

**Midland Power Utility Corporation ("Midland")
2013 Electricity Distribution Rates
EB-2012-0147
Response to Supplemental Interrogatories**

SEC TCQ's

1. [IR #6, SEC - 23]. Please confirm that there is no formal strategic plan document. If there is such a document, please provide it.

Midland Response:

Midland confirms there is no formal strategic plan document.

2. [IR #11, SEC - 5] With respect to this IR response:
 - a) (d) Please confirm that, adjusted for the stated anomalies, OM&A per customer in 2011 should be about \$294.00.
 - b) (f) Please reconcile your figure of 90% with the 2011 Yearbook figures of \$1,040,740 capital additions, and \$856,005 depreciation.

Midland Response:

- a) (d) Adjusted for the stated anomalies, OM&A per customer in 2011 would be \$288. The question referred to asked for the primary reasons why the OM&A declined. Not included in the interrogatory response is the reduction in 2011 for the contract lineman which was in place in 2010, but not in 2011. Adding this cost would result in an OM&A per customer in 2011 of \$295.

- b) The capital additions included in the yearbook do not take into account contributed capital. In 2011, Midland recorded contributed capital of \$265,869 which would reduce the additions to \$774,856. Taking this figure over the amortization of \$856,004 would result in capital additions at 90% of depreciation expense.
3. [IR #12, SEC – 6] Please confirm that the Applicant has not prepared any estimates or forecasts of the reductions in operations and maintenance costs that will be experienced due to the substation replacement program.

Midland Response:

Midland would advise, due to the age of the substations the third party consultant, Rondar, was retained to complete an assessment of the substations. This assessment was used as a roadmap for Midland to follow in the replacement of the substations. As indicated in our responses to the interrogatories, the substations are very old and were/are in need of replacement. The in service dates are as follows:

Scott:	1959
Brandon:	1956
Dorion:	1967
Fourth:	1954
Queen:	1966
Montreal:	1992

Midland has not formally prepared any estimates or forecasts of the reductions in operations and maintenance costs as a result of the substation replacement program. Once the stations have been fully upgraded, Midland will be allowed to focus on other OM&A priorities which have been neglected as a result of the station maintenance program. For example, the metering points taken over in 2006 are now required to be audited by Measurement Canada, an expense not included in the COS Application. The 2013 COS Application includes third party cost estimates on the maintenance of new substations.

4. [IR #26, SEC – 12] Please confirm that the figures in this IR response no longer apply, as a result of the decision to defer the transition to IFRS.

Midland Response:

Midland confirms the figures in this IR response no longer apply, as a result of the decision to defer the transition to IFRS.

5. [IR #27, Staff – 8] Please confirm that the smart meter amortization is based on a 20 year life for the meters, and 10 year life for each of the computer hardware and computer software.

Midland Response:

In accordance with the Smart Meter Prudence Review (EB-2011-0434) and the Kinectrics Report, smart meters are amortized over 15 years and the computer hardware and software is amortized over 5 years.

Due to inadvertence, Table 2.5.1: Fixed Asset Useful Life Comparison erroneously recorded the Kinectrics Study Smart Meter useful life as 5-10 years. This should have been recorded as 5-15 years.

6. [IR #42, VECC – 15(c), and IR #58, SEC - 19] Please provide the regulatory authority for the deferral of the transition to IFRS to 2014, in light of the Board's letter of April 30, 2012 allowing deferral only until 2013. Please confirm that, because the Applicant did not capitalize overheads, and because the new depreciation rates are being implemented January 1, 2013, the Applicant does not expect that the eventual conversion to IFRS will result in any material impact on revenue requirement or rates. If this is not confirmed, please describe all material impacts expected.

Midland Response:

In the Board's letter of April 30, 2012, the Board states.

"The Board notes that by virtue of the existing AcSB standard the rate-regulated utilities are required to adopt IFRS by January 1, 2013. The Board therefore expects that all 2013 cost of service applications will be filed on the basis of MIFRS. A utility can address utility specific issues through its application."

The Board's letter was issued prior to the AcSB deferral of the transition to IFRS to 2014 or later which is now the existing AcSB standard for rate-regulated utilities and makes the existing standard in the letter, the previous standard. With the AcSB's decision to defer the transition of rate regulated companies and the Board allowing a utility to address utility specific issues through its application, Midland is proposing in its application to remain on CGAAP for 2013 and remain on CGAAP until required by the AcSB to move to IFRS. However, Midland will comply with the Board's letter titled "Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies 2013" dated July 17, 2012. In that letter the Board states:

"The Board will permit electricity distributors electing to remain on Canadian GAAP ("CGAAP") in 2012 to implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1, 2012. The Board however will require that these changes be mandatory in 2013 for all distributors that have not yet made these changes, even if there is a further option to defer IFRS changeover in 2013."

Midland confirms it did not capitalize overheads and the new amortization rates are being implemented January 1, 2013 consistent with the direction of the Board in the July 17th letter. As a result, Midland does not expect that the eventual conversion to IFRS will result in any material impact on revenue requirement or rates. The only impact on rates will be the recovery of Account #1508 – Other Regulatory Assets – IFRS Transition Cost Variance.

7. [IR #49, SEC – 15] Please confirm that the Applicant participates in the MEARIE insurance program. Please advise whether membership in the EDA is a requirement to participate in that insurance program.

Midland Response:

Midland confirms participation in the MEARIE insurance program.

Initially, LDC members of MEARIE must be members of the EDA. Article 7.01 (a) of the Subscribers Agreement provides:

“ARTICLE 7.00 - MEMBERS

7.01 Eligibility for Membership

A person shall be eligible for membership in the Reciprocal provided that:

- (a) such person, if a Municipal Electric Utility as defined, is a member of the Electricity Distributors Association or is the Electricity Distributors Association;”

If, however, an LDC ceases to become a member of the EDA, participation in the MEARIE insurance program is at the discretion of the MEARIE Board.

- 8. [IR #52, SEC – 16] Please explain whether the reported information correctly shows the average FTEEs for each year for all positions. If it does not, please describe how what is reported differs from that standard.

Midland Response:

Midland confirms the reported number of FTEEs in each year are actual FTEEs who were employed during the year. For example, if an employee worked Jan-Mar, this count would be 0.25. If an employee worked Jan-Dec, this count would be 1.0.

- 9. [IR#57, SEC – 18] Please confirm that, as a result of the decision to defer conversion to IFRS until 2014, the tables on pages 9 and 10 of Ex. 4/2/7 are no longer applicable. If this is not confirmed, please provide an explanation, and reconcile those tables with the answer to the IR.

Midland Response:

Midland confirms the tables shown on page 9 and 10 of Ex. 4/2/7 are no longer applicable as a result of the decision to defer the conversion to IFRS until 2014.

10. [IR #60, SEC – 20] Please confirm that, notwithstanding the decision to defer conversion to IFRS until 2014, the CGAAP deficiency provided will not be applicable because of the implementation in 2013 of updated useful lives.

Midland Response:

Midland confirms the CGAAP deficiency will not be applicable. Midland calculates the CGAAP deficiency based on no changes to the useful lives of assets, as \$582,593. Midland further calculates the revenue deficiency as \$235,755 based on the implementation in 2013 of updated useful lives.

VECC TCQ's

VECC TCQ#1

REFERENCE: IRR# 32. VECC#8 c)

- a) Please provide the results (i.e., equations, adjusted R-squared values and t-statistics) for the following models:

Model #1:

Independent variables to include: HDD, CDD, Number of Days in Month, Number of Peak Hours, GDP

Model#2

Independent variables to include: HDD, CDD, Number Days in Month, Number of Peak Hours, Employment

- b) If the Adjusted-R Square value for either equation in part (a) exceeds 85% - please provide the projected 2013 purchases using the model and also provide the 2011, 2012 and 2013 values used for GDP/employment.

Midland Response:

- a) The results (i.e., equations, adjusted R-squared values and t-statistics) for the following models are provided below:

Model #1:

Independent variables to include: HDD, CDD, Number of Days in Month, Number of Peak Hours, GDP

<i>Regression Statistics</i>			
Multiple R		85%	
R Square		72%	
Adjusted R Square		70%	
Standard Error		812,371	
Observations		108	

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	19,189,862	3,748,681	5.1
Heating Degree Days	5,566	406	13.7
Cooling Degree Days	20,529	2,167	9.5
Number of Days in Month	302,304	103,790	2.9
Number of Peak Hours	11,895	5,046	2.4
Ontario Real GDP Monthly %	(113,735)	16,162	(7.0)

Model#2

Independent variables to include: HDD, CDD, Number Days in Month, Number of Peak Hours, Employment

<i>Regression Statistics</i>			
Multiple R		84%	
R Square		70%	
Adjusted R Square		68%	
Standard Error		838,826	
Observations		108	

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	15,860,068	3,675,774	4.3
Heating Degree Days	5,552	420	13.2
Cooling Degree Days	22,516	2,260	10.0
Number of Days in Month	312,720	107,247	2.9
Number of Peak Hours	12,130	5,209	2.3
Employment	(19,314)	3,049	(6.3)

- b) Not applicable since the Adjusted-R Square value for either equation in part (a) does not exceed 85%.

VECC TCQ#2

REFERENCE: IRR #61. VECC 24 a)

- a) Were internal Midland Staff costs incurred to install the Rex 2 meters on GS<50 customers capitalized and are they included in the rate base proposed for 2013?
- b) If the response to part (a) is no, how were these costs treated?
- c) If the response to part (a) is yes, please indicate the amount and recalculate the cost of GS<50 smart meters so as to include these costs.

Midland Response:

- a) Internal staff costs were not capitalized in the installation of the GS<50kW customer meters. As these costs were included as a part of OM&A in Midland's 2009 COS Application, Midland did not include them as a capital component in the installation of the meters as we felt these costs were not incremental and would be double counting. Metering labour costs are included as OM&A in 2013.
- b) See a) above
- c) N/A

VECC TCQ#3

REFERENCE: IRR #62. VECC 25 a) and IRR #67. VECC 28 a)

- a) The revenue to cost ratios quoted in these responses as the starting point based on VECC #24 (i.e., 96.94% for GS>50 and 111.7% for Residential) don't match those in Sheet O1 of the CA model filed with the interrogatory responses. What is the basis for the CA Model filed with the interrogatory responses?
- b) Please provide the CA Model consistent with the results of VECC #24 and based on the revised load forecast per VECC 9 e).

- c) With respect to VECC 25 a), please explain how if the Street Lighting and USL ratios are being reduced to 120% the offsetting adjustment to the GS>50 ratio is also a reduction (from 96.94% to 82.55%). One would have expected the GS>50 ratio to increase.

Midland Response:

- a) The CA Model filed with the interrogatory responses includes all changes to the 2013 COS Application as provided in Appendix IR A: Summary of Proposed Cumulative Changes, with the first change from the initial filing being the response to VECC #24.

Table IRR 1 below provides the updated details of Sheet I7.1 Meter Capital. Table IRR 2 provides the updated details of Sheet O1 Revenue to Cost, based on the original response to VECC #24 and shows the revenue to cost ratio for the GS>50 KW class at 81.44%.

Table Supplemental IRR 1: Sheet I7.1 – Meter Capital Worksheet

Sheet I7.1 Meter Capital Worksheet -												
	Residential			GS<50			GS>50-Regular			TOTAL		
	1	2	3	1	2	3	1	2	3	1	2	3
	Number of Meters	Weighted Metering Costs	Weighted Average Costs	Number of Meters	Weighted Metering Costs	Weighted Average Costs	Number of Meters	Weighted Metering Costs	Weighted Average Costs	Number of Meters	Weighted Metering Costs	Weighted Average Costs
Allocation Percentage			72.19%			21%			6%			100%
Cost Relative to Residential Average Cost			1.00			2.49			4.96			1.22
Total	6230.682082	631771.3019	101.3668124	742	187111.09	252.9790057	113	55716.14	493.9631959	7085.682082	875198.5312	123.5164832
Cost per Meter (Installed)												
Meter Types												
Residential - TOU Rev 2 Meter	101.40	6.231	631771.3019		0			0		6.231	631771.3019	
GS<50 - TOU - Rev 2 Meter	90.00	0		402	36180			0		402	36180	
Central Meter		0			0			0		0	0	
Network Meter (Costs to be updated)		0			0			0		0	0	
Three-phase - No demand		0			0			0		0	0	
Smart Meters - GS<50 A3												
Alpha Demand	446	0		340	151531.09			0		340	151531.09	
Demand without IT (usually three-phase)		0			0			0		0	0	
Demand with IT		0			0			0		0	0	
Demand with IT and Internal Capability - Secondary		0			0			0		0	0	
Demand with IT and Internal Capability - Primary		0			0			0		0	0	
Demand with IT and Internal Capability - Special (WMP)	667	0			0		34	22674.6		34	22674.6	
GS>50 Smart Meters	418,247,3418	0			0		79	33041.54		79	33041.54	
Smart Meters		0			0			0		0	0	
LDC Specific 3		0			0			0		0	0	

Table Supplemental IRR 2: Sheet O1 – Revenue to Cost

Sheet O1 Revenue to Cost Summary Worksheet -

Instructions:
see the first tab in this workbook for detailed instructions

Revenue, Cost Analysis, and Return on Rate Base

	Total	1 Residential	2 GS <50	3 GS>50-Regular	7 Street Light	9 Unmetered Scattered Load
Distribution Revenue at Existing Rates	\$3,573,629	\$2,079,384	\$548,454	\$807,527	\$123,731	\$14,532
Miscellaneous Revenue (mi)	\$263,604	\$145,497	\$47,938	\$58,582	\$11,244	\$343
Miscellaneous Revenue Input equals Output						
Total Revenue at Existing Rates	\$3,837,233	\$2,224,881	\$596,392	\$866,109	\$134,975	\$14,875
Factor required to recover deficiency (1 + D)	1.0639					
Distribution Revenue at Status Quo Rates	\$3,801,842	\$2,212,174	\$583,478	\$859,096	\$131,633	\$15,460
Miscellaneous Revenue (mi)	\$263,604	\$145,497	\$47,938	\$58,582	\$11,244	\$343
Total Revenue at Status Quo Rates	\$4,065,446	\$2,357,671	\$631,417	\$917,678	\$142,876	\$15,803
Expenses						
Distribution Costs (di)	\$753,938	\$330,762	\$118,553	\$270,594	\$32,601	\$1,427
Customer Related Costs (cu)	\$672,490	\$480,123	\$140,658	\$41,098	\$10,473	\$138
General and Administration (ad)	\$1,119,891	\$628,848	\$202,259	\$253,824	\$33,698	\$1,262
Depreciation and Amortization (dep)	\$623,869	\$290,945	\$102,755	\$122,584	\$16,566	\$1,020
PLIs (INPUT)	\$978	\$415	\$155	\$381	\$25	\$2
Interest	\$322,428	\$136,885	\$51,096	\$125,609	\$8,314	\$525
Total Expenses	\$3,493,594	\$1,867,978	\$615,474	\$904,090	\$101,678	\$4,374
Direct Allocation	\$0	\$0	\$0	\$0	\$0	\$0
Allocated Net Income (NI)	\$571,852	\$242,776	\$90,622	\$222,777	\$14,745	\$931
Revenue Requirement (includes NI)	\$4,065,446	\$2,110,754	\$706,097	\$1,126,867	\$116,423	\$5,305
Revenue Requirement Input equals Output						
Rate Base Calculation						
Net Assets						
Distribution Plant - Gross	\$23,391,107	\$10,847,767	\$3,894,210	\$7,757,418	\$849,969	\$41,743
General Plant - Gross	\$4,628,559	\$2,062,304	\$749,034	\$1,677,102	\$142,216	\$7,903
Accumulated Depreciation	(\$12,457,078)	(\$5,999,618)	(\$2,124,769)	(\$3,795,606)	(\$514,012)	(\$23,073)
Capital Contribution	(\$2,428,141)	(\$1,289,170)	(\$430,782)	(\$572,862)	(\$130,288)	(\$5,039)
Total Net Plant	\$13,134,447	\$5,611,283	\$2,087,693	\$5,066,051	\$347,885	\$21,535
Directly Allocated Net Fixed Assets	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Power (COP)	\$19,811,587	\$5,066,782	\$2,387,320	\$12,178,992	\$135,869	\$42,623
OM&A Expenses	\$2,546,318	\$1,439,733	\$461,469	\$565,516	\$76,772	\$2,828
Directly Allocated Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$22,357,905	\$6,506,515	\$2,848,789	\$12,744,508	\$212,642	\$45,451
Working Capital	\$2,906,528	\$845,847	\$370,343	\$1,656,786	\$27,643	\$5,909
Total Rate Base	\$16,040,975	\$6,457,130	\$2,458,036	\$6,722,837	\$375,528	\$27,444
Rate Base Input equals Output						
Equity Component of Rate Base	\$6,416,390	\$2,582,852	\$983,214	\$2,689,135	\$150,211	\$10,978
Net Income on Allocated Assets	\$571,852	\$489,693	\$15,942	\$13,589	\$41,198	\$11,430
Net Income on Direct Allocation Assets	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$571,852	\$489,693	\$15,942	\$13,589	\$41,198	\$11,430
RATIOS ANALYSIS						
REVENUE TO EXPENSES STATUS QUO%	100.00%	111.70%	89.42%	81.44%	122.72%	297.90%
EXISTING REVENUE MINUS ALLOCATED COSTS	(\$228,213)	\$114,127	(\$109,704)	(\$260,758)	\$18,551	\$9,570
Deficiency Input equals Output						
STATUS QUO REVENUE MINUS ALLOCATED COSTS	(\$0)	\$246,917	(\$74,680)	(\$209,189)	\$26,453	\$10,498
RETURN ON EQUITY COMPONENT OF RATE BASE	8.91%	18.96%	1.62%	0.51%	27.43%	104.12%

- b) Midland has filed the CA Model consistent with the results of VECC #24 and based on the revised load forecast per VECC 9 e) with these Supplemental IRR responses. The file name is VECC TCQ 3b) – Midland_PUC_Detailed_CA_Model_RunFinal.
- c) The proposed GS>50kW ratio included in the original COS Application was 96.81%. This was incorrect as a result of the changes identified in IR VECC #24. Table IRR 3 below, sets out the Revenue to Cost ratios from the 2013 Cost Allocation Model reflecting the corrected ratios after the adjustment was made in response to IR VECC #24. This model shows the GS>50kW class revenue to cost ratio of 81.44%. The proposed revenue to cost rates from this model were then calculated, based on ratios of 120% for streetlighting and USL which resulted in an increase to the GS>50kW class to 82.55%.

**Table Supplemental IRR 3: Revenue to Cost Ratios After IR VECC 24
- and - IR VECC 25a)**

Class	Revenue Cost Ratios from 2013 Cost Allocation Model - Line 75 from O1 in CA - After the adjustment from IR VECC 24		Revenue Cost Ratios from 2013 CA Model - Line 75 from O1 in CA - After the adjustment from VECC 25 a)
	CA Model Results	Midland Proposed	CA Model Results
Residential	111.70%	101.50%	111.70%
GS < 50 kW	89.42%	96.94%	89.42%
GS >50 to 4999 kW	81.44%	96.94%	82.55%
Street Lighting	122.72%	120.00%	120.00%
Unmetered and Scattered	297.90%	120.00%	120.00%

Midland TCQ's

1. Cost of Capital Update

In accordance with the Ontario Energy Board letter dated November 15, 2012, Midland has updated the capital parameters to include the following:

Deemed ST Debt rate – 2.08%

ROE – 8.93%

2. IRR 59. VECC – 23

Exhibit 5, Tab 1, Schedule 1, pg. 2

In addition, Midland would provide a further update to the Infrastructure Ontario financing debentures:

10 year (vehicles) – 2.79%

20 year (substations) – 3.5%

Midland has made the changes to the application as shown in Appendix TCQ A: Summary of Proposed Cumulative Changes, attached to these supplemental interrogatories. Midland has also filed updates to the models as follows:

RRWF

Filing Requirements – Chapter 2 Appendices

Cost Allocation

PILs

Appendix TCQ A: Summary of Proposed Cumulative Changes

Summary of Proposed Cumulative Changes

	Exhibit	Regulated Return on Capital	Regulated Rate of Return	Rate Base	Working Capital	Working Capital Allowance	Amortization	PILs	OM&A	Service Revenue Requirement	Base Revenue Requirement	Gross Revenue Deficiency
Original Submission		\$907,603	5.66%	\$16,040,975	\$22,357,905	\$2,906,528	\$623,869	\$978	\$2,546,318	\$4,065,446	\$3,801,842	\$228,213
61. VECC 24 Meter Costs - Cost Allocation	7	\$ 907,603 \$0	5.66% \$0	\$16,040,975 \$0	\$22,357,905 \$0	\$2,906,528 \$0	\$623,869 \$0	\$978 \$0	\$2,546,318 \$0	\$4,065,446 \$0	\$3,801,842 \$0	\$228,213 \$0
59. VECC 23 change in Infrastructure Ontario rates	5	\$ 908,106 \$503	5.66% \$0	\$16,040,975 \$0	\$22,357,905 \$0	\$2,906,528 \$0	\$623,869 \$0	\$978 \$0	\$2,546,318 \$0	\$4,065,941 \$495	\$3,802,337 \$495	\$228,708 \$495
42. VECC 15 Int Rev / Loss-Disposal of Assets	4	\$ 911,626 \$3,520	5.66% \$0	\$16,103,158 \$62,183	\$22,357,905 \$0	\$2,906,528 \$0	\$624,610 \$741	\$62 -\$916	\$2,546,318 \$0	\$4,065,982 \$41	\$3,774,182 -\$28,155	\$200,553 -\$28,155
58. SEC 19 PP&E adjustment	4	\$ 911,626 \$0	5.66% \$0	\$16,103,158 \$0	\$22,357,905 \$0	\$2,906,528 \$0	\$698,071 \$73,461	\$62 \$0	\$2,546,318 \$0	\$4,156,078 \$90,096	\$3,864,278 \$90,096	\$290,649 \$90,096
69. VECC 29 SME/RPP changes/CDM	9	\$ 912,614 \$988	5.66% \$0	\$16,120,605 \$17,447	\$22,492,112 \$134,207	\$2,923,975 \$17,447	\$698,071 \$0	\$179 \$117	\$2,546,318 \$0	\$4,157,183 \$1,105	\$3,865,383 \$1,105	\$280,908 -\$9,741
43. VECC 16 2012 OM&A changes	4	\$ 912,328 -\$286	5.66% \$0	\$16,115,560 -\$5,045	\$22,453,303 -\$38,809	\$2,918,929 -\$5,046	\$698,071 \$0	\$145 -\$34	\$2,507,509 -\$38,809	\$4,118,054 -\$39,129	\$3,826,254 -\$39,129	\$241,779 -\$39,129
23. VECC 6 2012 Capital changes	2	\$ 904,956 -\$7,372	5.66% \$0	\$15,985,349 -\$130,211	\$22,453,303 \$0	\$2,918,929 \$0	\$695,087 -\$2,984	\$4,391 \$4,246	\$2,507,509 \$0	\$4,111,944 -\$6,110	\$3,820,144 -\$6,110	\$235,669 -\$6,110
Proposed at November 16, 2012		\$904,956	\$0	\$15,985,349	\$22,453,303	\$2,918,929	\$695,087	\$4,391	\$2,507,509	\$4,111,944	\$3,820,144	\$235,669
Midland TCQ 1 Cost of Capital and LTD Changes		\$ 907,271 \$2,315	5.68% 0.02%	\$15,985,349 \$0	\$22,453,303 \$0	\$2,918,929 \$0	\$695,087 \$0	\$2,163 -\$2,228	\$2,507,509 \$0	\$4,112,030 \$86	\$3,820,230 \$86	\$235,755 \$86
Proposed at December 3, 2012		\$ 907,271	5.68%	\$15,985,349	\$22,453,303	\$2,918,929	\$695,087	\$2,163	\$2,507,509	\$4,112,030	\$3,820,230	\$235,755