Board Staff Supplemental Interrogatories
2013 Electricity Distribution Rates
Welland Hydro-Electric System Corp ("Welland Hydro")
EB-2012-0173

Exhibit 2: Rate Base

49. Ref: Board letter issued on July 17, 2012 re "Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013"
Ref: July 2012 Accounting Procedures Handbook Frequently Asked Questions ("APH FAQ")
Ref: Response to Board staff IR #15
Ref: Exhibit 2, Tab 3, Schedule 5, Appendix 2-EB

In its letter dated July 17, 2012, the Board stated:

> 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. A new variance account is created and authorized for distributors to record the financial differences arising from these accounting changes.

The Board approved a new variance account, Account 1576, in the aforementioned letter:

> The Board has approved a new variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make these accounting changes under CGAAP in 2012 or to make these changes as mandated by the Board in 2013, if applicable.

In a situation when the utility requests accounting changes to depreciation expense and capitalization policies while reporting under CGAAP in 2012, the July 2012 APH FAQ Q1 states that:

These accounting changes for adherence to Board requirements for modified IFRS and their associated rate impacts will be reviewed as part of the distributor's next cost of service application.

The July 2012 APH-FAQ Q2, Appendix A and Appendix B provides detailed guidance on the accounting for Account 1576.

Board staff notes that in Exhibit 2, Tab 3, Schedule 5, Appendix 2-EB, Welland Hydro has submitted Account 1575 for disposition and associated adjustments in the 2013 rate application.

In its response to Board staff's IR #15, Welland Hydro indicated that it will change the capitalization and depreciation policies in 2012. Welland Hydro also states that it will defer the adoption of IFRS for financial reporting purposes to January 1, 2014, at the earliest.

a) Please confirm that Welland Hydro's rate application for the 2013 test year is based on CGAAP rather than MIFRS.
b) Given that the Canadian Accounting Standards Board has provided a further deferral of the adoption of IFRS to rate-regulated entities for 2013 please confirm that Welland Hydro is withdrawing its request for disposition of the MIFRS-based adoption of Account 1575 and is removing the associated MIFRS adjustments in this rate application.
c) As per the Board's July 2012 APH-FAQs related to depreciation and capitalization changes and guidance provided in Q&A #2, Appendix A and B, please update the Applicant's evidence showing the proposed derivation of the amounts recorded in Account 1576, by illustrating the accounting changes as cited in the example at Appendix B in the July 2012 FAQ Q2.
d) Please adjust the depreciation expense for the test year 2013 by the amortization of the Account 1576 balance and update the relevant evidence pertaining to Account 1576 in the rate application.

50. Ref: Response to Board staff IR #15
Ref: Exhibit 9, Tab 1, Schedule 2, Pages 4 & 5

In its response to Board staff IRs, Welland Hydro indicated that it will not adopt the IFRS for its financial reporting in 2013 as stated in the application. Specifically, in its response to Board staff IR #15, it states that:

> Although not electing to adopt IFRS at this time for reporting purpose, Welland Hydro will be adopting the extended useful lives and overhead capitalization components of IAS16 in 2012.

Welland requested the disposition of Account 1508 Other Regulatory Assets - Deferred IFRS Transition Costs for the audited balance as at December 31, 2011 and forecasted interest of a total amount of $46,162 in this rate application.

a) Given the deferral of the adoption of IFRS until at least 2014 as stated by Welland Hydro, please confirm that Welland Hydro is still requesting the disposition of the transitional costs incurred to 2011.
b) If so, please provide Welland Hydro's justification for the disposition of the transitional costs in this rate application.
c) If not, please update the relevant evidence in the application.

51. Ref: Exhibit 2, Tab 3, Schedule 5, Appendix C
Ref: Appendix B of Welland Hydro's IR responses
Ref: Response to Board staff IR #16
Ref: Response to Board staff IR #17

In Exhibit 2, Tab 3, Schedule 5 Appendix C, Welland Hydro provided the fixed asset policies regarding asset useful lives, componentization of assets, capitalization of overheads, and asset de-recognition to conform to lAS 16 - Property, Plant and 9 Equipment under IFRS.

Due to the one-year additional deferral of the adoption of IFRS, Welland Hydro indicated in its response to Board staff's IRs that it will continue to adopt the capitalization and extended useful lives under IFRS. Specifically, in its response to Board staff IR #15, Welland Hydro states that:

> Although not electing to adopt IFRS at this time for reporting purpose, Welland Hydro will be adopting the extended useful lives and overhead capitalization components of IAS16 in 2012.

However, Wellland Hydro also indicated that it will continue the practice of pooling of assets under CGAAP. In its response to Board staff IR #17, Welland Hydro states that:

The delay of one additional year to IFRS and Welland's election to continue pooling of assets will result in no adjustment to schedule as filed.

In its response to Board staff IR #16, Welland Hydro confirmed that:

Welland Hydro is not asking for a deferral account for early asset retirement costs as it has included the estimated annual costs as an offset to other distribution revenue.

The asset retirement cost included as an offset to the other revenue in 2013 is $18,932.

a) Please clarify the accounting policy choice for each area of PP&Es in 2013 , using the following table:

#	**Areas of PP&E policies in 2013**	**IFRS or CGAAP**	**External Auditor agrees with the policy? (Y/N)[1]**	**Impact, if any, to the revenue requirement of 2013**
1.	Asset Useful Lives			
2.	Componentization of Assets			
3.	Capitalization of Overheads			
4.	De-recognition of PP&E (including asset retirement)			
5.	Asset impairment			
6.	Others			

Note [1]: please provide the reasons if the answer is "No". Please provide the plan for consultation with its auditor if Welland Hydro has not obtained the agreement with its external auditor.

b) Regarding the asset retirement cost of $18,932 as an offset to other revenue in 2013, please clarify if there should be any amount related to asset retirement cost.

c) If so, please provide the reasons.

d) If not, please update the relevant evidences in the application.

Exhibit 3: Load Forecast

52. Ref: Exhibit 3, Tab 2, Schedule 1
Ref: Response to Board staff IR # 20

a) Please provide the definition and identify the for the economic activity variable defined as "Employment in Niagara Region" as used in the model filed in response to Board staff IR # 20.
b) In that model, the intercept is statistically insignificant with a t-statistic of -0.04. However, the economic activity variable is statistically significant at a 95% confidence interval with a one-tailed t-test with a t-statistic of 1.74 (p=4.229%).
    i. Please provide a run including all variables except an intercept. Please provide the data and the regression results, including the load forecast and residuals in working Microsoft Excel format.
    ii. Please provide the Pearson correlation matrix of all exogenous variables, including the economic activity variable.
    iii. Please provide Welland Hydro's views as to which load forecast model is preferable, and why.

53. Ref: Exhibit 3, Tab 2, Schedule 1, page 17
Ref: Response to Board staff IR # 23
Ref: Response to Board staff IR #25
Ref: Response to VECC IR #14

As discussed on page 17 of Exhibit 3, Tab 2, Schedule 1, and further in response to Board staff IR # 23, Welland Hydro is proposing manual adjustments to reflect the impacts of 2012 and 2013 CDM programs on the load forecast, as these are not reflected in the base load forecast arising from the regression model. On page 17 of Exhibit 3, Tab 2, Schedule 1, Welland Hydro states:

> The above table suggests that in 2012, the savings from 2012 will be 1,931,168 kWh on a net basis. However on a gross basis this amount would be 1,931,168 times 1.548 (Le. the net to gross factor determined in table 3-15) or 2,988,922 kWh. In Welland Hydro's view, the 2012 load forecast should be adjusted by 2,988,922 kWh to reflect CDM savings from 2012 programs. As discussed above in regards to the CDM Activity variable, the persistent savings from 2011 programs in 2012 have been reflected in the prediction formula.

The above table also suggest that in 2013, the savings from 2012 and 2013 programs will be a 1,931,168 kWh times two or 3,862,336 kWh on a net basis. However on a gross basis this amount would be 3,862,336 times 1.548 or 5,977,845 kWh. In Welland Hydro's view, the 2013 load forecast should be adjusted by 5,977,845 kWh to reflect CDM savings from 2012 and 2013 programs.

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). Welland Hydro confirmed that this is also its understanding of the reported OPA results in the response to VECC # 14 e). While the effect of 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 OPA's measured "full year" results 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) 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 Welland Hydro's perspective that the adjustment for the 2012 and 2013 CDM programs on 2013 demand would be estimated as 2,110,532 kWh X 1.5 (reflecting full year impact of 2012 CDM and half-year impact of 2013 CDM on 2013) X 1.599 = 4,935,479 kWh, based on the updated information filed in response to VECC IR # 14 c).
b) 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 2,003,772 kWh (i.e. persistence of 2011 CDM) + 2,110,530 X 2 (i.e. persistence of 2012 and impact of 2013 CDM) results, for a total of 6,224,832 kWh, as documented in the updated Table 3-16 filed in response to VECC # 14 c). In the alternative, please explain Welland Hydro's proposal for the kWh used to derive the threshold for the LRAMVA for 2013 (and also for 2014).

c) Welland Hydro has calculated a CDM variable by segmented linear interpolation of the annual results. This is shown in the spreadsheet "WELLAND 2013 Load Forecast_20121002.xlsm" The system CDM variable is shown in column F of Sheet 'CDM Activity'. The methodology used appears to "gross up" the results so that the amounts accumulated add up to the annual OPA CDM results, and this is discussed in Welland Hydro's response to Board staff IR #25 b). Thus the CDM variable for 2006 adds up to 1,592,649 kWh as reported by the OPA on a net basis and shown in cell G26. However, the December 2006 value multiplied by 12 months results in 2,940,275 kWh, as shown in cell H26, which is a full year "annualized" number. This is significantly higher than the 1,592,649 kWh which is the reported OPA number. Please explain the rationale for "grossing up" to annualize what is already an annualized CDM result as reported by the OPA.

54. Ref: Response to Board staff IR # 20
Ref: Response to Board staff IR # 25

In its response to Board staff IR #25 b), Welland Hydro states that the linear interpolation for CDM impacts within a year is reasonable, based on an assumption of constant CDM activity and that the impacts persist and hence accumulate over time.

a) Please provide Welland Hydro's views with respect to the following scenarios:

i. CFL bulb replacement in January will show a cyclical or seasonal pattern as the use of bulbs will vary inversely to daylight hours during the year;
ii. Energy-efficient furnaces or heating equipment will show seasonal variation on conversation impacts, with the greatest savings during the winter months;
iii. Energy-efficient air conditioning will show a reverse seasonal pattern, with the greatest seasonal impacts occurring during the summer months;
iv. LED traffic signals will show a constant impact over time due to the "always on" state; and
v. Energy efficient business equipment replacement may show a flat or a seasonal or cyclical pattern, depending on the business's operational cycle.

b) In light of the response to a), please provide further support as to why Welland Hydro believes that the linear interpolation of the constructed CDM variable, and the assumptions of constant activity and persistent accumulated impacts reasonably reflects actual CDM impacts within the year.

c) In its response to Board staff IR # 25 a), Welland Hydro explains why it believes that the CDM coefficient of -7.9 is reasonable. It states that:

> … this also suggests the coefficient on the CDM activity variable is picking up a decline in power purchases that is more than the impact of net CDM results. The decline could be attributed to such items as the difference between gross and net CDM results, the impact of customer perception on electricity pricing once smart meters were installed even though customers were not transitioned to TOU pricing, the real impact of TOU pricing and the impact of economic conditions in the Welland Hydro service area. Welland Hydro was not able to separately quantify the impact of these items."

i. Welland Hydro has used a purchased system model, and the gross-to-net conversion is approximately a factor of 1.6. Assuming that the demand function specification is appropriate, this would suggest that the coefficient on a net CDM variable should be 1.0532 X -1.6 = -1.685. Please provide Welland's views as to whether this should be the expected value of the CDM coefficient.

ii. In the regression equation including an economic activity variable, the coefficient of the CDM variable increased in magnitude to -8.7 when the economic activity variable was included with a significant and positive coefficient. This is expected as the economic activity variable and the CDM variable are likely positively correlated, and the absence of the economic activity in the regression model in the application meant that the CDM variable was capturing, in part the explanatory power of economic activity. This means that, after accounting for economic activity, there is an even greater influence being captured by the CDM variable. Taken with a) above, does this not suggest that the CDM variable is capturing other "drivers" and that, in fact, the bulk of the CDM variable's explanatory power is for reasons other than CDM?