Centre Wellington Hydro Ltd.

EB-2012-0113

2013 Cost of Service Application

Board staff Interrogatories

Exhibit 1 – General Administration

1-Staff-1

Ref: Exhibit 1/Tab 2/Schedule 2 – Bad Debt Expense

On page 2/lines 12-15, CWH states that it has had increased bad debt write-offs, due to residential customers moving out and mitigated partially by "credit insurance" applicable to GS (General Service) customers.

a) Please explain what "credit insurance" is and why it is only applicable to GS customers.
b) Please provide further explanation of the bad debt write-offs from residential customers moving out, and what efforts CWH has explored to manage this issue.
c) Does CWH consider that the move to smart meters and TOU billing with more exact meter consumption reading and on a daily basis will assist CWH in doing final meter reading and billing, possibly reducing the quantum and incidence of bad debt write-offs?

1-Staff-2

Ref: Exhibit 1/Tab 2/Schedule 2 – Reductions in Expenses

On page 3/lines 1-2, CWH states:

> The change in depreciation and the use of outside crew to do more capital projects has also resulted in a reduction of OM&A expenses.

While the extended useful lives of assets would reduce depreciation expense and operating expenses, *ceteris paribus*, please explain how the change in depreciation reduces OM&A expenses.

1-Staff-3

Ref: Exhibit 1/Tab 3/Schedule 7/Appendix G – Revenue Requirement Work Form

Using the middle column with "Interrogatories" selected from the drop-down list on Sheet 3, please provide an updated Revenue Requirement Work Form summarizing

any changes to the rate base and revenue requirement calculations corresponding to corrections or changes made as a result of responses to interrogatories from Board staff and registered intervenors. Please provide the RRWF in working Microsoft Excel format.

Exhibit 2 – Rate Base and Capital Expenditures

2-Staff-4

Ref: Exhibit 2/Tab 1/Schedule 2 and Exhibit 2/Tab 2/Schedule 1 – Rate Base

In Exhibit 2/Tab 1/Schedule 2, CWH documents that the average net book value of fixed assets of 2009 actuals was $196,385, or about 2.8%, less than the Board-approved amount of $6,921,164, as shown in Table 2.3. 2010 actuals showed a further decrease in the average net book value of $114,959, as shown in Table 2.4. 2011 actuals showed another decrease in the average net book value of $135,888, as shown in Table 2.5.

The average net book value of fixed assets increases in 2012 and 2013. CWH explains that inclusion of smart meters as of January 1, 2013 is a major contributor for the increase in 2013.

The above numbers are consistent with Tables 2.10, 2.11, and 2.12 of Exhibit 2/Tab 2/Schedule 1, where the depreciation expense (i.e. additions to accumulated depreciation) exceeds, in magnitude, capital additions to gross fixed assets for each of the years 2009, 2010 and 2011.

Please provide further explanation of the continual decline in the average net book value in net fixed assets for the period from 2009 to 2011 and below what the Board approved in CWH's last cost of service application.

2-Staff-5

Ref: Exhibit 2/Tab 3/Schedule 1 – Capital Expenditures

On pages 1-2 of this exhibit, CWH states:

> CWH submits one of the main drivers of capital investments starting in 2012 will be the rebuilding and upgrading of its substations which are over 50 years of age. In addition, investments in pole line reconstruction, new underground construction, and other infrastructure are required to ensure the distribution system remains reliable and safe. CWH further submits that its forecasted capital investments for the 2012 Bridge Year and 2013 Test Year are consistent with the required investments of prior years and are prudent and just in supporting continued growth in the Town of Fergus

and Village of Elora and the continued safety and reliability of its distribution system. In 2012, CWH obtained approval through the Incremental Capital Module (ICM) to proceed with the rehabilitation of Fergus MS-2(Queen St) substation at a total budget cost of $1,199,400 which was required due to safety and reliability issues which was supported by an outside study performed by Costello Associates Inc. In 2013, CWH is requesting approval to perform major rehabilitation of Fergus MS-1(Blair St) substation for safety, reliability and environmental issues. The proposed major rehabilitation is required to completely replace all 4 kV protection equipment with modern switchgear and reclosers, and to install secondary oil containment for the existing power transformer. CWH is proposing to finish all major rehabilitation on all six substations in our service area between 2012 and 2016 based on the "Condition Assessment" completed by Costello Associates Inc. (Appendix D & E). CWH is currently rehabilitating the Fergus MS-2 substation which will be completed before the end of 2012. Further in CWH's application a listing of anticipated substation projects lays out the forecasted year of completion for four more substations. CWH will be applying for an ICM for 2014 costs to replace Elora MS-1 substation and 2015 for rehabilitation of Fergus MS-3 and Elora MS-2 substations.

It appears that, in large part due to the results of the Asset Condition Study conducted by Costello Associates that CWH has determined to embark on an accelerated schedule for rehabilitation and replacement of its distribution stations.

a) As noted in a previous interrogatory, CWH did not have capital expenditures equalling the approved amount in its 2009 cost of service application, and capital additions were less than depreciation expense over the period 2009 to 2011. Please explain the urgency and necessity of successive years of significant capital expenditures that should be funded through increases in rates through capex increases in this Application and future ICMs given the historical underspending.
b) Please provide the basis for CWH forecasting that it will need additional capital expenditure approvals through ICMs in 2014 and 2015, beyond the level of capital expenditures that may be approved in this Application. In other words, why does CWH not view that the level of capital expenditures that might be approved in rates in this Application might not be adequate to fund the capital expenditures for other Distribution Stations in subsequent years under IRM rate adjustments?

2-Staff-6

Ref: Exhibit 2/Tab 3/Schedule 1/page 4/Table 2-20

In table 2-20, CWH documents $1,199,400 for capital expenditures for project Job #19 – MS#2 – Queen St., and no further capital expenditures in 2013.

a) Is this the project for which CWH was approved an ICM capital expenditure?
b) What is the status of this project? Is it complete?
c) If complete, when is CWH planning on applying for review of the expenditures approved in the ICM in CWH's 2012 IRM application?

2-Staff-7

Ref: Exhibit 2/Tab 3/Schedule 1/page 4/Tables 2.20 and 2.21

In Table 2.21, CWH documents that 2013 forecasted capital expenditures under MIFRs are $1,876,400. In Table 2.21, CWH documents that 2013 forecasted capital expenditures are $1,876,400 under CGAAP and $1,808,147 under MIFRS.

Please provide a reconciliation between Tables 2.20 and 2.21 as to what are the forecasted 2013 capital expenditures under MIFRS.

2-Staff-8

Ref: Exhibit 2/Tab 3/Schedule 3/Appendix A – Asset Management Plan

Page 6 of the Asset Management Plan contains the following table of projected distribution plant capital expenditures to maintain CWH's distribution infrastructure:

	2013	2014	2015
Estimate of Investments to Sustain Overhead Assets	415 117	415 117	415 117
Estimate of Investments to Sustain Underground Assets	193 455	193 455	193 455
Estimate of Investments to Sustain Substation Assets	1 170 000	2 130 000	1 430 000
Estimate of Non-Discretionary Investments	58 000	63 500	69 000
Total	1 836 572	2 802 072	2 107 572

Forecasted capital expenditures are significantly increased over historical capital expenditures prior to 2012, largely due to rehabilitation and replacement of many of CWH's distribution stations. However, CWH expects that other overhead and underground capital expenditures will be maintained at expected expenditures of about $415K and $193K, respectively, per annum. Please explain how the above projections take into account prioritization of projects and CWH's resources to be able to maintain a constant level of overhead and underground capital projects while simultaneously doing the distribution station capital projects.

2-Staff-9

Ref: Exhibit 2/Tab 3/Schedule 5 and Exhibit 2/Tab 3/Schedule 3/Appendix A – Service Reliability

In Table 2.27, CWH documents its reliability statistics as follows:

Table 2.27
Service Reliability Statistics

	SAIDI	SAIFI	CAIDI
Excluding Loss Supply			
Total 2011	3.67	1.90	1.93
Total 2010	2.18	1.67	1.30
Total 2009	1.29	0.88	1.48
Including Loss Supply			
Total 2011	0.28	0.19	1.41
Total 2010	1.09	0.59	1.86
Total 2009	1.37	0.98	1.40

a) The reported statistics for SAIDI and SAIFI including Loss of Supply are lower than those excluding Loss of Supply. This is intuitively illogical. Please confirm the reported statistics and their labelling.
b) Please provide further explanation on system outages experienced from 2009 onwards and the reasons for reported CAIDI exceeding 1 (i.e., on average, a customer that experiences a outage of at least 1 minute duration waits over 1 hour for service restoration from when CWH is made aware of the situation).
c) Please explain what plans CWH is implementing or investigating to improve service reliability.
d) The SAIDI and SAIFI reported in Table 2.27 appear to differ in some instances from those reported in Exhibit 4-19 on page 55 of the Asset Management Plan. For example, SAIFI excluding loss of supply is shown as 0.98, 0.59 and 0.19 for 2009, 2010 and 2011 in Table 2.27, but 1,3, 0.3 and 0,3 for the same period in Exhibit 4-19. Please confirm CWH's reliability statistics for all periods.
e) Please update Table 2.27 to include statistics for 2012.

2-Staff-10

Ref: Exhibit 2/Tab 4/Schedule 1 – Working Capital Allowance

Please update Tables 2.30, 2.31, 2.32, 2.33, 2.34 and 2.35 to reflect the updated *Regulated Price Plan Report* issued by the Board on October 17, 2012.

2-Staff-11

Ref: (a) *Filing Requirements*[1], §3.2.2, p.11-12, Information Exchange with Affected Distributors and Transmitters; and (b) *Filing Requirements*, §4.2.2.2, bullet 4, p.16 – Green Energy Plan

Reference (a) points to the need to consult with upstream transmitters when preparing GEA plans and document such consultations. Reference (b) relates to the information required when filing a GEA Plan.

a) Please confirm that CWH has provided Hydro One with a forecast of renewable generation connection and its planned system investments. Briefly describe the consultations.
b) In accordance with the *Filing Requirements*, briefly describe the prioritization methodology employed to connect renewable generation projects.

2-Staff-12

Ref: (a) E2-T6-S1/p1; (b) E2-T6-S1/p2/Table/Volume of Applications for Green Energy Connections; and *(c) Framework*[2] , Paragraph 1.1, Regulation 330/09 – Green Energy Plan

At reference (a), CWH states that it "has forecasted no capital spending requirements which would affect the rate base calculations in this Application."

The table at reference (b) shows that 17 out of 47 microFIT/FIT projects have been connected, but provides no additional information as to the connection schedule over the GEA plan 5-year horizon, or the associated capital or OM&A costs stemming from the renewable connection activities.

CWH's GEA Plan mentions smart grid but only renewable connections are discussed in more detail.

CWH is silent on the quanta of the OM&A expenses associated with the implementation of the GEA plan. On OM&A costs reference (c) clarifies that:

[1] EB-2009-0397 Distribution System Plans – Filing under Deemed Conditions of Licence. This plan was filed using the May 17, 2012 version.
[2] Report of the Board, Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09

"Eligible investment" costs, as set out in O. Reg. 330/09 and section 79.1 (5) of the Act, are not limited to only the initial capital investment costs but also include the *up-front* OM&A costs necessary for the purpose of "enabling the connection of a qualifying generation facility". However, given that section 79.1 focuses solely on the initial investment, ***ongoing OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery. [emphasis added]***

a) Please confirm that CWH does not foresee undertaking any smart grid eligible activities over the 5-year plan period.
b) Please provide a schedule for the forecasted number of renewable energy connections by end 2017.
c) For projects connected in 2010 through 2012, has CWH incurred any capital expenditures with respect to those? If applicable, please indicate the quantum and whether these GEA Plan costs were recovered through current rates. If not, briefly explain.
d) Please reconcile the fact that additional renewable connections are in the pipeline, while CWH forecasts no capital spending requirements that would affect rate base. Are all costs in the form of contributed capital by renewable generators?
e) Are there any incremental labour costs or other OM&A costs associated with the implementation of the GEA plan?

Exhibit 3 – Operating Revenues

3-Staff-13

Ref: Exhibit 3/Tab 2/ Schedule 1 – Load Forecast

CWH documents that weather data from Pearson International Airport was used to derive the Heating Degree Days ("HDDs") and Cooling Degree Days ("CDDs") used as exogenous variables in the multivariate regression models for Residential and GS < 50 kW demand.

Environment Canada has meteorological data for at least four sites that are closer to and more likely to have more closely related climactic conditions to the communities of Fergus and Elora:

- Fergus Ministry of the Environment
- Mount Forest;
- Guelph Turfgrass; and

- Region of Waterloo International Airport.

Please explain the basis for selecting Pearson International Airport as the source of meteorological data for CWH's load forecast.

3-Staff-14

Ref: Exhibit 3/Tab 2/Schedule 1 – Load Forecast

Currently, most distributors use a multivariate regression-based approach to develop their load forecast, whereby system purchased consumption kWh is regressed against a number of explanatory variables. The predicted purchased system consumption in kWh is then divided by (1 + loss factor) and then allocated to each customer class. In contrast, CWH has used a bifurcated process whereby a multivariate regression model is used to estimate billed consumption (kWh) for each of the Residential and GS < 50 kW classes, and a NAC approach is used for other classes for which consumption or demand is insensitive (or relatively so) to weather.

a) Do the billed kWh for Residential and GS < 50 kW customer classes correspond exactly with the consumption in each calendar month from June 2002 to December 2011?
b) In the alternative, please explain what assumptions, calculations or other factors underlie the monthly kWh data for Residential and GS < 50 kW classes.
c) Why does the regression range only begin in June 2002?
d) Please provide the regression results in tabular Microsoft Excel format, and the predicted monthly and annual results for the system purchased kWh equation regressed against the same explanatory variables as were used for the Residential and GS < 50 kW. For the residuals, provide the Mean Absolute Percentage Error over the regression range.

3-Staff-15

Ref: Exhibit 3/Tab 2/Schedule 1/page 12/Table 3-16 – Load Forecasting and CDM Adjustment

In Table 3-16, CWH provides the data for the adjustment of "gross" to "net" CDM impacts for the adjustment of the load forecast for 2012 and 2013 CDM impacts. This is replicated below:

Table 3-16: Average Net to Gross Percentage				
	OPA 2006-2010 Final CDM Results (Gross)	OPA 2006-2010 Final CDM Results (Net)	# Difference	% Difference of Net
2006	464,901	416,278	48,623	11.7%
2007	2,718,879	1,901,458	817,421	43.0%
2008	2,746,766	2,162,792	583,974	27.0%
2009	3,259,276	2,555,243	704,033	27.6%
2010	3,530,501	2,690,124	840,376	31.2%
2011	3,339,622	2,496,800	842,822	33.8%
2012	3,255,982	2,458,592	797,390	32.4%
2013	3,232,179	2,446,482	785,697	32.1%
Total	22,548,106	17,127,770	5,420,336	31.6%

a) Please update Table 3-16 to reflect the final 2011 CDM results as issued by the OPA in the fall of 2012.
b) CWH has estimated a "net-to-gross" conversion factor of 31.6%, which is based on the overall difference of "net" to "gross" results over the total period from 2006 to 2011, and including the estimated persistence of 2006 to 2011 CDM programs on 2012 and 2013 demand.
    i. Why should the estimated results for 2012 and 2013, which are forecasts, be taken into account in calculating the conversion factor?
    ii. In the alternative, if reliance should be placed on these as being the OPA's final estimates of the persistence of CDM programs up to 2011 on 2013 consumption in CWH's service territory, then why should the 2013 data, with a factor of 32.1%, not be the suitable measure for the 2013 test year load forecast?

3-Staff-16

Ref: Exhibit 3/Tab 2/Schedule 1/page 13/Table 3-17 – Load Forecasting and CDM Adjustment

On page 13 and in Table 3-17, CWH documents its methodology for estimating the manual adjustment to account for 2012 and 2013 CDM programs on the 2013 load forecast. Board staff understands CWH's methodology as follows:

- Assuming that 2011 CDM programs achieved 12.9% of CWH's target of 7,810,000 kWh based on the OPA results in 2011 and 18.4% in each of 2012, 2013 and 2014, CWH would need to achieve a further 5.3% of the target in each of 2012, 2013, and 2014 to achieve 100% of the target on a cumulative basis over the four years.
- 5.3% of 7,810,000 kWh equates to 41,275 kWh.

- Thus, in addition to 2011 CDM results which are reflected in the 2011 actuals and hence would influence the load forecast before the CDM adjustment, the adjustment for 2012 and 2013 CDM programs should be 414,275 kWh X 2 years X 1.316 net-to-gross conversion factor = 1,090,756 kWh.

The data for this adjustment is shown in Table 3-17, replicated below:

Table 3-17: Schedule to Achieve 4 Year kWh CDM Target					
4 Year 2011 to 2014 kWh target					
7,810,000					
	2011	2012	2013	2014	Total
2011 Programs	12.9%	18.4%	18.4%	18.4%	68.2%
2012 Programs		5.3%	5.3%	5.3%	15.9%
2013 Programs			5.3%	5.3%	10.6%
2014 Programs				5.3%	5.3%
	12.9%	23.7%	29.0%	34.3%	100.0%
kWh					
2011 Programs	1,008,627	1,438,575	1,438,575	1,438,575	5,324,351
2012 Programs		414,275	414,275	414,275	1,242,824
2013 Programs			414,275	414,275	828,550
2014 Programs				414,275	414,275
	1,008,627	1,852,850	2,267,124	2,681,399	7,810,000

Board staff understands that the results as reported by the OPA are “annualized” (i.e. assume that all CDM programs, including the current year’s program, are in effect for the full year, from January 1 to December 31). While the full year effect for persistence of prior year CDM programs would be in place for the full year, CDM programs implemented in a given year would not have the full impact in the first year, due to timing.

The measured “full year” results, as measured by the OPA, will be used for the basis of the LRAMVA amount. However, the “full year” results in the first year of a CDM program, will overstate the actual results unless the program was implemented on January 1 of that year.

In the absence of any other information, a “half-year” rule (i.e. assuming that half of the incremental impact of programs introduced in a year is actually realized in the calendar year of introduction) may be a proxy for the actual impact, ignoring all other factors (i.e. seasonality).

a) Please identify and, if possible, provide the source of the data shown in Table 3-17.

b) Please provide CWH's understanding of the results as published by the OPA (i.e. are the full year or do they only reflect the period that a CDM program in in place in its first year).
c) Please explain why the persistence of 2011 CDM programs, at 1,438,575 kWh for each of 2012, 2013 and 2014 is greater than the impact of 1,008,627 kWh in 2011.
d) If a "half-year" rule is used to account for the fact that 2013 CDM programs will not have a full year impact on 2013 actual consumption, please provide CWH's perspective that the adjustment for the 2012 and 2013 CDM programs on 2013 demand would be estimated as 414,275 kWh X 1.5 (reflecting full year impact of 2012 CDM and half-year impact of 2013 CDM on 2013) X 1.316 = 817,788.9 kWh. (Alternatively, the net-to-gross conversion factor, as discussed in the preceding interrogatory, could be used).
e) While the above is to adjust the load forecast which is on an "actual" year basis, the LRAMVA is based on the measured OPA results reported on a full year basis. Please confirm that the LRAMVA threshold would continue to be based on the "full year" CDM results of 1,438,575 kWh (i.e. persistence of 2011 CDM) + 414,275 X 2 (i.e. persistence of 2012 and impact of 2013 CDM) results, for a total of 2,267,124 net kWh, as documented further on page 13 of this exhibit. In the alternative, please explain CWH's proposal for the kWh used to derive the threshold for the LRAMVA for 2013.
f) If available, please update Table 3-17 with the final OPA results of CWH's 2011 CDM programs.

3-Staff-17

Ref: Exhibit 3/Tab 3/Schedule 1/page 4 – Throughput Revenue

On page 4 of this exhibit, CWH states:

> The timing difference between the 2010 actual amounts which are based on the fiscal year of January 1 to December 31, 2010, and the 2009 Actual amounts, which are based on the rate year of May 1, 2009 to April 30, 2010 also contribute to the variance, since the 2009 rates did not come into effect until May, 2009.

Please explain how the effective date of new rates contributes to the variance in throughput revenues for the year-over-year variances, per the above quote.

Exhibit 4 – Operating Expenses

4-Staff-18

Ref: Exhibit 4/Tab 1/Schedule 1/ pp. 7-8 – OM&A Cost Drivers

Other than two staff positions, CWH lists drivers of increases and decreases in OM&A under item 3 on pages 7 and 8 of Exhibit 4/Tab 1/Schedule 1.

a) CWH states that "Moving to Time of Use (TOU) billing has resulted in increases in costs related to hosting of ODS, AS2, Elster software support, etc." Is CWH referring to costs other than those for the Systems Analyst – IT hired in 2011 and described on pages 5 and 6 of this exhibit? If so, please explain.
b) CWH documents one driver as "Increase in outside service (5630) due to increased legal, audit and consulting services other than those regulated [sic] to rate setting." Please provide further descriptions of external legal, audit and consulting services being required, and how these are necessary for CWH's operations.
c) CWH states that non-labour inflation for 2012 and 2013 is based on the average CPI Canada rate for the 10 months between October 2011 and July 2012 at a rate of 2.11%.
    a. Is the 2.11% a 10-month rate or is it annualized?
    b. What is the source Canadian CPI measure and data used?
    c. Why did CWH rely on a Canadian CPI measure rather than a more localized measure such as Ontario CPI?
d) CWH notes as a driver of OM&A expenses "Reduction in contracted work and reallocation of outside crew time between capital, operations and maintenance jobs." Please provide further explanation for the reduction in contracted work.

4-Staff-19

Ref: Exhibit 4/Tab 1/Schedule 1/Page 3 – OM&A Costs per Customer and Customers per FTEE

Table 4.4, showing OM&A costs per customer and customers per FTEE is replicated below. It shows OM&A costs per customer increasing over time, as well as the number of customers per FTEE at CWH decreasing over time. Even taking inflation into account, it appears that the increasing OM&A per customer trend would continue.

a) Please augment Table 4.4 showing OM&A per customer in real terms (i.e. with OM&A deflated by a suitable inflation measure such as CPI or GDP-IPI.
b) Please provide further explanation of the drivers for these trends.

Table 4.4 – OM&A Per Customer and FTE (App 2-L)

	Last Rebasing Year (2009 Board-Approved)	Last Rebasing Year (2009 Actuals)	2010 Actuals	2011 Actuals	2012 Bridge Year	2013 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS
Number of Customers	6,464.00	6,342.00	6,407.00	6,498.00	6,591.20	6,685.25
Total Recoverable OM&A from Appendix 2-I	$ 1,753,350	$ 1,718,477	$ 1,840,634	$ 1,985,049	$ 2,288,700	$ 2,303,000
OM&A cost per customer	$ 271.25	$ 270.97	$ 287.28	$ 305.49	$ 347.24	$ 344.49
Number of FTEEs	14.5	14.5	13	14	15	16
Customers/FTEEs	445.79	437.38	492.85	464.14	439.41	417.83
OM&A Cost per FTEE	120,920.69	118,515.64	141,587.22	141,789.20	152,580.00	143,937.50

4-Staff-20

Ref: Exhibit 4/Tab 1/Schedule 1/page 10 – Regulatory Costs

CWH documents its regulatory costs in Table 4.5 and Appendix 2-M.

CWH documents $8,700 for expert witness costs, $20,000 for consulting and $11,400 for intervenor costs as one-time costs for this Application for 2013 cost of service-based rates. All costs are estimated for 2013, as shown in the second table on Appendix 2-M.

a) Are these the total costs for CWH's 2013 cost of service Application, or one-quarter of the total estimated costs, per amortization over 4 years?
b) Why has CWH not documented any costs in 2012, during which CWH was preparing this Application?
c) Under the RRFE initiative being undertaken by the Board, the length of the IRM term would normally increase to 5 years (one year of cost of service rebased rates followed by 4 years of IRM rate adjustments). Please provide CWH's views on the amortization period for recovery of one-time regulatory costs associated with this Application.

4-Staff-21

Ref: Exhibit 4/Tab 2/Schedule 2/page 2, and Exhibit 4/Tab 2/Schedule 4/page 9 – Billing and Collecting Expenses

CWH documents its Billing and Collecting Expenses in Table 4.8, replicated below.

Table 4.8 - Detailed Account by Account Billing & Collecting Expenses (App 2-G)

Account Description	Last Rebasing Year (2009 Actuals)	2010 Actual	2011 Actual[2]	Bridge Year 2012[3]	Bridge Year 2012[3]	Test Year 2013
Billing and Collecting						
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	MIFRS	MIFRS
5305 Supervision	$ -	$ -	$ -	$ -	$ -	$ -
5310 Meter Reading Expense	$ 35,379	$ 7,588	$ 1,684	$ 93,300	$ 93,300	$ 108,100
5315 Customer Billing	$ 217,035	$ 179,146	$ 228,858	$ 305,100	$ 305,100	$ 322,400
5320 Collecting	$ 61,361	$ 67,101	$ 73,125	$ 72,600	$ 72,600	$ 74,600
5325 Collecting - Cash Over and Short	$ 62	$ 151	-$ 5	$ -	$ -	$ -
5330 Collection Charges	$ 4,636	$ -	$ -	$ -	$ -	$ -
5335 Bad Debt Expense	$ -	$ 9,079	$ 13,662	$ 14,000	$ 14,000	$ 18,600
5340 Miscellaneous Customer Accounts Expenses	$ 2,116	$ 455	$ -	$ -	$ -	$ -
Total - Billing and Collecting	$ 320,588	$ 263,519	$ 317,324	$ 485,000	$ 485,000	$ 523,700

a) Please explain the increases in Account 5310 Meter Reading Expense to $93,300 in 2012 and the further increase to $108,100 forecasted for the 2013 test year.
b) Please explain the increases in Account 5315 Customer Billing to $305,100 in 2012 and the further increase forecasted to $322,400 for the 2013 test year.
c) On page 9 of Exhibit 4/Tab 2/Schedule 4, CWH states that it is forecasting an increase in bad debt expense of $4,600 in 2013, but that the loses could be larger if a major customer goes out of business. Please provide further explanation on both the increase of $4,600 and the potential bad debt depending on the fate of a large customer.

LRAM and LRAMVA

4-Staff-22

Ref: *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003), Section 13: LRAM
Chapter 2 of the *Filing Requirements for Electricity Transmission and Distribution Applications*, Last Revised on June 28, 2012, Section 2.7.10: CDM Costs
Exhibit 4/Tab 6/Schedule 1/page 1
Reply to Request for Additional Information, Response #8, November 13, 2012

CWH notes that it is not requesting disposition of the balance of DVA accounts 1567 or 1568 in this Application because the accounts have a zero balance. CWH states that it is requesting the right to recover the lost revenues related to 2011 CDM programs when the final evaluation results are available for the OPA 2011 and 2012 CDM Programs.

On September 27, 2012, CWH filed its 2011 CDM Annual Report. Within its 2011 Annual Report, CWH included its gross and net energy saving from the CDM Programs that will contribute towards its CDM Targets.

As stated in Section 13.4 of the Board's *Guidelines for Electricity Distributor Conservation and Demand Management*, April 26, 2012 (EB-2012-0003) and section 2.7.10 – CDM Costs, LRAMVA, pages 36-37 of the Filing Requirements, distributors must, at a minimum, apply for the disposition of the balance in the LRAMVA as part of their COS applications.

Please provide the evidence supporting the disposition of your LRAMVA – Account 1568 balance as of December 31, 2011. Even if the Account 1568 does not currently have an amount included, please provide supporting evidence for recovery of the lost revenues associated with Centre Wellington's 2011 OPA CDM Programs found within its 2011 CDM Annual Report. Please ensure that the evidence includes the following elements:

a) Full LRAMVA calculations that are based on the final evaluation results for 2011 OPA CDM Programs. The LRAMVA calculations are determined by calculating the energy savings by customer class and valuing the net energy savings based on using the distributor's approved variable distribution charge appropriate to the class;
b) Separate tables for each rate class that shows the LRAMVA amounts requested in association with the final evaluation results for 2011 OPA Programs;
c) A statement that indicates the amount, if any, that Centre Wellington's last approved load forecast was adjusted to reflect forecasted CDM impacts in association with Centre Wellington's 2011-2014 CDM Targets;
d) Calculations showing the variance, if any, between the CDM component related to the 2011-2014 CDM Targets included in Centre Wellington's last approved load forecast and the final evaluation results for Centre Wellington's 2011 OPA Programs;
e) A statement indicating that the distributor has relied on the most recent final evaluation report from the OPA in support of its LRAMVA calculation;
f) A statement indicating that the distributor has used the most recent input assumptions available at the time of the program evaluation when calculating its LRAMVA amount;
g) Applicable LRAMVA rate riders for all affected rate classes;
h) A statement, and if applicable a table, that indicates if carrying charges are being requested on the LRAMVA amount; and
i) Documentation of the distributor's final evaluation results for its 2011 OPA Programs.

4-Staff-23

Ref: *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003), Section 13.6: LRAM for pre-2011 Programs Decision and Order EB-2011-0160, Centre Wellington's 2012 IRM Application, March 22, 2012

LRAM for pre-2011 CDM Programs

The Board's CDM Guidelines state that it is the Board's expectation that LRAM for pre-2011 CDM activities should be completed with the 2012 rate applications, outside of persisting historical CDM impacts realized after 2010 for those distributors whose load forecast has not been updated as part of a cost of service application.

In the Board's Decision and Order on CWH's 2012 IRM application, the Board did not approve the LRAM arising from the persistence of 2010 CDM programs in 2011 as it found that it was premature to do so at that time.

If CWH has outstanding lost revenues from the persistence of 2010 CDM programs in 2011 and/or 2012, please provide evidence supporting the recovery of these amounts, including:

a) Both gross and net persisting energy savings from 2010 CDM programs in 2011 and 2012;
b) Full LRAM calculations for any persisting savings from 2010 CDM programs in 2011 and/or 2012;
c) A statement that indicates the distributor has relied on the most recent and appropriate final evaluation report from the OPA in support of its LRAM amount;
d) Please provide a table that shows the LRAM amounts requested by the program year they are associated with and the year the lost revenues took place, divided by rate class within each program year. Use the table below as an example:

Program Year (Divided by rate class)	Years that lost revenues took place	
	2011	2012
2010	$xxx	$xxx

e) Applicable LRAM rate riders, separate from the LRAMVA rate riders requested above, for all affected rate classes.

Exhibit 5 – Cost of Capital

5-Staff-24

Ref: Exhibit 5/Tab 1/Schedule 3 – Weighted Average Cost of Debt

On page 1 of this Exhibit, CWH states that it is requesting a weighted average debt cost of 4.22%. Table 5.3 of page 3 of the Exhibit shows a 2013 weighted average debt cost of 4.37%.

Please confirm the weighted average debt cost that CWH is requesting in this Application.

5-Staff-25

Ref: Exhibit 5/Tab 1/Schedule 3 – Long-term Debt

CWH documents that it intends to incur, in 2013, additional unaffiliated debt of $1,329,000 at a quoted rate of 4.23% from a commercial bank. The additional debt is debt financing related to the upgrade and rehabilitation of a distribution substation.

CWH has factored this additional debt into the determination of the weighted average debt cost as if the debt is in place on January 1, 2013. Please provide CWH's estimate of when it expects to actually incur the debt of $1,329,000.

5-Staf-26

Ref: Exhibit 5/Appendix A – Affiliated Long-Term Debt

CWH has filed a copy of the Promissory Note held by The Corporation of the Township of Centre Wellington in Exhibit 5/Appendix A. The Promissory Note was executed November 1, 2000 with a principal of $5,046,752.00 and a fixed rate of 7.25% but without fixed term. The note also states that, when not in default, all or any part of the principal may be repaid without notice or penalty.

The terms and conditions of the affiliated Promissory Note, and specifically the lack of a fixed term, mean that it attracts, at most, the Board's deemed debt rate.

Elsewhere in the Application, CWH has documented losses in recent years. However, the 7.25% rate of the Promissory Note was factored into CWH's rates up to 2008, and CWH had the deemed debt rate of 7.62%, as issued by the Board, factored into CWH's rates in its 2009 cost of service application. CWH thus would have had a higher debt cost factored into rates than it actually paid to the municipal shareholder.

a) Since the interest expense factored into rates had a higher rate (i.e. 7.62%) than the actual rate (i.e. 7.25%) since 2009, please explain what impact this would have on CWH's financial picture since 2009. In particular, please explain CWH's losses when the utility was actually recovering interest expense at a higher rate than it was actually paying interest on the debt to its municipal shareholder.
b) Since the affiliated debt will attract the deemed long-term debt rate, which is currently and forecasted to be well below the 7.25% rate of the Promissory Note, CWH will recover less debt interest than it will pay to the municipal shareholder. This will in turn result in lower net income. Since the principal can be repaid without notice or penalty, does CWH have any plans to repay or convert the affiliated debt with debt that would attract a current market-based rate? Please explain your response.

Exhibit 7 – Cost Allocation

7-Staff-27

Ref: Exhibit 7/Tab 1/Schedule 2 – Revenue-to-Cost Ratios

Board staff has repeated table C) of Appendix 2-P_Cost Allocation (which is also shown on Exhibit 7/Tab 1/Schedule 2/page 12) below:

C) Rebalancing Revenue-to-Cost (R/C) Ratios

Class	Previously Approved Ratios Most Recent Year: 2011	Status Quo Ratios (7C + 7E) / (7A)	Proposed Ratios (7D + 7E) / (7A)	Policy Range
	%	%	%	%
Residential	101.70	97.49	99.65	85 - 115
GS < 50 kW	105.30	95.56	99.00	80 - 120
GS 50 - 2,999 kW	104.70	90.41	99.65	80 - 120
GS 3,000 - 4,999 kW	87.00	100.96	100.96	80 - 120
Large User, if applicable				85 - 115
Street Lighting	70.00	305.88	120.00	70 - 120
Sentinel Lighting	70.00	124.72	120.00	80 - 120
Unmetered Scattered Load (USL)	103.70	271.84	120.00	80 - 120
Other class, if applicable				
Embedded distributor class				

The table shows significant changes in the revenue-to-cost ("R/C") ratios for many classes from the previous Cost Allocation study used in CWH's 2009 cost of service application and the updated Cost Allocation study in this Application. Further, for all classes except Unmetered Scattered Load, the R/C ratio crosses unity from the two studies.

Please provide further analysis of what changes in data, assumptions, etc. have occurred from the previous cost allocation study to this study, and hence why the proposed R/C ratios should be relied upon given the volatility in the results.

Exhibit 8 – Rate Design

8-Staff-28

Ref: Exhibit 8/Tab 1/Schedule 5 – Loss Factors

Board staff has replicated Appendix 2-R (also shown as Table 8.1.12 of Exhibit 8/Tab 1/Schedule 5) below:

		Historical Years					5-Year Average
		2007	2008	2009	2010	2011	
	Losses Within Distributor's System						
A(1)	"Wholesale" kWh delivered to distributor (higher value)	157122111.5	161716845.1	153664849.4	155715325.5	156683055.8	156980437.5
A(2)	"Wholesale" kWh delivered to distributor (lower value)	154991026.4	159504886.3	151573964.5	153540168.9	154560363.8	154834082
B	Portion of "Wholesale" kWh delivered to distributor for its Large Use Customer(s)						0
C	Net "Wholesale" kWh delivered to distributor = **A(2) - B**	154991026.4	159504886.3	151573964.5	153540168.9	154560363.8	154834082
D	"Retail" kWh delivered by distributor	147,990,851	154,818,345	146,777,166	149,442,885	146,286,077	149063064.9
E	Portion of "Retail" kWh delivered by distributor to its Large Use Customer(s)						0
F	Net "Retail" kWh delivered by distributor = **D - E**	147990851	154818345.4	146777166.2	149442884.8	146286077	149063064.9
G	Loss Factor in Distributor's system = **C / F**	1.0473	1.0303	1.0327	1.0274	1.0566	1.0388
	Losses Upstream of Distributor's System						
H	Supply Facilities Loss Factor	1.0137	1.0139	1.0138	1.0142	1.0137	1.0139
	Total Losses						
I	Total Loss Factor = **G x H**	1.0617	1.0446	1.0469	1.0420	1.0711	1.0532

CWH document distribution losses of 5.66% in 2011. This is materially higher than losses documented from 2007 to 2010.

A similar table from CWH's 2009 cost of service application (EB-2008-0225) is shown below (Exhibit 4/Tab 2/Schedule 8):

	2003	2004	2005	2006	2007		
Purchased kWh's	154,812,595.10	160,096,079.00	160,363,706.00	159,479,086.37	162,041,784.23		
"Wholesale" kWh (IESO) **Qty at the Meter**	151,086,095	156,211,548	155,716,390	154,774,514	157,382,043	**5 Yr Avg**	**3 Yr Avg**
Supply Facility Loss Factor [(A-B)]	1.0247	1.0249	1.0298	1.0304	1.0296	1.0279	1.02995

	2003	2004	2005	2006	2007		
"Wholesale" kWh (IESO) **Qty at the Meter**	151,086,095	156,211,548	155,716,390	154,774,514	157,382,043		
Wholesale kWh for Large Use customer(s) (IESO)	-	-	-	-	-		
Net "Wholesale" kWh (D)-(E)	151,086,095	156,211,548	155,716,390	154,774,514	157,382,043		
Retail kWh (Distributor) **Qty at the Meter**	142,455,155	141,146,934	149,056,811	150,448,842	151,678,570		
Retail kWh for Large Use Customer(s) (1% loss)	-	-	-	-	-		
Net "Retail" kWh (G)-(H)	142,455,155	141,146,934	149,056,811	150,448,842	151,678,570	**5 Yr Avg**	**3 Yr Avg**
Distribution Loss Factor [(F)/(I)]	1.0606	1.1067	1.0447	1.0288	1.0376	1.0557	1.0370

The data from 2003 to 2011 show highly variable distribution losses in CWH's service territory, ranging from 1.37% to 10.67%.

a) Please provide further explanation for the 5.66% loss factor in 2011.
b) If available, please provide CWH's distribution losses for 2012.
c) Please provide further explanation of the variability in observed losses within CWH's service area over the past decade.
d) What efforts has CWH undertaken to identify and to address distribution losses within its system? What, if any, capital or operating projects are planned in the 2013 test year to address losses in CWH's distribution system.

Exhibit 9 – Deferral and Variance Accounts

9-Staff-29

Ref: Exhibit 9/Tab 1/Schedule 1, Revised Table 9.7 and Appendix 2-U per CWH letter to the Board dated November 13, 2012; Revised DVA Work Form dated November 13, 2012; andAPH Qs & As #1 dated October 2009 - Account 1508, Sub-account Deferred IFRS

CWH is requesting disposition for the December 31, 2011 balance of Account 1508,sub account Deferred IFRS in Table 9.7. In addition, CWH will be seeking disposition in the future for the expenditures in 2012 or later as per its application.

a) What is the percentage of completion of the IFRS project to date?

APH Q & A #1 dated October 2009 states:

> Q.1 For a distributor that does not have a Board-approved amount designated for one-time administrative incremental IFRS transition costs already included for

recovery in its distribution rates, what account should be used to record these costs for potential future recovery?

A.1 The Board has approved a deferral account for a distributor to record one-time administrative incremental IFRS transition costs, which are not already approved and included for recovery in distribution rates. In such circumstances, the incremental costs (see Q.3 below) will be recorded in a new and separate sub-account of account **1508, Other Regulatory Assets, "Sub-account Deferred IFRS Transition Costs"**, in the Uniform System of Accounts.

b) Please confirm that the IFRS transition costs are one-time administrative incremental costs and are not included in the 2013 OM&A expenses for the test year. Please make all the necessary adjustments to the evidence if any and remove the incremental IFRS transition costs from the OM&A expenses if required.

9-Staff-30

Ref: Exhibit 9/Tab 2/Schedule 1/page 6, Revised Tables 9.7 and 9.8 on Rate Rider Calculation (Excluding Account 1588, sub account Global Adjustment)in CWH letter to the Board dated November 23, 2012; Exhibit 9/Tab 2/Schedule 3/page 3; Exhibit 9/Tab 2/Schedule 5/page 1; Decision EB-2011-0160 - Account 1521, SPC Assessment Variance

In its decision with respect to CWH's 2012 IRM application under EB 2011-0160, the Board stated at page 7:

> The Board will approve, on a final basis, the recovery of a debit balance of $2,357.13, representing principal as at December 31, 2010, plus recoveries from customers in 2011, plus interest to April 30, 2012. The Board directs Centre Wellington to record the SPC debit balance in variance account 1595 for future disposition. The Board directs Centre Wellington to close account 1521 effective May 1, 2012.

In its application, CWH transferred the balance in account 1521-SPC to Account 1595 – Disposition & Recovery/Refund-SPC and 1595-Disposition & Recovery/Refund-SPC Interest as at May 1, 2012. In the revised Table 9.7 CWH is requesting recovery of the balance of $2,389 in Account 1521, SPC Assessment Variance account.

a) Please explain why CWH is still requesting the disposition of the residual audited balance of $2,389 after the issuance of Board Decision EB 2011-0160 and after CWH stated that it has transferred the balance in account 1521 to Account 1595 as of May 1, 2012.
b) If adjustments are necessary, please make all the necessary adjustments to relevant evidence (e.g. Tables 9.7 and 9.8 - Rate Rider Calculation (Excluding Account 1588, sub account Global Adjustment).

9-Staff-31

Ref: Exhibit 9/Tab 2/Schedule 1/pages 7-8; Revised Tables 9.7 and 9.8 on Rate Rider Calculation (Excluding Account 1588, Sub account Global Adjustment) as per CWH letter to the Board dated November 13, 2012; Chapter 2 of the Filing Requirements for Electricity Transmission & Distribution Application, S.2.12.2; Appendix 2-T; and **December 2010 FAQs #1-5; June 28, 2012 - Account 1592, PILS and Tax Variance, Sub-account HST/OVAT/ITCs**

CWH is requesting disposition of Account 1592, PILS & Tax Variance for 2006 & Subsequent Years-Sub Account HST/OVAT ITCs for the credit balance of $20,017 (50% of $40,034). CWH also provided Appendix 2-T providing a summary of the capital and OMA HST/OVAT/ITC savings for a total of $20,017.

S.2.12.2 of 2013 COS filing requirements states:

> The applicant must provide an analysis to support the applicant's conformity with the December 2010 APH FAQs, in particular the example shown in FAQ #4.

a) Per the 2013 COS filing requirements, please provide detailed schedules (supporting the $40,034), similar to Table 1 and Table 2 of Question 4 of the December 2010 APH-FAQs, to indicate the period HST savings on OM&A costs and capital expenditures for the periods of:
   I. July 1, 2010 to December 31, 2010;
   II. January 1, 2011 to December 31, 2011;
   III. January 1, 2012 to December 31, 2012; and
   IV. January 1, 2013 to April 30, 2013.

b) If CWH has not calculated HST savings from January 1, 2012 to April 30, 2013, please calculate the amount using the APH FAQ December 2010 guidelines and request to clear the amount in the current application as well.
c) Since the calculation of the HST savings in Question 4 of the December 2010 APH-FAQs for OM&A costs and capital expenditures is based on a proxy using 2009 spending, has CWH experienced actual spending which were materially different for the above-noted periods in part a)? If so, please explain the basis for the differences and provide detailed schedules for the HST savings for each period.
d) CWH requested leave to discontinue tracking HST/OVAT/ITC as at December 31, 2012. The 2013 Filing Requirements indicate that "No more amounts should be recorded in Account 1592…for the Test Year and going forward, as the impact of the HST and associated ITS on capital and operating costs in the Test Year should be reflected in the applied-for revenue requirement. Please confirm that CWH is following the 2013 COS filing requirement and will stop using the sub account 1592, HST/OVAT/ITC starting in the test year and onwards.

9-Staff-32

Ref: Appendix 2-T; Revised Table 9.7 as per CWH letter to the Board dated November 13, 2012; December 2010 APH Q & A #5; DVA Continuity Work Form

APH Q & A #5 states:

> Can a distributor record only the 50 percent portion of the HST savings
>
> attributable to ratepayers in the sub-account?
>
> A.5 No. The Board would first want to review the quantum of savings associated with the ITCs recorded in the sub-account to confirm, among other things, the reasonableness of the amount and consider any adjustments, as appropriate.

CWH appropriately provided the credit balance of $20,017 in Account 1592, PILS & Tax Variance for 2006 & Subsequent Years - Sub Account HST/OVAT ITCs in Table 9.7. However, CWH did not record the $40,034 credit balance as required by the December 2010 APH Q & A #5 in the DVA Work Form and Appendix 2-T.

Please explain CWH's entries. In the alternative, please update DVA Work Form and Appendix 2-T.

9-Staff-33

Ref: Revised Tables 9.7 and 9.8 on Rate Rider Calculation (Excluding Account 1588, Sub account Global Adjustment) as per CWH letter to the Board dated November 13, 2012; DVA Continuity Work Form; APH Article 220; November 28, 2006 Board Letter to Electricity Distributor on Approval of Accounting Interest Rates Methodology for Regulatory Accounts Board File No. EB-2006-011; APH Q & A #5, July 2007 - Account 1592, PILS and Tax Variance, Sub-account HST/OVAT/ITCs

APH Article 220: Account 1592, Sub account HST/OVAT/ITCs states:

> Carrying charges shall apply to this account. These amounts shall be calculated using simple interest applied to the monthly opening balances in the account (exclusive of accumulated interest) and shall be recorded monthly in a separate carrying charges sub-account of this account. The interest rate shall be the rate prescribed by the Board.

APH Q & A #5, 2007 states:

> Carrying charge amounts shall be calculated using simple interest applied to the monthly opening debit or credit balances in accounts 1562 and 1592 (exclusive of accumulated interest) and recorded in separate sub-accounts.

In revised Table 9.7, CWH requested the disposition of account 1592 balance which included the principal but with no provision for carrying charges.

Please provide the detailed calculation of the carrying charges for Account 1592, sub-account HST/OVAT/ITCs including the interest rates used from July 1, 2010 to April 30, 2013 and update all relevant evidence including Tables 9.7 and 9.8.

9-Staff-34

Ref: Exhibit 4, Appendix A: 2011 Tax Returns: Continuity of Financial Statement Reserves; PILS Work Form: Taxable Income – Test Year & Adjusted Taxable Income-Historic Year; EB-2006-0170 - Filing Requirements For Electricity Transmission and Distribution Applications, pp.33-34;

In CWH's *Income Tax/PILS Work Form for 2013 Filers,* the calculation of Taxable Income for the Test Year includes an addition and a deduction of $985,381 for reserves from financial statements. Per CWH's 2011 tax return, this amount relates to the recoveries of regulatory assets.

Pages 33 and 34 of the *Filing Requirements For Electricity Transmission and Distribution Applications*, EB-2006-0170, issued June 28, 2012, state the following:

> Regulatory assets (and regulatory liabilities) should generally be excluded from PILs calculations both when they were created, and when they were collected, regardless of the actual tax treatment accorded those amounts.

CWH shows a Reserve from the Financial Statements of $985,381 as an addition and deduction to the 2013 taxable income. However in CWH's 2011 Income Tax Returns (Continuity of Financial Statement Reserves Schedule), $540,115 represents recoveries of regulatory assets and $297,027 represents settlement variance. These amounts should be excluded from the total of $985,381. Only the balance of $148,239, which represents the post-employment benefits, should be deducted as an addition and deduction under Reserve from the Financial Statement instead of $985,381.

Please update the PILs evidence and other related evidence and show only the balance of $148,239 amount as the addition and deduction under the Reserve from Financial Statements in the calculation of regulatory taxable income and all PILs calculations. In the alternative, please explain CWH's entries.

9-Staff-35

Ref: Revised Table 9.8 and Response #3: Load Model (Revised Table 3.23) as per CWH letter to the Board dated November 13, 2012; DVA Work Form/Rate Rider Calculation Tab

The revised billing determinants used in the Rate Rider Calculation for the Deferral/Variance Account Balances (Excluding Global Adjustment) do not match the revised load forecast provided in the Load model for 2013.

a) Please explain why the billing determinants in the revised Table 9.8 are different from the load forecast in Table 3.23.
b) What was the basis of the billing determinants used in the calculation of the rate riders for Groups 1 & 2 (Excluding Account 1588 Sub-account Global Adjustment) in the revised Table 9.8 and the justification for the basis used?
c) Please file and submit updates, if necessary, to all related evidence.

9-Staff-36

Ref: Appendix2-EB - IFRS-CGAAP Transitional PP&E Amounts, 2012/ 2013 Adopters of IFRS for Financial Reporting Purposes; *Filing Requirements For Electricity Transmission and Distribution Applications*, EB-2006-0170, June 28, 2012, pages 53-54; *Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012, page 15

The *Filing Requirements For Electricity Transmission and Distribution Applications*, EB-2006-0170, June 28, 2012, state:

> **Account 1575 – IFRS-CGAAP Transitional PP&E Amounts**
>
> The applicant must propose a disposition period to “clear” the PP&E deferral account through a one-time adjustment to rate base to capture and remove the impact of the accounting policy changes as caused by the transition from CGAAP to MIFRS.

Appendix 2-EA or 2-EB states:

> Consistent with the 4 year normal rate cycle, the model is using a 4 year amortization period as a default selection to "clear" the PP&E deferral account through a one-time adjustment to rate base to capture and remove the impact of the accounting policy changes as caused by the transition from CGAAP to MIFRS.

The *Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012, states:

> > The Board has determined that the term for 4th Generation IR will be five years (rebasing plus 4 years).

The Board may consider a five-year disposition period to “clear” the PP&E deferral account. Please update and file with the Board Appendix 2-EB, Appendix 2-CH

(Depreciation and Amortization Expense), Revenue Requirement Work Form, and any other applicable evidence to reflect a five-year disposition period for the clearance of the PP&E deferral account. Please outline the CWH's proposed approach and its reasons if the CWH disagrees with a five-year disposition period for the transitional PP&E Amounts.

Exhibit 10 – Smart Meters

10-Staff-37

Ref: Exhibit 10/Tab 1/Schedule 1 – Stranded Meters

Please provide a copy of Sheet I7.1 from CWH's 2007 Cost Allocation model to show the data for the allocation of stranded meter costs between Residential and GS < 50 kW, as shown in Table 10.2.

10-Staff-38

Ref: Exhibit 10/Tab 1/Schedule 13 – Annual Security Audit

On pages 1-2 of this exhibit, CWH states that, "[g]oing forward, an annual security audit has been budgeted, as this is a prudent approach to satisfying the due diligence requirements for protection not only of customer information, but also to ensure that access to the infrastructure is properly protected, thereby securing against unwanted modifications to data collection and/or load-control functionality."

a) Was a security audit conducted in 2012? If so, please identify the costs and where CWH has requested recovery of these costs.
b) Please identify the budgeted cost for the annual security audit in 2013, and identify where the costs for this are documented for recovery as part of CWH's 2013 revenue requirement.

10-Staff-39

Ref: Smart Meter Model, Version 3.00, Sheet 2 – Smart Meter Costs

Sheet 2 of the Smart Meter Model contains the input smart meter capital and operating costs for which CWH is seeking recovery.

Row 42 '1.1.1 Smart Meters (may include new meters and modules, etc.)' documents the procurement costs for the smart meters themselves.

a) CWH shows negative (credit) entries of ($10,552) for 2010 and ($420) for 2011. Please explain what these credit entries are. Please also explain where the

capital procurement costs for the smart meters installed in these years are recorded.

b) CWH shows 87 smart meters installed in 2012, but shows no capital costs for procurement and installation of smart meters in that year. Please explain where the costs are documented.

10-Staff-40

Ref: Smart Meter Model, Version 3.00, Sheet 2 – Smart Meter Costs

Please explain the costs of $6,521 in 2006, $16,082 in 2007 and $16,224 in 2008 shown on row 86 '1.5.3 Professional Fees' of Sheet 2.

10-Staff-41

Ref: Smart Meter Model, Version 3.00, Sheet 3 – Cost of Capital Parameters

In cell G23, CWH has not input any debt capitalization for 2006, which results in a capital structure of 0% debt and 100% equity in 2006. This also affects the capital structure in 2007 and even in 2008 and 2009 through the K-factor adjustment towards the common 56% long-term debt, 4% short-term debt and 40% equity deemed capital structure currently used for electricity distribution rate setting.

In its 2006 EDR rates application [RP-2005-0020/EB-2005-0348], CWH was approved a deemed capital structure of 50% debt and 50% equity, which would have corresponded with its then-current rate base size less than $10 million.

Please explain CWH's input, or update to correspond with its approved capital structure in each year.

10-Staff-42

Ref: Smart Meter Model, Version 3.00, Sheet 3 – Taxes/PILs Rates

On Sheet 3 of the Smart Meter Model, CWH has relied on the default maximum aggregate Federal and Ontario income tax rate, as shown in the following table.

	2006	2007	2008	2009	2010	2011	2012	2013
Taxes/PILs								
Aggregate Corporate Income Tax Rate	36.12%	36.12%	33.50%	33.00%	31.00%	28.25%	26.25%	25.50%
Capital Tax (until July 1st, 2010)	0.30%	0.225%	0.225%	0.225%	0.075%	0.00%	0.00%	0.00%

The default maximum tax rates in the model were to ensure proper functioning of the smart meter model. It is intended that the utility would override the input with the aggregate tax rate of taxes/PILs actually paid by the utility in each year; this information would generally be available from the taxes/PILs rate in an approved cost of service

rates application, or the tax rate from the tax-sharing module of an IRM application in alternate years. This was explained in the comment with each input cell.

Please confirm that these are the tax rates shown corresponding to the taxes or PILs actually paid by CND in each of the historical years, and that CND forecasts it will pay for 2012 and 2013. In the alternative, please update with the actual aggregate taxes/PILs rates in accordance with the above description.

10-Staff-43

Ref: Smart Meter Model, Version 3.00, Sheet 8 – Interest Expense

On sheet 8, CWH has input the prescribed interest rate up to and including 2012 Q4. This will calculate simple interest on the principal of SMFA revenues, on the one hand, and on the principal of OM&A and depreciation expenses (shown on Sheet 8A) on the other. However, CWH has proposed an effective date of May 1, 2013, so that interest should accrue to April 30, 2013.

This can be accomplished by inputting the prescribed interest rate for DVAs, currently at 1.47% into cell C52 (i.e. for all months in 2013 Q1) and cell L111 (i.e., for April 2013).

Please explain CWH's inputs or, in the alternative, please update to calculate the interest to April 30, 2013.

Conversion from CGAAP to MIFRS

11-Staff-44

Ref: Exhibit 1/Tab 2/Schedule 1/page 6 and Exhibit 2/Tab 5/Schedule 2/page 11 – Transition from CGAAP to MIFRS

On page 6 of Exhibit 1/Tab 2/Schedule 1, CWH states:

> Consistent with the Board's letter issued April 30, 2012 entitled Impact of the *Decision to Defer the Mandatory Date for the Implementation of International Financial Reporting Standards to January 1, 2013* by the Canadian Accounting Standards Board, this application has been prepared using modified IFRS (MIFRS). The forecasted 2013 Test Year has been prepared under MIFRS with comparison to the 2012 Bridge Year which has been presented under Canadian Generally Accepted Accounting Principles (CGAAP) and MIFRS.
>
> The transition to MIFRS has impacted the calculation of depreciation rates only. This change has impacted the 2013 rate base and the 2013

distribution revenue requirement. CWH has provided detailed explanations of this change in the applicable section of the application.

On page 11 of Exhibit 2/Tab 5/Schedule 2, CWH states:

> CWH will be deferring the implementation of IFRS to January 1, 2014 or until a final decision has been made by the AcSB and IASB on the handling of regulatory assets and liabilities.

In its Application, CWH has filled out all schedules and has applied for the PP&E adjustment as if it is adopting IFRS effective January 1, 2013.

a) Please confirm the date that CWH is intending on implementing IFRS.
b) If CWH is intending on deferring IFRS implementation until January 1, 2014, what, if any, changes are expected beyond what CWH has shown with respect to capitalization and changes in depreciation rates as reflected in this Application for 2013 rates.

11-Staff-45

Ref: Exhibit 2/Tab 5/Schedule 3/page 1/Table 2-39; Appendix 2-EB, Revenue Requirement Work Form; Chapter 2 of the Filing Requirements For Electricity Transmission and Distribution Applications, dated June 28, 2012, S.2.12.4;

CWH used the opening gross PP&E of $16,273,094 instead of the opening net PP&E of $6,441,884 in the Appendix 2-EB for 2012 under CGAAP and MIFRs. This is inconsistent with the requirement for the calculation of the transitional PP&E Deferral amounts.

Please make all the necessary adjustments in Appendices 2-EB to include the opening net PP&E amount in the calculation of the PP&E transitional amounts. Please update all relevant evidence including the Revenue Requirement Work Form (RRWF).

11-Staff-46

Ref: Exhibit 2/Tab 5/Schedule 3/page 1/Table 2-39; Appendix 2-EB; Appendix 2-CH; Revenue Requirement Work Form; Chapter 2 of the Filing Requirements For Electricity Transmission and Distribution Applications, dated June 28, 2012, S.2.12.4;

Board Staff noted CWH netted 2012 cost additions and disposals to calculate the amount for “Additions” used in Appendix 2-EB for the calculation of the transitional PP&E amount. However, Board staff also noted that in the calculation of the depreciation, CWH used the 2012 depreciation for additions only and excluded the depreciation for the disposals.

Please make all the necessary adjustments in Appendices 2-EB to include the net of depreciation for the additions and disposals in the calculation of the PP&E transition amounts for 2012 under CGAAP and MIFRs. Please update all relevant evidence including the Revenue Requirement Work Form (RRWF) and Appendix 2-CH.