EB-2012-0300

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF a review of an Application filed by Great Lakes Power Transmission LP for an Order or Orders approving a transmission revenue requirement and rates and other charges for the transmission of electricity for 2013 and 2014.

INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

September 6, 2012

GREAT LAKES POWER TRANSMISSION LP
TRANSMISSION REVENUE REQUIREMENT AND RATE HEARING
2013 AND 2014
EB-2012-0300

ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES

GENERAL

Issue 1.2 Is the overall increase in 2013 and 2014 revenue requirement reasonable?

1.2 Energy Probe # 1

Ref: Exhibit 1, Tab 2, Schedule1, Page 3 &
Exhibit 1, Tab 2, Schedule 4, Page 1, Table 1-2-4 A

GLPT claims that the 2013 and 2014 Revenue Requirements are driven by CPI plus other increases.

a) How much of GLPTs 2013/2014 revenue requirement is driven by CPI- e.g. Labour costs? Please discuss and provide estimates by component. (Table 1-2-4 A)

b) Please provide an update of the latest StatsCan Ontario All Items CPI for 2011 August-2012 August.

c) Comment on the change from the 3.1% in the reference.

d) Hydro One Transmission is Forecasting CPI increases for 2013 and 2014 of about 2% based on Consensus Forecasts (EB-2012-0031 Exhibit A, Tab 13, Schedule 1 Appendix A). Please comment on the use of Consensus Forecasts instead of historic CPI.

e) Please provide a copy of the latest GLPT Business Plan(s) approved by its Board.

f) What is the sensitivity of GLPT's proposed 2013 and 2014 revenue requirements to a 100 basis point change in CPI (Note: Please exclude any impact on ROE or short-term interest rates used in determining the cost of capital)

1.2 Energy Probe # 2

Ref. **Exhibit A, Tab 2, Schedule 1 &**
Exhibit 8, Tab 2, Schedule 1, Section 3.0

a) **Please provide a schedule that shows the proposed bill impacts for 2013 and 2014.**

b) **Please provide a schedule that shows the impact on a typical residential LDC customer consuming 500 and 1000 kWh/month.**

RATE BASE

Issue 2.1 Is the proposed rate base for 2013 and 2014 appropriate?

2.1 Energy Probe # 3

Ref: Exhibit 2, Tab 1, Schedule 1, Page 10

This page describes the Watson TS oil containment project.

a) **Please describe the differences between the original containment structure built in 1997 and the proposed containment structure.**

b) **Why did the old structure deteriorate so quickly?**

2.1 Energy Probe # 4

Ref: Exhibit 2, Tab 1, Schedule 1, Pages 4 and 11

These pages describe the Algoma Lines Wood structure replacements 2013 and 2014. The expenditure for 13 structures in 2013 is estimated at $1,710,000 for an average unit cost of $131,538. The 2014 program is to replace 18 structures at a cost of $3,183,500 for an average unit cost of $176,861. Please explain the increase in cost per structure between the two years.

2.1 Energy Probe # 5

Ref: Exhibit 2, Tab 1, Schedule 1, Pages 15-16 and App. B

These pages discuss the cost increases for the Third Line TS project related to foundation design changes.

a) **Please confirm that the Golder Associates geotechnical report included at App. B was the report used for preliminary design and specifications referred to on Page 16 lines 3-4 of the exhibit.**

b) **Please describe the "free standing mono pole structures" referred to on Page 15 and explain their function in the station.**

c) **What specific geotechnical information in the Golder report was relied on for the initial design specification for the pole foundations?**

d) **The Golder report refers to "conventional strip and spread footings … at a depth of 1.8 m below grade" on Page 5 of the report. What were these footings intended to support?**

e) **How did GLPT determine that 10m deep caissons were the appropriate foundation for the poles if the Golder report appears to have made no mention of caissons or mono pole structures?**

2.1 Energy Probe # 6

Ref: Exhibit 2, Tab 1, Schedule 1, Pages 15-16 and App. C

Lines 5-11 of Page 16 refer to poorer than anticipated soil conditions once construction started on the project and the subsequent need to reevaluate the geotechnical conditions of the soil.

a) **Was the MRW Geotechnical Report commissioned in response to the discovery of poorer than expected soil conditions?**

b) **Please describe the events that led to the retaining of MRW to reassess soil conditions.**

c) **Please provide a copy of any written direction to or correspondence with MRW concerning the scope of the work to be performed by the consultant and the reasons for that work.**

d) **How did the geotechnical analysis and recommendations of the MRW report vary from the analysis and recommendations in the Golder report?**

2.1 Energy Probe # 7

Ref: Exhibit 2, Tab 1, Schedule 1, Page 16, Line 19

This page describes the need to relocate fibre optic cables to incorporate Third Line TS with subsequent costs not included in the original estimate of the project. Please explain why the need to relocate the fibre optic cables was not identified at the preliminary stage of the project.

2.1 Energy Probe # 8

Ref: Exhibit 2, Tab 1, Schedule 1, Page 21

This page describes the Land Transfer Tax payable on assets acquired from GLPL in the 2008 reorganization.

a) **At the time the Asset Purchase Agreement was concluded between GLPT and GLPL was GLPT aware that land transfer tax would be payable?**

b) **Was the Board made aware of the transfer tax obligation in EB-2007-0647? If yes, did the Board approve the future addition to rate base of the land transfer tax amount? If not, please explain why GLPT did not bring the land transfer tax obligation to the attention of the Board.**

2.1 Energy Probe # 9

Ref: Exhibit 2, Tab 1, Schedule 1, Page 21

Reference is made in Line 7 to the 36 month deferral period for payment of the land transfer tax.

a) **What were the starting and ending dates of this 36 month period?**

b) **What options were open to GLPT to remain affiliated with GLPL until the 36 month period in the LTTA expired and rendered the tax non payable?**

c) **What was the date on which GLPT ceased to be an affiliate of GLPL? What event(s) triggered that status change?**

2.1 Energy Probe # 10

Ref: Exhibit 2, Tab 1, Schedule 1, Page 21

Lines 10-13 on Page 21 appear to suggest that affiliate status is a function of GLPT's activities as a transmitter and not as a result of corporate ownership. Please explain.

2.1 Energy Probe # 11

Ref: Exhibit 2, Tab 1, Schedule 1, Page 22

Lines 1-4 on Page 22 state that the payment of land transfer tax "was required to effectuate the transfer of the assets".

a) **How did the deferral of land transfer tax affect the passing of title to the assets between GLPL and GLPT?**

b) **Please show the calculation of the land transfer tax and provide documentation of its payment to the Minister of Finance.**

c) **Do IFRS and CGAAP provide any flexibility for treating the transfer tax as an operating expense rather than a capital cost? If yes, and if the Board approves the expenditure, would GLPT agree to expense the tax rather than capitalize it?**

2.1 Energy Probe # 12

Ref: Exhibit 2, Tab 1, Schedule 1, Page 22

This page refers to the Sackville Building HVAC replacement variance of $100,400 and explains it as due to activities not included in the estimate provided to the Board in EB-2010-0291. Line 15 notes that these activities "were required as part of project preparation and are a normal part of GLPT's capital planning process". Please explain why the cost was not included in the project estimate provided to the Board in EB-2010-0291.

2.1 Energy Probe # 13

Ref: Exhibit 2, Tab 2, Schedule1, Page 3 and Page 13, Table 2-1-1 D

a) **Please provide a financial schedule for 2012 projects that were reviewed in EB-2010-0291. Include the 2013 Rate Base and Revenue Requirement impact of increased costs.**

b) **Please provide a List of 2012 Miscellaneous Projects totaling $2,876,100. Omit those below $100,000.**

c) **For new 2013/2014 Capital projects please provide an indication of the level of contingency included in the budgets**

2.1 Energy Probe IR # 14

Ref: Exhibit 2, Tab 2, Schedule 4, Page 22

a) **Please provide the details of the Land Transfer Amount calculation and a copy of the Invoice.**

b) **Why should ratepayers pay the Land Transfer Tax amount? Comment on the alternative that this liability was incurred as a result of corporate reorganization and should be paid by the shareholder.**

c) **Provide an explanation of the regulatory treatment of the Land Transfer Tax and whether this is a Capital Asset/Ratebase item or should be expensed/amortized.**

2.1 Energy Probe IR # 15

Ref. Exhibit 2, Tab 5, Schedule 1, Pages 1-9, Table 2-5-1 A

a) **Please provide the latest ACA Planning Document(s) covering the period 2012 forward.**

b) **Please provide the external consulting report that resulted in acceleration of the Wood Pole replacement Program.**

c) **Please provide any reports on fleet asset management including replacement schedules.**

2.1 Energy Probe IR # 16

Ref: No Reference.

Please provide T-SAIFI and T-SAIDI data for 2004-2011A and Forecast for 2013-14 F.

Issue 2.2 Is the working capital allowance for 2013 and 2014 appropriate?

2.2 Energy Probe IR # 17

Ref. Exhibit 2, Tab 4, Schedule 1, Pages 1-2, Tables 2-4-1 B and C &
Exhibit 2, Tab 4, Schedule 1, Page 3

a) **Please Provide the Equivalent LL Tables for 2011 and 2012.**

b) **Please provide the Inventory amounts for 2010-2014.**

c) **Please indicate where the 2011 and 12 amounts were approved-Settlement/Decision.**

d) **Please provide a calculation showing the Total Working Capital amounts for 2013 and 2014 as shown in Table 2-4-1 A. Provide references to the other tables.**

Issue 2.4 Is the capitalization policy and allocation procedure appropriate?

2.4 Energy Probe IR# 18

Ref. Exhibit 2, Tab 1, Schedule 1, Pages 22-23

Under IFRS, only costs deemed directly attributable to bringing assets to their locations and the working conditions related to their intended use are to be capitalized.

a) **Please provide a copy of GLPT Capitalization Policy for 2012 pre and post IFRS.**

b) **Please provide a schedule that shows the amounts and percentage of total O&M capitalized in 2011A, 2012 E and 2013/2014 F. Explain any material differences.**

LOAD FORCAST AND REVENUE FORCAST

Issue 3.1 Is the load forecast and methodology appropriate?

3.1 Energy Probe # 19

Ref: Exhibit 3, Tab 1, Schedule 1, Page 2 Tables 3-1-1 A and B &
Exhibit 8, Tab 1, Schedule 1, Page 3, Tables 8-1-1 B

a) **Please provide the actual/forecast of GLPT charge determinants for 2012 A, 2013 and 2014 F for each asset pool.**

b) **Has any allowance for CDM impact for 2012-2014.been included? If so how much and what is the Source of this estimate (OPA or customer).**

OPERATIONS, MAINTENANCE & ADMINISTRATION COSTS

Issue 4.1 Are the overall OM&A forecast in 2013 and 2014 appropriate?

4.1 Energy Probe # 20

Ref: Exhibit 4, Tab 1, Schedule 1, Page 1, Table 4-1-1 &
Exhibit 4, Tab 1, Schedule 2, Page 3, Table 4-2-1 B &
Exhibit 4, Tab 2, Schedule 1, Page 10, Table 2

a) **Provide a table that shows by category, the allocation of OM&A before and after budget reallocation. Discuss the material changes/shifts that resulted.**

b) **Please confirm that the Collective Agreement COLA floor of 3% (not 3.1%) is for 2012 and that 2013 and 2014 CAs have not been negotiated. If they have been negotiated then please provide the COLA clauses.**

4.1 Energy Probe IR # 21

Ref: Exhibit 4, Tab 2, Schedule 1, Appendix B, FQC Report

Page 2 "Note that the values for years 2012 to 2014 are projected based upon 2007 to 2011 actual data for all companies other than GLPT"

a) **What factors were used to project 2012-2014 data for each of the peer group and GLPT?**

b) **What other benchmarks apart from those in appendix A were assessed and why were these rejected?**

c) **Does FCQ have data on T-SAIFI and T-SAIDI for the sample and could a comparative analysis be made?**

4.1 Energy Probe IR # 22

Ref: Exhibit 4, Tab 2, Schedule 1, Page 28, Appendix C, Table 1

a) **Please explain the Balances in Column 2 of the Table. e.g. are these the actual or projected amounts in the Account at year end 2011A or 2012?**

b) **Are any of these balances subject to deferral account treatment? If so, indicate which accounts and the amounts at the end of 2011A and 2012?**

4.1 Energy Probe IR #23

Ref: Exhibit 4, Tab 2, Schedule 2, Pages 1-22

a) **For each of the listed accounts please provide the 2011 amounts.**

b) **For internal labour allocations indicate if this is the gross amount or the amount after capitalization.**

c) **Does "labour capitalization" mean the amount is gross or net?**

d) **Provide a list of incremental cost drivers and amounts and indicate those that are expensed and those that are capitalized (if both, amount capitalized).**

e) **Are the capitalized amounts in the 2013/2014 Ratebase?**

4.1 Energy Probe IR # 24

Ref: Exhibit 4, Tab 2, Schedule 2, Pages 22-35

a) **With regard to account 5605 (p22), please confirm that Corporate Costs have not been explicitly approved and was part of an overall OM&A amount from prior years.**

b) **With regard to Executive costs of $550,000, please confirm these are part of base O&M in prior years.**

c) **Please explain what will happen in 2013. What costs will be transferred to the EWTDA?**

d) **Is there an actual requirement for backfilling while staff are doing EWT work, or is this an accounting issue?**

e) **If the EWTDA operated as a deferral account for backfill staff costs, discuss how this could work to keep ratepayers and company whole.**

f) **With regard to IT Admin, breakdown these into staff costs and other e.g. consulting and licensing fees. How much of the staff costs are one time/one year costs and again, is backfilling required?**

4.1 Energy Probe # 25

Ref: Exhibit 4, Tab 2, Schedule 1, Page 2 &
Exhibit 9, Tab 2, Schedule 1, Page 4

Table 4-2-1 A on Page 2 of the exhibit shows increasing OM&A costs for 2012, 2013 and 2014. Page 4 of Ex 9-2-1 states that the estimated costs of participating in the E-W Tie Line designation process, amounting to $550 k in 2013 and $340 k in 2014, have been deducted from OM&A costs for those years.

a. **Please confirm that the figures in Table 4-2-1 A reflect those deductions.**

b. **If the table does reflect the deductions, is it fair to conclude that the effective increase in OM&A costs in 2013 and 2014 would be the figures noted in the table plus the amount of deductions for the E-W Tie Line involvement (ie.$1810.1 k in 2013 and $797.6 k in 2014)? If not, please explain why it is not correct to draw this conclusion.**

4.1 Energy Probe # 26

Ref: Exhibit 4, Tab 2, Schedule 2, Page 2

Line 3 on this page refers to inflation factor of 3.1% based "on the rate used in GLPT's collective agreement attached at Ex 4-2-3 App B."

a) **Please identify where in the collective agreement this inflation factor can be found.**

b) **Given the economic recession and the growing trend in labour negotiations toward wage freezes, why is GLPT forecasting an increase in wages of 3.1% for the test years?**

4.1 Energy Probe # 27

Ref: Exhibit 4, Tab 2, Schedule 2, Page 5

The variance explanation for Acct 4805 cites $60 k in payments to standards bodies and professional groups. Please explain what these payments are for and whether or not they are discretionary.

4.1 Energy Probe # 28

Ref: Exhibit 4, Tab 2, Schedule 2, Page 5

This page also refers to plans to update transmission line/structure profile drawings. Please explain what changes have occurred to these lines/structures that require the update and why the updates are not done at the time the changes to the lines/structures are made.

4.1 Energy Probe # 29

Ref: Exhibit 4, Tab 2, Schedule 2, Page 9

Acct 4815 variance explanation states that road maintenance costs are lower because maintenance at Mackay TS will decrease in 2013 and 2014. Please explain why maintenance will decrease in those years and whether it will increase again after the test years.

4.1 Energy Probe # 30

Ref: Exhibit 4, Tab 2, Schedule 2, Page 16

Account 4845 shows an increase in fibre lease costs amounting to $72,000 annually starting in 2013.

a) **Please confirm that the reason for the $36,000 allocation in 2013 is because the higher lease payment starts mid-year.**

b) **Please explain why the higher cost in 2014 is only $36,000 if the annual increase is $72,000.**

Issue 4.2 Are the proposed spending levels for Shared Services and other costs in 2013 and 2014 appropriate?

4.2 Energy Probe # 31

Ref: Exhibit 4, Tab 2, Schedule 4, Table 4-2-4 A and Appendix A

a) **Please provide metrics on the total floor space and other common facilities (Garage, Warehouse, Parking etc).**

b) **How are costs allocated between affiliates? Please specify all cost driver/allocators, including other facilities driver/allocators and allocation of 2012 operating costs to each affiliate. (2012 is the same year used by NCI)**

4.2 Energy Probe # 32

Ref: Exhibit 4, Tab 2, Schedule 4, Appendix B

a) **Please provide a Table that lists the Cost Driver Metrics for the Affiliates included in the Study as well as the Corporate head Office.**

b) **Of the services listed in Table 1, please indicate if these are all the services and costs associated with Head Office or is there a portion retained by head office? For example, costs for 'Minding the Investment"?**

c) **Corporate Cost Allocation best practices are that a *direct allocation* is based on cost accounting (e.g. insurance costs) or in the case of staff-related service costs, a time study-based fully burdened cost allocation. An indirect allocation uses Cost drivers FCER, ACER, FTE etc. based on cost causality principles. Has Navigant followed these best practices? Please discuss in some detail and refer to recent studies accepted by the Board, including Hydro One (Rudden/Black and Veatch), Enbridge Gas Distribution (Myers Norris Penny).**

d) **Please provide a version of Table 1 that clearly shows which costs and services in the Budget Expense Table are allocated to each of Head Office, each affiliate based on a direct allocation and which costs are allocated by cost driver(s) (specify drivers). Please reconcile to page 20.**

e) **Why were the indirect cost driver/allocators chosen? Please provide the cost causality rationale for each cost driver as related to each service item/budget. Specifically:**
   i. **Why was Assets (FCER) used rather than ACER for some allocations[1]?**
   ii. **Why was Revenue chosen?**

4.2 Energy Probe # 33

Ref: Exhibit 4, Tab 2, Schedule 4, Appendix B

Please explain how Section 2.02 of the SLA (*and* the absence of a Schedule of Services and Costs) complies with the ARC?

Issue 4.3 Is the proposed level of depreciation/amortization expense for 2013 and 2014 appropriate?

4.3 Energy Probe IR # 34

Ref: Exhibit 4, Tab 2, Schedule 6, Page 5, Tables 4-2-6 D and G

What were the changes in 2012 depreciation as a result of componentizing the asset groups to IFRS? Reconcile to 2011 actual and 2012 restated depreciation expense

Issue 4.4 Are the 2013 and 2014 compensation costs and employee levels appropriate?

4.4 Energy Probe IR # 35

Ref: Exhibit 4, Tab 2, Schedule 3, Page 2 Table 4-2-3 A

a) **Please modify the referenced table part 1 to provide a breakdown the data for "Non-Union" into payroll groups e.g. Management and Executive**

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[1] Financing Capital Employed Ratio (FCER) is used when the common activities are considered to benefit all affiliates in which the parent, maintains an investment, including minority equity investments. Adjusted Capital Employed Ratio (ACER) represents the respective percentage of capital employed by the parent in all affiliates for which the parent is responsible for day to day operations. ACER has a smaller denominator than FCER to reflect only those affiliates that benefit directly from specific services. The rationale for using ACER is linked to cost incurrence. If the affiliate does not need the service, it is not part of the denominator over which costs are allocated. (MNP 2012 CCA Report for EGD)

b) **Include a Section on Incentive Pay and add this to the total**

c) **With respect to part 2 please provide a row that calculates the percentage of Total Compensation Capitalized**

d) **Compare the resultant percentage capitalization rates to Hydro One Tx as filed in EB-2012-0031**

COST OF CAPITAL

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

5.1 Energy Probe IR # 36

Ref. Exhibit 5, Tab 1, Schedule 1, Page 1 Cost of Equity

a) **Why wouldn't GLPT retain the 2013 ROE Placeholder of 9.16% for 2014 rather than adopting Hydro One Tx" forecast 9.44%?**

b) **What would be the difference to the Cost of Capita and Revenue requirement?**

Issue 5.2 Is the proposed long term debt rate appropriate?

5.2 Energy Probe # 37

Ref: Exhibit 5, Tab 1, Schedule 1, Pages 2 and 3, Table 5-1-1 A &B

a) **Please confirm that the cost of debt will be the same for 2013 and 2014.**

b) **Please provide a schedule of the principal repayments on the affiliate debt.**

c) **How will GLPT replace the Maturing affiliate debt?**

DEFERRAL/VARIANCE ACCOUNTS

Issue 6.1 Are the proposed amounts, disposition and continuances of GLPT's existing Deferral and Variance Account appropriate?

6.1 Energy Probe # 38

Ref: Exhibit 9, Tab 1, Schedule 3, Page 6, Table 9-1-3 A

a) **Why should the costs of litigation against Comstock ($1,792,177) be disbursed to customers when the Court may rule in favour of GLPT?**

b) **Please review and comment on prior Decisions of the Board regarding similar Litigation situations.**

Issue 6.2 Are the proposed new Deferral and Variance Account appropriate?

6.2 Energy Probe # 39

Ref: Exhibit 9, Tab2, Schedule 1, Pages 1-5

Other than the EWTDA, please provide more information on the proposed deferral accounts relative to the Board's Criteria for Deferral accounts.

COST ALLOCATION

Issue 7.1 Is the cost allocation proposed by GLPT appropriate?

7.1 Energy Probe # 40

Ref: Exhibit 7, Tab 1, Schedule 1, Page 2, Tables 7-1-1 C and D

a) **Please provide the Charge determinants underpinning the Cost Allocations to the TX pools.**

b) **If Hydro One Networks Revenue Requirements for 2013 and 2014 are either not approved by the Board or the Board's Decision is not available until 2013, what does GLPT propose regarding 2013 rates? Please be clear in your explanation under these Scenarios.**

RATE DESIGN

Issue 8.1 Is the proposed charge determinate forecast appropriate?

8.1 Energy Probe # 41

Ref: Exhibit 8, Tab 1, Schedule 1, Page 3, Table*-1-1-B

a) **Please provide support for the charge determinant change in the referenced table.**

b) **What is the sensitivity of the revenue requirements 2013/2014 of a 1% change in the forecast for each asset pool?**

c) **What is the sensitivity of the UTR to a 1% change in the charge determinant forecast for 2013/2014?**