

January 31, 2013

Delivered by Courier and E-file

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Welland Hydro-Electric System Corp.
2013 Distribution Rates Application
Board File No. EB-2012-0173

Please find enclosed paper copies (2) and electronic copy (1) of Welland Hydro's response to interrogatories as per Procedural Order #3 dated January 10, 2013.

An electronic copy has been filed using the OEB's E-filing services.

Yours very truly,



Wayne Armstrong
Director of Finance
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905-732-0266 Fax
Email: warmstrong@wellandhydro.com

Ontario Energy Board

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

AND IN THE MATTER OF an application by Welland
Hydro-Electric System Corp. for an order approving just and
reasonable rates and other charges for electricity distribution to
be effective May 1, 2013.

**WELLAND HYDRO ELECTRIC SYSTEM CORP.
RESPONSES
SUPPLEMENTAL INTERROGATORIES**

January 31, 2013

EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

Energy Probe # 30

**Ref: Energy Probe Interrogatory #3 &
Exhibit 1, Tab 2, Schedule 4**

The response to Energy Probe Interrogatory #3 indicates that Welland Hydro will not convert to IFRS until January 1, 2014 at the earliest.

- a) Please confirm that Welland Hydro is, therefore, requesting that the Board approve rates based on CGAAP accounting for 2012 and 2013 with the changes noted in the interrogatory response to asset lives and capitalization for 2012 and 2013.

Response:

Welland Hydro is requesting the Board to approved rates based on CGAAP accounting for 2012 and 2013 with changes to asset lives (depreciation) and overhead capitalization as per the Board's guidelines as outlined in its July 17, 2012 notice to electricity distributors.

- b) Please provide an updated calculation of the revenue deficiency or surplus as found in Exhibit 1, Tab 2, Schedule 4 that is based on the use of CGAAP, as proposed by Welland Hydro, for 2012 and 2013. Please also provide a live Excel version of the Revenue Requirement Work Form that shows the revenue deficiency calculations.

Response:

See Appendix A attached for supporting schedules. An Excel Revenue Requirement Work Form has been filed with the responses as Welland Energy Probe 30B RRWF.xlsm.

- c) Please provide a list of the changes between the as filed revenue deficiency and the revenue deficiency calculated based on CGAAP based on the response to part (b) above. For each change, please quantify and provide an explanation for the change.

Response:

Changes in depreciation and overhead capitalization are now reflected in account 1576 as opposed to account 1575. There is no change in depreciation expense but the adjustment related to the Weighted Average Cost of Capital of \$35,324 has been removed.

Increase in Other Revenue of \$18,932 from the removal of asset retirement costs. Increase in Rate Base of \$9,466 (\$18,932/2) from the removal of adjustments for early retirement assets of \$18,932 in 2013.

Increase in account 5645 Employee Post Retirement Benefits of \$35,415 from \$120,243 in the original application to \$155,658 as per the most recent CICA 3461 (see response to Board Staff 35d initial set of interrogatories) estimate provided by the actuary found in Appendix E to Welland's initial interrogatory responses. This change also results in adjustments to the working capital and rate base.

Welland Hydro provided revised CCA calculations in response to Energy Probe 22a) in Appendix F of the response to initial interrogatories. As a result, Welland has provided updated taxable income calculations in Appendix A attached.

Welland Hydro has used the most recent Cost of Capital Parameters for rates effective January 1, 2013 as per its response to Energy Probe 24 in the initial set of interrogatories.

Increase in Other Income of \$35 related to the change in the Microfit monthly service charge as per response to Board Staff 44 in the initial set of interrogatories.

Adjustments made to cost and accumulated depreciation for \$132,851 for account 1930 to record removal of a truck as per response to Energy Probe 6e) in the initial set of interrogatories. No change to revenue deficiency.

- d) Please explain why Welland Hydro proposes to adopt the new asset lives and changes in overhead capitalization effective for the 2012 fiscal year rather than the 2013 test year.

Response:

The Account Standards Board recently announced a second one-year deferral option for rate-regulated entities relating to the adoption of IFRS. Welland Hydro made an election to take the additional one year deferral. Welland Hydro also made a decision to adopt PP&E for changes to asset lives and overhead capitalization in 2012. Welland was being encouraged by its accounting auditors to make these changes for the 2012 year. The Board also encouraged LDC's to adopt these changes effective January 1, 2012 in its letter dated July 17, 2012. The letter states "The Board encourages and will permit distributors that have deferred the changeover to IFRS in 2012 to also implement regulatory accounting changes for depreciation expense and capitalization policies effective January 1, 2012." The Board also stated in the letter that it will not require distributors to seek Board approval in order to make these accounting changes that otherwise would have been required.

- e) Please provide an updated calculation of the revenue deficiency or surplus as found in Exhibit 1, Tab 2, Schedule 4 that is based on the use of CGAAP for 2012 and 2013, but where the adoption of the new asset lives and changes in overhead capitalization are adopted for 2013 and 2012 is kept under the rules that were in place for 2011 and previous years. Please also provide a live Excel version of the Revenue Requirement Work Form that shows the revenue deficiency calculations.

Response:

See Appendix B attached for supporting schedules. An Excel Revenue Requirement Work Form has been filed with the responses as Welland Energy Probe 30E RRWF.xlsm.

- f) Please provide a list of the changes between the as filed revenue deficiency and the revenue deficiency calculated based on CGAAP based on the response to part (e) above. For each change, please quantify and provide an explanation for the change.

Response:

In addition to the changes referenced in response to c) above, this methodology eliminates the use of account 1576. As a result, Welland has recalculated Appendix 2-B Fixed Asset Continuity Schedule-MIFRS 2013 (see Appendix B) with the opening cost and accumulated depreciation balances matching the ending balances of Appendix 2-B Fixed Asset Continuity Schedule-CGAAP 2012. The depreciation expense for 2013 was recalculated using the new opening net book value for 2013 and the expected assets lives under MIFRS used for 2012 less one year. Under this methodology no offset is made to depreciation expense for the 1576 adjustment. As a result, depreciation expense in the revenue deficiency is \$1,222,090 versus \$1,081,618. Changes in the calculation of taxable income have also been provided in Appendix B attached.

Energy Probe # 31

Ref: VECC Interrogatory #1

- a) Please identify and quantify the non-regulated income referred to in the response.

Response:

Non-Regulated income is represented by Account 4375. Details of non-regulated income by year were included in the original application on Exhibit 3, Tab 1, Schedule 1, Page 3. They include Mark-Up related to OPA funded programs, Solar Revenue (net of expenses) on non-regulated assets, and Miscellaneous Non Operating Revenue which was a gain on the sale of a joint venture with other LDC's (payments received over a three year period and finalized in 2011).

- b) Please confirm that this non-regulated income reflects both non-regulated revenue and non-regulated expenses and non-regulated assets. If this cannot be confirmed, please explain and show the derivation of the non-regulated income included in the calculation in the response to the VECC interrogatory.

Response:

Welland confirms that the non-regulated income reflects non-regulated revenue, non-regulated expenses, and non-regulated assets.

EXHIBIT 2 – RATE BASE

Board Staff 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-FAQQ2, 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.

Response:

Welland Hydro confirms that its rate application for the 2013 test year is based on CGAAP rather than MIFRS (with the removal of early asset retirements costs and the change in Employee Post Retirement Benefits cost to the most recent actuarial evaluation under CGAAP).

- 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.

Response:

Welland confirms that it is withdrawing its request for disposition of the MIFRS-based adoption of Account 1575 and is removing the associated MIFRS adjustments (early asset retirements) in this rate application. The impact of changes in asset useful lives and overhead capitalization policies effective January 1, 2012 will be recorded in Account 1576.

- 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.

Response:

PP&E Values Assuming “Previous” CGAAP Accounting Policies Continued

	2012 Bridge <u>COS</u>	2012 Bridge <u>Forecast</u>
Opening Net PP&E January 1, 2012	\$24,387,754	\$24,387,754
Additions	2,100,000	2,168,085
Depreciation	<u>(2,037,829)</u>	<u>(2,039,191)</u>
Closing net PP&E	\$24,449,925	\$24,516,648

PP&E Values Assuming Accounting Changes under CGAAP in 2012

	2012 Bridge <u>COS</u>	2012 Bridge <u>Forecast</u>
Opening Net PP&E January 1, 2012	\$24,387,754	\$24,387,754
Additions	1,833,000	1,887,015
Depreciation	<u>(1,184,050)</u>	<u>(1,184,590)</u>
Closing net PP&E	\$25,036,704	\$25,090,179

Difference in Closing net PP&E, “Previous CGAAP vs “Changed CGAAP”

	2012 Bridge <u>COS</u>	2012 Bridge <u>Forecast</u>
	(\$586,779)	(\$573,531)

Journal Entry Required

	2012 Bridge <u>COS</u>	2012 Bridge <u>Forecast</u>
Debit Account 4305	\$586,779	\$573,531
Credit Account 1576	(\$586,779)	(\$573,531)

- 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.

Response:

There is no change in the amount of the adjustment to the depreciation expense as a result of the switch from Account 1575 to Account 1576 based on the 2012

Bridge Year as filed in the application. Welland has provided an estimate of the actual credit to 1576 based on 2012 actual. Welland Hydro has filed a revised revenue deficiency in response to Energy Probe 30b) with the appropriate changes required under CGAAP.

Board Staff 50

Ref: Response to Board staff IR #15

Ref: Exhibit 9, Tab1, 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.

Response:

Welland Hydro is still requesting approval to dispose of December 31, 2011 balances and interest relating to Deferred IFRS Transition costs. Welland also requested the continued use of the Deferral & Variance Account 1508 Sub-Account IFRS in the original application.

- b) If so, please provide Welland Hydro's justification for the disposition of the transitional costs in this rate application.

Response:

Welland is requesting the disposition of the balances in 1508 Sub-Account IFRS as of December, 2011 for rate smoothing purposes. In order to follow the Board's direction on IFRS issues, Welland Hydro incurred cost up to the end of 2011 to address known issues at that time. Even though the IFRS requirements continue

to evolve, costs were incurred and it is reasonable to seek recovery of these costs in this application.

- c) If not, please update the relevant evidence in the application.

Response:

Not applicable.

Board Staff 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 IAS 16 - Property, Plant and 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, Welland 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:

Response:

#	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	CGAAP-Extended Lives	Yes	Increase in rate base and decrease in Depreciation as filed in the original application. Impact of changes for 2012 recorded in Account 1576.
2.	Componentization of Assets	CGAAP-Assets broken into components as required.	Yes	Adjustments to Depreciation as filed in the original application. Impact of changes for 2012 recorded in Account 1576.
3.	Capitalization of Overheads	CGAAP-Direct capitalization only.	Yes	Decrease in Rate Base Increase in OM&A as filed in the original application. Impact of changes for 2012 recorded in Account 1576.
4.	De-recognition of PP&E (including asset retirement)	CGAAP-Pooling of Assets	Yes	Removal of Early Asset Retirements of \$18,932 in 2013.
5.	Asset impairment	CGAAP	Yes	No
6.	Others	N/A	N/A	No

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.

Response:

Welland will remove the asset retirement costs of \$18,392 which will increase Other Income by the equivalent amount. Welland will also adjust the Fixed Asset Continuity Schedule for the asset retirement costs which will increase Rate Base by \$9,196 (\$18,392/2).

- c) If so, please provide the reasons.

Response:

Not applicable.

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

Response:

See response to Energy Probe 30 b) above.

Energy Probe # 32

Ref: Energy Probe Interrogatory #6

The response indicates that as Welland has adopted extended asset lives and overhead capitalization policies which agree with IFRS, no restatement of fixed assets will occur on conversion to IFRS.

What is the impact on the 2013 PP&E component of rate base of Welland Hydro adopting the extended asset lives and overhead capitalization policies in 2012 relative to what the rate base would have been if the old depreciation rates and policies used in 2011 remain in place for 2012?

Response:

Exhibit 2 Tab 2 Schedule 1 Page 5 - 2012 Capital Additions CGAAP	\$2,100,000
Exhibit 2 Tab 2 Schedule 1 Page 6 - 2012 Capital Additions MIFRS	<u>\$1,833,000</u>
Net Increase in OM&A Expenses/Decrease in PP&E Rate Base	\$ 267,000
Exhibit 2 Tab 2 Schedule 1 Page 5 - 2012 Depreciation CGAAP	\$2,037,829
Exhibit 2 Tab 2 Schedule 1 Page 6 – 2012 Depreciation MIFRS	<u>\$1,184,050</u>
Net Decrease in Depreciation/Increase in PP&E Rate Base	\$ 853,779
Net Increase in PP&E Rate Base Related to 2012 MIFRS	\$ 586,779

This information is summarized in Appendix 2-EB Exhibit 2, Tab 3, Schedule 5, Page 6. The \$586,779 is returned to customers over a four year period as a reduction to depreciation expense of \$146,695 per year. This adjustment is now included in account 1576 as opposed to account 1575.

Energy Probe # 33**Ref: Energy Probe Interrogatory #6**

- a) The response to part (d) indicates that there is \$15,000 in account 1840, \$15,000 in account 1845 and \$20,000 in account 1850 forecast for customer contributed capital for the 2013 test year. Please provide the amount of customer contributed capital for 2009 (73,392), 2010 (210,264), 2011 (305,181) and 2012 (124,159 as shown in Appendix B to IR responses) or any other figures that may represent the total contributed capital received in those years, into the accounts that they were related to.

Response:**2009 Actual Capital Contributions**

	1840	1845	1850	1995*	Total**
Developers-Subdivisions	\$0	\$59,101	\$25,794	-\$73,392	\$11,503

* As per Exhibit 2B Exhibit 2, Tab 2, Schedule 1, Page 2

** As per Appendix 2A Exhibit 2, Tab 3, Schedule 2, Page 3

2010 Actual Capital Contributions

	1840	1845	1850	1995*	Total**
Developers-Subdivisions	\$0	\$146,726	\$39,250	-\$160,919	\$25,057
City of Welland-Roads	\$0	\$0	\$0	-\$35,467	-\$35,467
Region of Niagara-Roads	\$0	\$0	\$0	-\$13,878	-\$13,878
				<u>-\$210,264</u>	<u>-\$24,288</u>

* As per Exhibit 2B Exhibit 2, Tab 2, Schedule 1, Page 3

** As per Appendix 2A Exhibit 2, Tab 3, Schedule 2, Page 3

2011 Actual Capital Contributions

	1840	1845	1850	1995*	Total**
Developers-Subdivisions	\$0	\$288,948	\$74,995	-\$305,181	\$58,762

* As per Exhibit 2B Exhibit 2, Tab 2, Schedule 1, Page 4

** As per Appendix 2A Exhibit 2, Tab 3, Schedule 2, Page 3

2012 Bridge Year Capital Contributions per Application

	1830	1835	1840	1845	1850	1995*	Total**
Developers-Subdivisions			\$15,000	\$15,000	\$20,000		\$50,000
Relocate Poles-Region	\$126,523	\$41,565	\$8,649	\$34,667		-\$100,000	\$111,404

* As per Exhibit 2B Exhibit 2, Tab 2, Schedule 1, Page 5 & 6

** As per Appendix 2A Exhibit 2, Tab 3, Schedule 2, Page 3

2012 Bridge Year Capital Contributions Actual

	1830	1835	1840	1845	1850	1995	Total
Developers-Subdivisions				\$312,771	\$94,497	-\$330,734	\$76,534
Relocate Poles-Region	\$228,361	\$28,134	\$25,472	\$5,881		-\$124,159	\$163,689

Welland finalized the capital contribution for four subdivision agreements in the month of December, 2012 totalling \$66,359. When added to the \$10,175 spent earlier in the year the actual capital contribution related to Developers-Subdivisions totals \$76,534

- b) Other than the contributions to be received from the Region of Niagara in 2012, are there other customer contributions included in the separate accounts, as was done for 2013? If yes, please provide a breakdown of these contributions in the same manner as the response to part (d). If no, please explain why there are no contributions, other than from the Region, forecast.

Response:

See response to a) above.

- c) Please confirm that Welland Hydro has no projects forecast for 2013 in which the Region of Niagara or some other municipality would be billed, similar to the road widening project noted in the response to part (d).

Response:

Welland's capital budget does not include any road widening projects in 2013 which would require a capital contribution.

- d) In the response to part (f), Welland Hydro indicates that it does not know what is in account 1870 (Other installations - customer premises) and that this account will be fully depreciated at the end of 2013. Please confirm that Welland Hydro has included \$2,564 in depreciation expense related to this account in the revenue requirement. Please explain how this figure has been calculated, as it appears to represent a depreciation rate of 32%.

Response:

When adopting the new asset lives in 2012, an estimate is made of the remaining useful life of each asset at the end of 2011. The net book value for 1870 at the end of 2011 was \$5,128 (see Appendix 2B Exhibit 2, Tab 2, Schedule 1, Page 4). The estimated remaining life for this asset was set at 2 years resulting in a depreciation expense of \$2,564 for 2012 and 2013.

Energy Probe # 34

**Ref: Energy Probe Interrogatory #7 &
Exhibit 2, Tab 2, Schedule 1**

Is the calculation of the depreciation expense on assets that become fully depreciated during the year, such as that shown in Exhibit 2, Tab 2, Schedule 1, page 10 for 2012, based on a full year, half year or some other methodology? How does Welland Hydro ensure that the assets that become fully depreciated during the year are not over depreciated?

Response:

Assets which become fully depreciated in a year typically have one half year depreciation remaining (assuming the half year rule in the year in which it was purchased). Welland tracks assets in an excel spreadsheet by year for pooled assets, and individually for specific assets such as vehicles and computer equipment and software. The fixed asset spreadsheet has a consistency check to ensure assets are not over depreciated.

Energy Probe # 35

Ref: VECC Interrogatories #3 and #4

The response to VECC #4 indicates that the capital expenditures related to customer demand are forecast on a net basis for subdivisions. The response provided to VECC #3 in Appendix G shows that customer demand net of developer contributions is forecast to be about \$10,000 in 2012 rising to \$50,000 in 2013. Please explain this significant increase forecast from 2012 relative the 2012 forecast.

Response:

Appendix G referenced above was in response to VECC #3 and showed 2012 Bridge Year forecasted capital contribution to subdivision developers totalling \$10,175 (\$96,745-\$86,570) versus \$50,000 contained in the original rate application. As per the response to Energy Probe 33 a) above the actual amount for 2012 was \$76,534 which is \$26,534 above amounts included in the application. The 2013 Test Year also included \$50,000 in forecasted capital contributions. Welland is currently finalizing the capital contribution to Weber Estates Phase 1 with 99 potential residential sites. The two year warranty period expired on December 18, 2012. As a result, Welland believes that the \$50,000 included in the 2013 Test Year is reasonable and the total capital contributions to sub-division developers will exceed the \$100,000 (\$50,000 in each year) included in the rate application.

School Energy Coalition #1

[2/3/2, p. 12 and VECC #6] Please explain the timing of additions to rate base for the new CIS/Financial System, given the "go-live" date of January 1, 2013. Please provide an analysis of when the asset became "used and useful", including any sequencing

involved in bringing it into service. Please provide a summary of the impact of the accelerated CCA on the asset on taxable payable, and the years in which that impact occurred.

Response:

In the response to VECC #6 Welland Hydro mistakenly identified the “go live” date for the new financial software system as January 1, 2013. The actual “go live” dates were February 28, 2011 for the new CIS system and January 1, 2012 for the new financial system. There was no sequencing of modules in either the CIS or the Financial System installations. The previous billing system was used only for reference purposes after February 28, 2011. The previous financial system was used only for reference and to close the 2011 financial year (general ledger). All remaining capital software balances related to the previous billing and financial systems were written off in 2011. The remaining capital costs of \$65,000 in 2013 were for progress billings related to the new financial system and consulting fees during the implementation.

Welland submits that any tax savings analysis related to the accelerated CCA must include depreciation and operating costs related to the new CIS/Financial system as no costs related to these systems are in current revenues (distribution rates). Welland also could have included a portion of capital costs for the new CIS system as part of its Smart Meter Rate Application EB-2011-0415. Both Welland and Niagara on the Lake Hydro had the same existing billing system. Both converted to Northstar in preparation for Time of Use Billings. In its Decision & Order for Niagara on the Lake Hydro’s Smart Meter Rate Application EB-2012-0036 the Board approved \$170,000 of the total capital costs for the new CIS as being related to Smart Meters. As a result, Niagara on the Lake Hydro is collecting depreciation expenses and a return on investment for this expenditure from the date of installation. Welland Hydro made a decision in its Smart Meter Rate Application not to include any capital costs for the new CIS system until the 2013 Cost of Service Rate Application which benefited customers.

Below is an analysis of the financial impact relating to the new CIS/Financial system:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Capital Costs	\$330,030	\$235,589	\$65,000	\$0	\$630,619
CCA-2010 Expenditures	\$165,015	\$165,015			
CCA-2011 Expenditures		\$117,795	\$117,794		
CCA-2012 Expenditures			\$32,500	\$32,500	
CCA on Tax Payble	-\$165,015	-\$282,810	-\$150,294	-\$32,500	-\$630,619
Add Back Depreciation Financials		\$33,223	\$119,624	\$126,124	
Impact on Taxable Income	-\$165,015	-\$249,587	-\$30,670	\$93,624	
Tax Rate	27.52%	24.24%	19.50%	19.50%	
Tax Impact of CIS/Financial System	-\$45,412	-\$60,500	-\$5,981	\$18,257	
Tax Impact of CIS/Financial System	-\$45,412	-\$60,500	-\$5,981		
Deprec. Software not in Rates	\$0	\$33,223	\$119,624		
OM&A Software not in Rates	\$0	\$119,596	\$207,740		
Net Increase in Costs not in Rates	-\$45,412	\$92,319	\$321,383		\$368,290

VECC 35**Reference: VECC IR # 3, # 4 / Energy Probe IR # 6d**

- a) Please provide Welland's comparable capital contributions from 2009 through 2013 and explain the variation in the 2013 estimate from the 2009 to 2011 average figure.

Response:

See response to Energy Probe 33 above.

VECC 36**Reference: VECC IR # 5 b)**

- a) For each of the years 2009 through 2013 (forecast) please provide the capital cost of new and rebuilt underground service on municipal property.

Response:

No costs have been capitalized in relation to new or rebuilt underground service on municipal property from 2009 to 2013.

VECC -37**Reference: VECC #11**

- b) Please provide the full response to Board Staff IR 2b in EB-2011-0415 referenced in the response to VECC IR #11.

Response:

A further breakdown of the response to Board Staff IR 2b in EB-2011-0415 is as follows:

	Gross Book Value	Acc Depreciation	Net Book Value
Residential	\$1,915,060	(\$1,473,976)	\$441,084
GS<50 kW	<u>\$ 276,343</u>	<u>(\$ 237,187)</u>	<u>\$ 39,156</u>
Total	\$2,191,403	(\$1,711,163)	\$480,240

EXHIBIT 3 – OPERATING REVENUE

Board Staff 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.

Response:

The source of data for the employment variable used in Board staff IR # 20 is Table 282-0062 from Statistic Canada. The table is defined to be Labour Force Survey estimates (LFS), employment by economic region and National Occupational Classification for Statistics (NOC-S), 3-month moving average, unadjusted for seasonality, monthly (persons x 1,000). It is the Labour Force Survey – 3701 for the geographical area of Hamilton-Niagara Peninsula, Ontario [3550]

- 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.

Response:

A regression analysis has been completed including the variables used in response to Board Staff #20 but excluding the intercept. The data and the regression results, including the load forecast and residuals are provided in working Microsoft Excel format in the file titled “Welland Hydro 2013 Load Forecast Board Staff #52b”. The requested information is provided in tab Purchased Power Model of the

referenced file. The regression results are shown in the area between cells P2 and V24. The 2013 power purchased forecast is provided at cell M161. The residuals are outlined in column N and the correlation matrix is shown in the area between cells X18 and AD24.

From a pure statistical perspective the preferred model would be the load forecast from Board Staff #52b since the adjusted R-square value is 99% and the t-stats of all variables are greater than the absolute value of 2. In addition, the power purchased load forecast is close to the forecast from Board Staff #20 and 22c which in Welland Hydro's view are the other contenders. However, Welland Hydro is concerned that the regression results from Board Staff #52b appear to be "too good to be true". With the elimination of the intercept, Welland Hydro is somewhat apprehensive that it might be missing something that could cause the results of the Board Staff #52b to be invalid.

Board Staff 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 2012load forecast should be adjusted by 2,988,922 kWh to reflect CDM savings from 2012programs. 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 2013load forecast should be adjusted by 5,977,845 kWh to reflect CDM savings from 2012 and 2013programs.

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 $2,110,532 \text{ kWh} \times 1.5$ (reflecting full year impact of 2012 CDM and half-year impact of 2013 CDM on 2013) $\times 1.599 = 4,935,479 \text{ kWh}$, based on the updated information filed in response to VECC IR # 14 c).

Response:

Assuming the “half-year” rule is used to account for 2013 CDM programs not being in place for a full year, the adjustment for the 2012 and 2013 CDM programs on 2013 demand would be estimated as $2,110,532 \text{ kWh} \times 1.5$ (reflecting full year impact of 2012 CDM and half-year impact of 2013 CDM on 2013) $\times 1.548 = 4,900,655 \text{ kWh}$, based on the updated information filed in response to VECC IR # 14 c). However, Welland Hydro is concerned with using the “half-year” rule since it is Welland Hydro’s understanding, putting aside the discussion on using net or gross, there should be consistent treatment on how the load forecast is adjusted and how the LRAMVA threshold is determined. Consistent with the approach used in part b) below, it is Welland Hydro’s view the 2,110,532 should be multiplied by 2.

- 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).

Response:

Welland Hydro confirms 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).

- 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.

Response:

The December 2006 value multiplied by 12 months resulting in 2,940,275 kWh is not a “grossing up” methodology but has been determined to estimate the persistence of December 2006 results into 2007. It is assumed the December 2006 value will persist into all months for 2007. This assumption has been taken into consideration when defining the CDM activity variable for 2007 which also considers that the total monthly CDM activity variable in 2007 will equal the net OPA results for 2007.

Board Staff 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.

Response:

The scenarios as outlined are reasonable assumptions.

- 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.

Response:

Welland Hydro believes that the linear interpolation of the constructed CDM variable is overall the best method since it is relatively simple to understand and explain. If there was a good source of data that provided the monthly activity of the CDM programs Welland Hydro would have used that data but Welland Hydro is not aware such data is available. To model the monthly activity to reflect the

scenarios in part a) could somewhat improve the accuracy of the variable. However, it would certainly add to the complexity of developing a model to define the variable and unless all parties agreed with the methodology it would most likely increase costs to support the model through the interrogatory process. In the end, even though the variable could be more accurate it will most likely not significantly improve the load forecast.

- 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 $1.0532 \times -1.6 = -1.685$. Please provide Welland’s views as to whether this should be the expected value of the CDM coefficient.

Response:

If the regression analysis only assigned the decline in power purchases resulting from CDM programs to the CDM variable then it is expected the coefficient on the CDM variable should be around -1.7.

- 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?

Response:

The position stated is consistent with Welland Hydro’s response to Board Staff #25a

Energy Probe # 36

Ref: Energy Probe Interrogatory #12(e) & Exhibit 3, Tab 2, Schedule 1

- a) Please show the calculations and assumptions used to arrive at the increase in the deficiency of \$3,288 related to the increased cost of power.

Response:

In its response to Energy Probe 12 e) Welland Hydro inadvertently used the summary sheet from the response to 12 b) instead of 12c). Welland Hydro will now show the calculations to 12 e) based on both 12 b) and 12 c). The Cost of Power based on volumes from the original application, 12 b), and 12 c) are shown in Appendix C attached.

The impact on revenue deficiency was calculated as follows:

	<u>Original Response</u>	<u>Revised Response</u>
COP Original Application	\$43,137,251	\$43,137,251
COP Revised 12 b)	\$43,454,637	
COP Revised 12 c)		\$44,041,269
Increase COP	\$ 317,386	\$ 904,018
Increase Rate Base 13%	\$ 47,623	\$ 117,522
Increase in Return 6.02%	\$ 2,867	\$ 7,075
Return on Debt 60% @ 3.95%	\$ 1,130	\$ 2,789
Return on Equity 40% @ 9.12%	\$ 1,737	\$ 4,286
Additional PILS @ 19.5%	\$ 339	\$ 836
Grossed Up	\$ 421	\$ 1,039
Increase in Revenue Deficiency		
Increase in Return 6.02%	\$ 2,867	\$ 7,075
Increase in Grossed up PILS	\$ 421	\$ 1,039
Increase in Revenue Deficiency	\$ 3,288	\$ 8,114

- b) Please show the calculations and assumptions used to arrive at the increase in distribution revenues of \$29,929. In particular, why does an increase in 9.1 GWh in purchases, or about 8.7 kWh in billed kWh, result in less than \$30,000 in incremental revenue?

Response:

Appendix C attached shows an increase in distribution revenue of \$29,929 for changes in volumes related to 12 b) and an increase in distribution revenue of \$82,024 for change in volumes related to 12 c). As a result, the revised response to 12 e) is as follows:

	<u>Original Response</u>	<u>Revised Response</u>
Inc Rev/Dec Rev Deficiency	(\$29,829)	(\$82,034)
Inc COP/Inc Rev Deficiency	<u>3,288</u>	<u>8,114</u>
Net Decrease in Rev Deficiency	(\$26,641)	(\$73,920)

- c) Please provide a revised Table 3-22 from Exhibit 3, Tab 2, Schedule 1 that includes an additional column for 2013 showing the forecast parameters by rate class based on purchases of 451.2 GWh.

Response:

See Appendix C attached.

Energy Probe # 37

Ref: VECC Interrogatory #17

Please update the response to VECC #17 part (b) to reflect actual December data.

Response:

	<u>Dec/12</u>	<u>Nov/12</u>	<u>Nov/11</u>
Residential	20,196	20,191	19,894
GS<50	1,682	1,681	1,695
GS>50	174	174	167
Large User	1	1	1
Unmetered - Connections	218	218	225
Street Light – Connections	6,755	6,755	6,752
Sentinel Light – Connections	589	589	625

Changes to the year-end counts will be made based upon a review of 2012 average billing kW for the GS<50kW and GS>50kW customers.

Ref: Energy Probe Interrogatory #15(a)

- Response:**

Appendix 2-F

Other Operating Revenue

[illegible]

- Response:**

Energy Probe # 39

Ref: VECC Interrogatory #23 & Exhibit 3, Tab 3, Schedule 3

A full response has not been provided. Given that Welland Hydro will not be moving to IFRS in 2013, what is the impact on the Other Operating Revenue in 2013 under CGAAP as compared to MIFRS, as shown in Appendix 2-F of Exhibit 3, Tab 3, Schedule 3?

Response:

In response to Board Staff Supplemental Interrogatory 51 b) above Welland Hydro has acknowledged removal of \$18,932 related to asset retirement costs which will increase Other Operating Revenue in 2013 to \$520,021.

VECC 38

Reference: VECC # 14 c)

- a) Please provide the actual OPA Report setting out the final 2011 CDM results.

Response:

The actual OPA Report setting out the final 2011 CDM results is provided in file titled "2011 Final Annual Report Data_Welland Hydro-Electric System Corp."

VECC 39

Reference: Board #19 b)

- a) Please confirm that the monthly predicted values are based on the load forecast model as filed with August 2012 Application and the actual values shown in the response for the various independent variables.

Response:

As requested by the interrogatory the actual power purchased data for 2012 was provided in the "Purchased" column. All other data is consistent with the data used in the load forecast model as filed with the August 2012 Application.

- b) Please confirm that the "actual" CDM activity variable values shown for 2012 do not reflect the OPA's final 2011 CDM Report results.

Response:

Please see response to part a)

- c) If part (b) is confirmed, please revise the predicted values using a CDM Activity variable that reflects actual 2011 CDM program results.

Response:

Please see response to part e)

- d) Please confirm that based on Welland's load forecast methodology 2012 billed loads are not determined just based on the model's predicted purchases but also reflect further reductions for the effect of 2012 CDM programs.

Response:

It is confirmed that based on Welland's load forecast methodology 2012 billed loads are not determined just based on the model's predicted purchases but also reflect further reductions for the effect of 2012 CDM programs.

- e) Please adjust the Predicted Purchase values shown in the response (and revised per part (c) if applicable) to include the assumed impact of 2012 CDM programs.

Response:

The predicted power purchases values for January 2012 to October 2012 have been revised using a CDM Activity variable that reflects actual 2011 CDM program results and are shown in the table below. In addition, the table outlines these values being adjusted to reflect the impact of 2012 CDM programs. A simplistic assumption has been assumed for the monthly CDM adjustment as being the annual value divided by 12.

	<u>Predicted Purchases</u>	<u>CDM Adjustment</u>	<u>Predicted Purchases after CDM</u>
Jan-12	39,043,586	(283,968)	38,759,618
Feb-12	36,720,269	(283,968)	36,436,302
Mar-12	37,723,526	(283,968)	37,439,559
Apr-12	33,911,476	(283,968)	33,627,508
May-12	34,516,007	(283,968)	34,232,040
Jun-12	36,532,903	(283,968)	36,248,936
Jul-12	41,790,975	(283,968)	41,507,008
Aug-12	40,494,535	(283,968)	40,210,567
Sep-12	33,721,948	(283,968)	33,437,980
Oct-12	35,257,931	(283,968)	34,973,964

VECC 40

Reference: Board Staff #22 c) and d)

- a) Please provide an updated version of Exhibit 3, Tab 2, Appendix A reflecting the OPA's final 2011 CDM results as used for the regression model.

Response:

Welland Hydro's revised load forecast for the purposes of the application is the load forecast that supports Board Staff #22c which also supports Board Staff #24b. A live version of the revised load forecast is filed under title "Welland Hydro 2013 Load Forecast Board Staff #22c". In tab Power Purchased Model of this file the information provided in Exhibit 3, Tab 2, Appendix A has been revised to reflect the OPA's final 2011 CDM results.

- b) The response to part (d) suggests that the forecast model only includes the impact (and persistence) of the CDM programs for the period 2006-2010 and that a manual adjustment is needed for 2011-2013 CDM programs. However, the CDM Activity variable used in the original forecast (Exhibit 3, Tab 2, Schedule 1, pages 16-17) and, presumably, this revised forecast, included the effects of 2011

programs and a manual adjustment was only made for 2012 and 2013 programs. Please reconcile.

Response:

The response to part (d) only includes the impact (and persistence) of the CDM programs for the period 2006-2010 and that a manual adjustment is needed for 2011-2013 CDM programs. The CDM Activity variable was adjusted to not include the effects of 2011 programs and a manual adjustment was made for 2011, 2012 and 2013 programs as was instructed in the question.

- c) Please provide the details supporting the calculation of the “CDM Manual Adjustment” shown in part (d) and indicate any changes required as a result of the reconciliation requested in part (b).

Response:

Please see response to b) and d).

- d) Please explain why the manual adjustment set out in part (d) for 2013 has increased from 5.98 GWh (per Exhibit 3, Tab 2, Schedule 1, page 17) to 9.63 GWh.

Response:

Please refer to table 3-16 in response to VECC 14c. The manual adjustment of 9.63 GWh is the total in 2013 of 6.22 GWh shown in table 3-16 times the net to gross factor of 1.548

VECC 41

Reference: Board Staff #24 b)

- a) Does the forecast set out in Board Staff #24 b) reflect the updated regression model set out in Board Staff #22 c) as well as the final 2011 CDM results? If not, please explain which “model” and what “CDM Activity” underlies this forecast.

Response:

Yes, the forecast set out in Board Staff #24 b) reflects the updated regression model set out in Board Staff #22 c) which includes the final 2011 CDM results

- b) Which load forecast is Welland proposing should be used for purposes of the its 2013 Rate Application: a) the original forecast filed with the Application, b) the load forecast filed in response to Board Staff #24 b) or c) a forecast based on one of the other model variations described in the IR responses? If option (c), please indicate which model is to be used and provide the equivalent of Tables 3-16 to 3-18 for the proposed forecast.

Response:

Please see response to VECC 40a.

- c) Please provide Table 3-16 from the original Application updated to reflect the CDM activity used for Board Staff #24 b).

Response:

The requested information is provided in response to VECC 14c

VECC 42

Reference: Energy Probe 12 c)

- a) Please confirm whether the model estimated in response part c) used the OPA's final 2011 CDM results to establish the CDM Activity variable. If not, please re-estimate the model and the purchased energy forecast.

Response:

The model estimated in response to Energy Probe 12 c) did not use the OPA's final 2011 CDM results to establish the CDM Activity variable. The information provided in Energy Probe 12 c) has been revised to reflect the OPA's final 2011 CDM results and is shown below

Statistics		
R Square	87.9%	
Adjusted R Square	87.3%	
F Test	137.1	
Variable	Coefficients	T-stat
Intercept	9,850,249	1.89
Heating Degree Days	11,199	15.39
Cooling Degree Days	82,529	20.33
Number of Days in Month	615,399	3.47
CDM Activity	(7)	(11.61)
Number of Peak Hours	23,514	2.68
2009 Flag	(2,858,705)	(6.03)

Table 3-6: Total System Purchases - 2009 Flag			
Year	Actual	Predicted	% Difference
Purchased Energy (GWh)			
2002	522.7	516.6	(1.2%)
2003	497.1	504.2	1.4%
2004	501.2	500.3	(0.2%)
2005	520.8	522.1	0.3%
2006	488.4	492.8	0.9%
2007	493.9	491.2	(0.6%)
2008	487.1	470.4	(3.4%)
2009	419.6	419.6	0.0%
2010	443.6	458.7	3.4%
2011	452.1	450.6	(0.33%)
2012 Weather Normal		452.2	
2013 Weather Normal		452.0	

- b) Given the regression statistics for the model provided in response to part c), please provide Welland's views as to the appropriateness of using this model for load forecasting purposes.

Response:

Welland understands the regression results for the load forecast in part a) are better than those achieved in the load forecast supporting Board Staff #22c. However, with the current economic conditions in the Welland's service area Welland is concerned it will not be able to achieve a forecast similar to the 2011 actual results and believes a forecast similar to the 2010 values is more reasonable. The 2011 year includes the large industrial customer in the GS>50 customer class that closed in early 2012. This customer accounted for 12 million direct kWh in 2011. The full impact of the direct layoffs and indirect layoffs and energy consumption would not be reflected until 2012. The City of Welland's street light replacement program also began in 2012 with an annual reduction of over 3.4 million kWh forecasted. Since the initial rate application was filed, Welland's remaining large use customer has announced the permanent closure of one of its mills resulting in the loss of approximately 100 jobs. The reduction in demand is not known at this time. The impact of these direct and indirect job losses will not only effect forecasted energy consumption, but could very well lead to a reduction in the forecasted residential customer growth of 1.8% for 2013.

VECC 43

Reference: Energy Probe #13 d)

VECC #19 a)

- a) These two responses both purport to show updated/corrected versions of Table 3-11. However, the values for the GS>50 class are not the same. Which response has the correct table and is this the table was used to:
 - i. Calculate the values set out Table 3-12 of the original Application?
 - ii. Used in preparing the response to Board Staff #24 b)?

Response:

Table 3-11 provided in response to Energy Probe #13 d) was used to calculate the values set out Table 3-12 of the original Application and was used in preparing the response to Board Staff #24 b). The table in response to VECC #19 a) was the table outlined in response to Energy Probe #13 d) adjusted in accordance with instructions outlined in the VECC #19 a) question.

- b) If the correct table/values were not used in either case, please revise accordingly.5

Response:

Not applicable.

VECC 44

Reference: Exhibit 3, Tab 2, Schedule 1, page 21

- a) Please provide an updated version of Table 3-22 based on Welland's current proposed load forecasts for 2012 and 2013.

Response:

The requested information is provided below:

Table 3-22: Summary of Forecast - Revised

	2009 Board Approved	2009 Actual	2010 Actual	2011 Actual	2012 Weather Normalized Bridge	2013 Weather Normalized Test
ACTUAL AND PREDICTED KWH PURCHASES						
Actual kWh Purchases		419,617,213	443,594,623	452,100,623		
Predicted kWh Purchases		446,989,767	451,265,161	441,533,767	443,246,393	443,149,198
% Difference of actual and predicted purchases		6.5%	1.7%	(2.3%)		
CDM Adjustment					(3,407,611)	(6,815,222)
Predicted kWh Purchases Adjusted for CDM					439,838,782	436,333,975
BILLING DETERMINANTS BY CLASS						
Residential						
Customers	19,818	19,277	19,434	19,724	20,075	20,432
kWh	166,999,701	152,428,518	159,733,338	158,621,921	162,088,050	161,273,706
General Service< 50 kW						
Customers	1,717	1,690	1,691	1,694	1,695	1,696
kWh	55,348,528	54,644,526	54,185,000	54,435,719	54,619,276	54,333,266
GS>50						
Customers	171	171	172	170	169	169
kWh	160,782,066	135,381,161	144,932,476	150,174,158	141,251,175	140,416,183
kW	440,796	390,493	432,238	417,210	386,714	390,101
Large User						
Customers	1	3	1	1	1	1
kWh	49,804,199	51,909,228	58,704,363	59,993,492	59,523,513	59,054,967
kW	169,553	195,437	168,338	170,236	168,775	167,446
Sentinels						
Connections	721	680	679	652	574	574
kWh	1,098,311	1,052,725	908,962	894,240	831,765	825,217
kW	2,592	3,631	2,816	2,462	2,297	2,297
Street Lighting						
Connections	6,677	6,709	6,738	6,750	6,750	6,750
kWh	4,722,781	4,691,957	4,700,576	4,709,765	2,201,870	1,262,936
kW	13,262	13,091	13,119	13,068	6,144	3,552
USL						
Connections	208	231	227	226	226	225
kWh	1,072,774	1,151,826	1,128,127	1,122,904	1,112,526	1,102,201
Total of Above						
Customer/Connections	29,313	28,761	28,942	29,215	29,489	29,847
kWh	439,828,360	401,259,942	424,292,841	429,952,199	421,628,175	418,268,477
kW from applicable classes	626,203	602,652	616,511	602,976	563,929	563,396

- b) It is noted that the predicted purchases for 2012 and 2013 set out in the original application, were not “adjusted” to reflect the manual CDM adjustment made to billed loads. Please ensure that the energy purchases provided in response to part (a) reflect this adjustment.

Response

Please see response to part a)

VECC 45

Reference: Energy Probe 15 c)

a) Please update Table 3B to include December 2012, if available.

Response:

See revised Table 3B below. The 2013 Full Year Test has been adjusted for removal of \$18,932 in asset retirement costs.

TABLE 3B
WELLAND HYDRO ELECTRIC SYSTEM CORP
DETAILED OTHER OPERATING REVENUE

	2012 Full Yr Bridge (\$)	2013 Full Yr Test (\$)	2011 YTD NOV (\$)	2012 YTD NOV (\$)	2012 Full Yr Actual (\$)
Mothly Service Charge-SSA Administration 4080-2	60501	61575	54119	56817	62206
Microfits 4080-3	696	1392	534	763	891
4080 Monthly Service Charge	61197	62967	54653	57580	63097
4082 Retail Service Revenue Charge	20525	20515	27975	22064	23854
4084 Service Trans Revenue	789	789	688	708	757
Miscellaneous Operations Revenue					
Rent from Electric Property-Poles*	130,085	130,085	130,085	129,990	129,990
Rent from Electric Property-Service Centre	21,895	22,552	19,645	20,207	22,064
4210 Rent from Electrical Property	151,980	152,637	149,730	150,197	152,054
Late Payment Charges**	68,785	70,849	139,740	65,491	69,590
4225 Late Payment Charges	68,785	70,849	139,740	65,491	69,590
Misc-Service-Account Status Fee	1,798	2,181	1,701	1,420	1,480
Misc Service-NSF Charges	4,515	4,515	4,215	4,500	4,770
Misc Service-Occupancy Related	93,305	94,238	84,425	91,890	100,020
Misc Service-Disconnect/Reconnect	14,440	14,440	12,780	19,670	21,880
Misc Service-Mark Up on Work Orders	35,011	35,011	39,296	30,432	31,739
4235 Miscellaneous Service Charges	149,069	150,385	142,417	147,912	159,889
Gain on Disposition of Utility and Other Property	0	0	14,409	14,455	14,455
4355 Gain on Disposition of Property	0	0	14,409	14,455	14,455
Scrap Metal Sales	9,812	10,106	9,812	29,327	29,327
Misc Service-Other Revenue	8,023	8,023	7,676	4,353	4,638
PILS 1562 Adjustment	0	0	0	0	0
4390 Miscellaneous Non Operating Income	17,835	18,129	17,488	33,680	33,965
4362 Loss from Retirment of Utility Property	0	0	0	0	0
Total Misc Operations Revenue	387,669	392,000	463,784	411,735	429,953
Interest Earned					
Interest Income-Bank & Miscellaneous	62,500	43,750	90,858	74,704	82,519
Interest Variance Accounts	8,890	0	5,852	13,579	15,241
4405 Interest and Dividend Income	71,390	43,750	96,710	88,283	97,760
Total Other Operating Revenue-Distribution	541,570	520,021	643,810	580,370	615,421

EXHIBIT 4 – OPERATING COSTS

Energy Probe # 40

**Ref: Energy Probe Interrogatory #17 &
Exhibit 4, Tab 1, Schedule 2, Appendix 2-M**

Please confirm that the \$40,000 shown as 2012 one-time costs in the Appendix 2-M at line 13 is also recovered in 2013 through 2016. In other words, should the 2012 regulatory costs be reduced by \$40,000 because this amount is being recovered in 2013 through 2016?

Response:

Welland confirms that the \$40,000 shown as 2012 one-time costs in Appendix 2-M at line 13 is recovered from 2013 to 2016. The total cost of the rate application was forecast at \$120,000 to be recovered over four years at \$30,000/year. The forecasted expense for the rate application in 2013 is \$80,000. There is a timing difference in the actual expenses versus the recovery as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Actual Expense	\$40K	\$80K				\$120K
Recovery		\$30K	\$30K	\$30K	\$30K	\$120K

The regulatory costs should not be reduced by \$40,000 in 2012. An adjustment is only made in 2013 to reflect recovery over a four year period.

VECC 46

Reference: VECC IR # 25

- a) Please provide a brief description of the Utility Standard Forum (USF) and why Welland chose to be a member.

Response:

Utility Standard Forum (USF) is a Letter Patent Company incorporated in early 2005 to address the compliance requirements of Regulation 22/04. The initial membership was comprised of approximately fifty utilities. The intent of Regulation 22/04 is to ensure electrical distribution systems are built to standards that are safe from both an electrical and non-electrical perspective. The Electrical Safety Authority (ESA) enforces this regulation.

Welland initially chose to join USF to share the cost of electrical distributions systems standards development with other LDCs. USF continues to be a cost effective means to address the changes by the ESA and the Canadian Standards

Association. Also, USF provides the administration to maintain the required material data base for products installed on Welland's distribution system.

Welland still requires in certain circumstances to have an Engineer provide stamped drawings. Welland is also required to maintain qualified staff to ensure that installed infrastructure complies with all the requirements of the ESA.

VECC 47

Reference: VECC IR # 28

- a) What adjustments, if any are expected when Welland moves to (M)IFRS. Does Welland plan to seek ratepayer recovery of any future costs of moving to IFRS? If so please explain its plan for cost recovery (e.g. booking of costs or when an application for cost recovery would be filed). Is the requested deferral account for Future Benefits (see Board Staff IR #48) the only regulatory cost recovery account being sought to capture IFRS related costs?

Response:

In the response to Energy Probe #42 below Welland Hydro acknowledges that it is withdrawing its request for a deferral account in this application related to Employee Post Retirement Benefits on the conversion from CGAAP to IFRS. Welland believes that this will be the most significant adjustment when the conversion to IFRS takes place. Welland believes that this will have a significant impact on its Retained Earnings and will seek recovery in a separate application when the adjustment is known. Welland does not expect significant future consulting cost related to the conversion to IFRS.

Early retirement of assets is now a potential risk upon conversion to IFRS.

EXHIBIT 6 - CALCULATION OF REVENUE DEFICIENCY OR SUFFICIENCY

Energy Probe # 41

Ref: Exhibit 6 & RRWF

- a) Please update Tables 6.1, 6.2 and 6.3 to reflect that MIFRS will not be adopted until after the test year.

Response:

See Appendix A attached in response to Energy Probe 30b above.

- b) Please provide an updated Appendix A that reflects that MIFRS will not be adopted until after the test year.

Response:

See Appendix A attached in response to Energy Probe 30b above.

- c) Please provide a live Excel version of the RRWF requested in part (b) above.

Response:

A revised RRWF Excel model (Welland Energy Probe 30B RRWF.xlsm) has been filed with the responses to the supplemental interrogatories.

7. COST ALLOCATION (Exhibit 7)

VECC 48

Reference: VECC #33

- a) When does Welland anticipate that it will have to start replacing the current meters used for its Large Use and GS>50 classes?

Response:

There are approximately 174 meters attributable to the GS>50 and Large Use customers classes. Of the 174 meters, 42 are interval meters including the meter at the Large Use customer. These meters are only replaced when resealing is not an option. The majority of the non interval meters were replaced between 2009 and 2011.

VECC 49

Reference: VECC #34 f)

- a) Please explain why the Large User class should not be allocated a portion of the costs in each of the following Administrative and General Cost accounts:

- i. Account 5605
- ii. Account 5645
- iii. Account 5655
- iv. Account 5665
- v. Account 5680

Response:

In response to Energy Probe 26c in the initial set of interrogatory responses, Welland Hydro identified the \$2,672 allocated from 5610 to the large user as being costs related to the President and Director of Finance. This should have been split between 5605 and 5610. As a result, costs from 5605 have already been directly allocated to the Large Use class.

Welland has reviewed 5645 Employee Post Retirement Benefits, 5655 Regulatory Expense, 5665 Miscellaneous General Expense, and 5680 Electrical Safety Authority Fees and believes that any costs directly attributable to the Large Use class would not be material. A 0.15% allocation of these expenditures would be approximately \$548.

EXHIBIT 9 - DEFERRAL AND VARIANCE ACCOUNTS

Energy Probe # 42

Ref: Board Staff Interrogatory #48

Please confirm that because of the delay in the transition to IFRS to January 1, 2014 or later, that Welland Hydro is no longer requesting the Board to approve a new deferral or variance account to deal with the impact of retiree future benefits when converting from CGAAP to MIFRS in the current 2013 test year application.

Response:

Welland is withdrawing from this application, its request for a deferral account related to the impact of retiree future benefits upon conversion to IFRS. Welland reserves the right to file an application related to the potential impact of retiree future benefits upon conversion to IFRS at a later date.

VECC 50

Reference: Board Staff #46

- a) Please confirm that Welland is forfeiting the recovery of all LRAM and SSM amounts for all years prior to 2012.

Response:

Welland is forfeiting the recovery of all LRAM and SSM amounts for all years prior to 2012.