27 CNPI noted that it included "only costs deemed to be incremental in carrying out the Smart Meter Project… Since ODS costs were offset by cost savings achieved by implementing remote meter reading and moving away from manual meter reading, no ODS costs are reflected in the incremental Smart Meter OM&A costs". Please identify the cost of the ODS and the offsetting cost savings for all three service territories.

52. Ref: E10/T1/S1/p.21-22 – Web Presentment

On page 22 CNPI states "costs for the Web Presentment tool that are incremental to CNPI's normal day-to-day operations are for fees to WhiteCap for system setup and ongoing monthly service charges. These costs are justified on the basis that the Web Presentment service is required to allow consumers to benefit from the SMI by having access to their energy consumption data.

a) Please confirm that CNPI has included costs for the Web Presentment service.
b) Please provide the details of this expense for all three service territories.

53. Ref: Exhibit 10 – Smart Meter costs

Please provide a table detailing the per meter costs (capital and operating cost) for each of the three service territories. Also please provide a detailed explanation how these costs compare to other distributors in the Niagara Erie Power Alliance (NEPA)..

54. Ref: E10/T1/S2; T10/T1/S4 and E10/T1/S6 - Smart Meter Model – Interest on OM&A and Depreciation Expenses

In the Smart Meter Model Version 2.17 filed by CNPI, the utility has relied upon sheet 8B to calculate the interest on OM&A and depreciation/amortization expenses. Sheet 8B calculates the interest based on the average annual balance of deferred OM&A and depreciation/amortization expenses based on the annual amounts input elsewhere in the model.

For distributors that have the appropriate data, the more accurate and preferred method for calculating the interest on OM&A and depreciation/amortization expense is to input the monthly amounts from the sub-account details of Account 1556, using sheet 8A of the model. This approach is analogous to the calculation of interest on SMFA revenues on sheet 8 of the model.

a) Please re-file the smart meter model using the monthly OM&A and depreciation/amortization expense data from Account 1556 records for each of the service territories. CNPI should also take into account any revisions necessary, such as in its response to the preceding interrogatory.
b) If this is not possible, please explain.

Cost Allocation

Issue 7.3 Are the proposed revenue-to-cost ratios for each of CNPI – Fort Erie/Gananoque rate classes appropriate?

55. Ref: E7/T1/S2/p. 5

In Appendix 2-O (2011 Filing Requirements), CNPI is proposing to change the revenue-to-cost ratio downward in 2014 for two classes, GS 50-4999 kW and USL.

a) Will the revenue-to-cost ratio be increased for some class to enable these decreases? If so, which class(es)?
b) If the IRM model will be used to accomplish that, does CNPI intend to use one of the options where the model calculates the revised rates, or will another method be used?
c) Aside from the rate design discussed in the previous interrogatory, has CNPI considered any further rate design changes to be made during the IRM period? In particular, has CNPI considered any phasing of rates toward the harmonized rates outlined in E8/T4?

Rate Design

Issue 8.1
Are the fixed to variable splits for each class appropriate?

56. Ref: E8/T2/S9/\ pp. 11 & 12 and E8/T3/S1/pp. 3 & 4

In light of the estimated impacts in these references (i.e. near 10% while holding the cost of power constant), has CNPI considered phasing in its proposed distribution rates over a longer period, say two years instead of immediately in 2013? If so, why was the more gradual approach not proposed?

57. Ref: E8/T2/S8/p.3

Please confirm that the column labeled "Service Revenue Requirement" should be "Base Revenue Requirement", i.e. net of Miscellaneous Revenue, in this exhibit and in other Revenue Reconciliation tables with the title "Appendix 2-U"

Issue 8.3
Are the proposed LV rates appropriate?

58. Ref: E8/T2/S4- Low Voltage Rates in Gananoque

a) The proposed rates appear to be based on a single year of purchases, while the supporting explanation provides information that the annual purchases are much more variable than the fluctuation in customer demand. Please provide information to support the use of 2011, other than that it is the most recent, to show that it is near the average of recent experience. For example provide the cost of purchases, the energy purchased at the LV connection, and/or the amount of power generated locally over a number of years, showing the average and any trend.
b) Please identify the charge determinants that determine the LV costs, eg Hydro One ST Lines, shared DS, specific lines, etc.

Issue 8.4
Are the proposed loss factors appropriate?

59. Ref: E8/T2/S6/p. 8 – EOP Loss Factors

Does CNPI have an estimate of the portion of its losses that occur in the "North Line" that connects generation to the substation? Has this portion increased with increased importance of the embedded generation relative to other sources?

60. Ref: E8/T2/S6/pp. 6- 8 & Distribution System Code (DSC) – EOP Loss Factors

In this application CNPI is proposing a Total Loss Factor of 1.1113 for EOP, which a Distribution Loss Factor of 1.0848.

Section 6.2.26 of the DSC states:

> *A distributor shall ensure that the distribution system is adequately protected from potential damage or increased operating costs resulting from the connection of a generation facility. Despite section 2.2.1, if*

damage to the distribution system or increased operating cots result from the connection of a generation facility other than a micro-embedded generation facility, the distributor shall be reimbursed for these costs by the generator.

Has CNPI given any consideration of sharing the increased cost of its line losses with the generator? If not, why not. Please explain why the full costs should be borne by the rate payer.

Rate Harmonization

Issue 9.1
Is CNPI's proposed rate harmonization appropriate?

61. Ref: E8/T2/S3/pp.1-2;

CNPI has proposed the following RTSR for the FE and EOP service areas:

Retail Transmission Service Rates (Fort Erie)						
Rate Class	Unit	Current RTSR Network	Proposed RTSR Network		Current RTSR Connection	Proposed RTSR Connection
Residential	kWh	0.0069	0.0071		0.0055	0.0057
General Service Less Than 50 kW	kWh	0.0063	0.0065		0.0048	0.0050
General Service 50 to 4,999 kW	kW	2.5921	2.6588		1.9467	2.0312
Unmetered Scattered Load	kWh	0.0063	0.0065		0.0048	0.0050
Sentinel Lighting	kW	2.0689	2.1222		1.5365	1.6032
Street Lighting	kW	1.9548	2.0051		1.5049	1.5702

Retail Transmission Service Rates (Gananoque)						
Rate Class	Unit	Current RTSR Network	Proposed RTSR Network		Current RTSR Connection	Proposed RTSR Connection
Residential	kWh	0.0043	0.0046		0.0035	0.0036
General Service Less Than 50 kW	kWh	0.0035	0.0038		0.0033	0.0034
General Service 50 to 4,999 kW	kW	1.6621	1.7821		1.3742	1.3967
Unmetered Scattered Load	kWh	0.0040	0.0043		0.0033	0.0034
Sentinel Lighting	kW	1.2260	1.3145		1.0168	1.0334
Street Lighting	kW	1.2197	1.3077		0.9958	1.0121

Please state if CNPI intends to harmonize the RTSR rates between its FE and EOP service territories in the foreseeable future. If not, please explain why not.

62. E8/T2/S4/pp. 1-2 and

CNPI states that at Fort Erie, the distribution system load is supplied in its entirety from the IESO-controlled grid and as such does not attract low voltage charges, while Eastern Ontario Power is connected to Hydro One's 44kV distribution system at a single point of supply and attracts the following LV charges:

Determination of Low Voltage Rates in Gananoque					
Low Voltage Revenue Requirement for 2013		$ 81,709			
Customer Class	2012 RTSR Connection Rate	Test Year Billing Determinant		RTSR Connection Revenue	RTSR Revenue Distribution
		Volume	UOM		
Residential	0.0035	29,354,957	kWh	$ 102,742	48.2%
GS Less Than 50 kW	0.0033	12,578,164	kWh	$ 41,508	19.5%
GS 50 to 4,999 kW	1.3742	48,371	kW	$ 66,471	31.2%
Unmetered Scattered Load	0.0033	157,458	kWh	$ 520	0.2%
Sentinel Lighting	1.0168	184	kW	$ 187	0.1%
Street Lighting	0.9958	1,674	kW	$ 1,667	0.8%
	Low Voltage Revenue Distribution	Test Year Billing Determinant		Proposed Low Voltage Distribution Rates	
		Volume	UOM	Rate	UOM
Residential	$ 44,217	29,354,957	kWh	0.0015	kWh
GS Less Than 50 kW	$ 17,864	12,578,164	kWh	0.0014	kWh
GS 50 to 4,999 kW	$ 28,607	48,371	kW	0.5914	kW
Unmetered Scattered Load	$ 224	157,458	kWh	0.0014	kWh
Sentinel Lighting	$ 81	184	kW	0.4376	kW
Street Lighting	$ 717	1,674	kW	0.4286	kW
	Proposed Low Voltage Rates	Existing Low Voltage Rates	UOM		
Residential	0.0015	0.0016	kWh		
GS Less Than 50 kW	0.0014	0.0013	kWh		
GS 50 to 4,999 kW	0.5914	0.5826	kW		
Unmetered Scattered Load	0.0014	0.0013	kWh		
Sentinel Lighting	0.4376	0.4311	kW		
Street Lighting	0.4286	0.4222	kW		

Please state if and when CNPI intends to harmonize LV charges for its FE and EOP service territories. If not, please explain why not.

Issue 9.2
Is the combined cost allocation supporting CNPI's proposed phased-in rate harmonization appropriate?

63. Ref: E7/T3/S1/p.3; E7/3/2 – 2013 Cost Allocation Harmonized
E8/T4/S1/p.5 Setting Target Revenue to Cost Ratios

a) Worksheet O1 in the Exhibit 7 reference shows that the revenue-to-cost ratio of the GS<50 kW class with Status Quo Rates, i.e the existing rates increased by 14.27%, would be 109.36%. The table in Exhibit 8 shows that the revenue-to-cost ratio with target rates would be 116.03%. Please provide the rationale for target rates that would move this ratio away from 100%. Alternatively, please provide a set of target rates that would leave the ratio unchanged or would move it in the direction of 100%.

b) Worksheet O1 in the Exhibit 7 reference shows that the revenue-to-cost ratio of the Street Light class with Status Quo Rates would be 95.61%. The table in Exhibit 8 shows that the revenue-to-cost ratio with target rates would be 92.50%. Please provide the rationale for target rates that would move this ratio away from 100%. Alternatively, please provide a set of target rates that would leave the ratio unchanged or would move it in the direction of 100%.

c) Please provide a complete set of target rates that would yield the revenue-to-cost ratios shown in the Exhibit 7 / 3 / 1 reference, column 'Proposed Ratios', together with any rationale for not using the resulting rates as the reference point for rate harmonization.

64. Ref: E7/T3/S1/pp. 2-5 – Harmonized Revenue-to-Cost Ratios

In E7/T3/S1/pp. 2 – 5 CNPI shows a cost allocation approach for harmonized rates between all three service territories. Please show a table (see example below) for FE/EOP as well as PC showing the existing, proposed and target R/C ratios for a proposed rate harmonization in CNPI's next rebasing application. Please explain how CNPI intends to reach these ratios in its next rebasing application – for example, in a single step at 2017 versus gradual steps during the intervening IRM period or the subsequent IRM period.

R/C Ratios

Classes	Current R/C ratios	Proposed R/C ratios				Target Ratio	Policy Range
		2013	2014	2015	2016		

65. Ref: E8/T2/S8; E8/T3/S9 and E8/T4/S1/p.11 – Fixed:Variable Ratios leading to Harmonized Rates

On page 11 of the last reference CNPI noted that "to accomplish full harmonization in the future CNPI is proposing to bring the fixed and variable rates closer together over time beginning with this application to facilitate harmonization in a future proceeding.

a) Please provide a table showing the current, proposed and target fixed/variable splits for FE/EOP as well as PC.
b) Please provide the proposed fixed/variable split for each for the years (see example below) during the IRM period (including instances in which CNPI does not plan a change from one year to the next).

Fixed/Variable Component

Classes	Current	Proposed F/V Split	Target	Policy

	R/C ratios					Ratio	Range
		2013	2014	2015	2016		

Deferral and Variance Accounts

Issue 10.1
Are the account balances, cost allocation methodology and disposition period appropriate?

66. Ref: E9/T1/S1/P9; S.2.12.1 and; S.2.12.2 of Chapter 2 of the Filing Guidelines for Electricity Distributors

CNPI is requesting the disposition of Account 1592, PILS & Tax Variance, sub-account HST/OVAT Input Tax Credits balance as at December 31, 2011 plus forecasted interest to December 31, 2012 for Fort Erie, EOP and Port Colborne.

CNPI did not file Appendix 2-T for Account 1592 as prescribed by the S.2.12.2 of Chapter 2 of the Filing Guidelines.

a) Please confirm that the three utilities above do not intend to continue to use the above sub-account of Account 1592 for the Test Year and going forward. If this is not the case, please explain.
b) Please complete and file Appendix 2-T for the three service areas.

67. 10.2 Ref: Continuity Schedules - PILs Recoveries from Ratepayers

Most distributors have higher PILs recoveries from ratepayers than the PILs proxies because of customer and load growth since 2001. CNPI's evidence shows this same trend except for Port Colborne in 2004. Please explain why the recoveries from customers in 2004 were lower than the PILs proxy.

68. Ref: Continuity Schedules - PILs Recoveries from Ratepayers

The unbilled revenue as at April 30, 2006 may have been difficult to determine. Many distributors provided billing statistics for the months that followed April 2006 as a way of demonstrating how much PILs was related to demand and energy consumed before May 1, 2006 but billed afterwards.

For each of the three service areas, please provide tables that show the customer dollar billings and the billing determinants (kW, kWh) by customer class for the months of May, June and July 2006. Please calculate the PILs amount by multiplying the billing determinants by the PILs rate slivers by class for May through July 2006.

69. Ref: Continuity Schedules - PILs Recoveries from Ratepayers

In each of the continuity schedules for the three service areas, Board staff noticed that the fixed charge recovery in March 2004 was pro-rated by 50%. It seems to Board staff that energy and demand might be pro-rated but that the customers would have been billed the fixed charges on the invoices issued in March and in April.

Please verify the formulae used in the calculations of recoveries to ensure that the dollar amounts are correct and state the outcome of the review.

70. Ref: Continuity Schedules - PILs Recoveries from Ratepayers

Please file the 2001 Board decision and rate Order for Fort Erie.

71. Ref: SIMPIL Models – Interest Expense for Tax Years 2001 to 2005

For each of the three service areas, or for the combined CNPI distribution total if that is easier, for the tax years 2001 to 2005:

a) Please provide a table for the years that shows all of the components of CNPI's interest expense and the amount associated with each type of interest.

b) Did CNPI have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

c) Did CNPI net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.

d) Did CNPI include interest expense on customer security deposits in interest expense?

e) Did CNPI include interest income on customer security deposits in interest expense?

f) Did CNPI include interest expense on IESO prudentials in interest expense? Please provide the dollar amount of IESO or other prudential expense by year whether disclosed as interest, admin, or other type of expense category.

g) Did CNPI include interest carrying charges on regulatory assets or liabilities in interest expense?

h) Did CNPI include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

i) Did CNPI deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

72. Ref: SIMPIL Models – Income Tax Rates

The income tax rates used in Port Colborne's 2001 SIMPIL model are not consistent with the statements in the Overview Exh.1/Tab1/Sch.1/page 3 or with page 17 of the Board's decision in the combined proceeding EB-2008-0381. The tax rate entered in SIMPIL is not the same as appears in the 2001 PILs proxy model. The line item amounts are not the same as those amounts entered in the 2001 PILs proxy worksheet. Please verify the numbers in the 2001 SIMPIL with the 2001 PILs proxy and make corrections where required.

Accounting Standards for Private Enterprise ("ASPE")

Issue 11.2 Are the proposed Revenue Requirements determined using ASPE appropriate?

73. Ref: E11/T1/S3/p.1 (Table 1) & p.2 (Table 2); E2/T1/S5/p.5; E2/T1/S57/p.5; E11/T1/S5/p.1; E11/T1/S6/p.1; E11/T1/S7/p.1; E4/T7/S2/p.5 and E4/T7/S3/p.5

Tables 1 and 2 below present the impact of selected items like OM&A to the rate base and to the revenue requirement under CGAAP and MIFRS for CNPI (total for FE/EOP and PC).

Table 1
Impact to Rate Base

RATE BASE	CGAAP $000			MIFRS $000		
	FE AND EOP	PC	FE, EOP AND PC	FE AND EOP	PC	FE, EOP AND PC
2012 Net Fixed Assets	$ 45,851	$ 17,154	$ 63,005	$ 45,851	$ 17,154	$ 63,005
2013 Net Fixed Assets	$ 49,478	$ 19,003	$ 68,481	$ 49,476	$ 18,810	$ 68,285
Average Net Fixed Assets	$ 47,665	$ 18,078	$ 65,743	$ 47,664	$ 17,982	$ 65,645
Cost of Power	$ 32,673	$ 17,574	$ 50,247	$ 32,673	$ 17,574	$ 50,247
OM&A	$ 5,908	$ 2,836	$ 8,745	$ 6,706	$ 3,180	$ 9,886
Working Capital Requirement @ 13%	$ 5,016	$ 2,653	$ 7,669	$ 5,119	$ 2,698	$ 7,817
Rate Base	$ 52,680	$ 20,732	$ 73,412	$ 52,783	$ 20,680	$ 73,462
Increase in Rate Base				$ 103	$ (52)	$ 50

Table 2
Impact to Revenue Requirement

REVENUE REQUIREMENT	CGAAP $000			MIFRS $000		
	FE AND EOP	PC	FE, EOP AND PC	FE AND EOP	PC	FE, EOP AND PC
OM&A	$ 5,908	$ 2,836	$ 8,745	$ 6,706	$ 3,180	$ 9,886
Depreciation	$ 2,996	$ 1,427	$ 4,423	$ 2,262	$ 1,261	$ 3,523
Return on Capital @ 7.41%	$ 3,904	$ 1,536	$ 5,440	$ 3,911	$ 1,532	$ 5,444
Income taxes	$ 400	$ 158	$ 558	$ 461	$ 181	$ 642
Service Revenue Requirement	$ 13,208	$ 5,957	$ 19,165	$ 13,340	$ 6,155	$ 19,494
Revenue Offsets	$ (1,132)	$ (271)	$ (1,403)	$ (1,132)	$ (271)	$ (1,403)
Base Revenue Requirement	$ 12,076	$ 5,686	$ 17,762	$ 12,208	$ 5,883	$ 18,091
Increase in Revenue Requirement				$ 131	$ 197	$ 329

a) In Table 1 above, please explain why the 2013 net fixed assets for FE/EOP and PC are almost the same under CGAAP and MIFRs given that CNPI is no longer capitalizing overhead and has updated its depreciation rates based on the Kinectrics study.
b) Please make all the adjustments if any, to the proper schedules to reflect the correct amounts for net fixed assets for 2012 and 2013 for FE and EOP for part a.
c) The depreciation expenses in Table 2 above, under MIFRS for FE/EOP and PC are different from the depreciation in E11/T1/S5/P1 and under the “Additions” column in E11/T1/S6/P1 and the depreciation expense in

E4/T7/S2/P5 for FE/EOP and E11/T1/S7/P1 and E4/T7/S3/P5 for PC. Please explain why.

d) Please make adjustments if any, to the proper schedules to reflect the correct amounts for FE/EOP and PC.