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**BY E-MAIL**

February 20, 2013

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Tillsonburg Hydro Inc.**
**2013 Cost of Service Rate Application**
**Board Staff Supplemental Interrogatories**
**Board File No. EB-2012-0168**

In accordance with the procedure documented in Procedural Order #4, please find attached Board staff's supplemental interrogatories in the above proceeding with respect to Tillsonburg Hydro Inc.'s 2013 Cost of Service Rate Application.

Yours truly,

Stephen Vetsis
Analyst – Applications & Regulatory Audit

Encl.

**Board Staff Supplemental Interrogatories**
**2013 Electricity Distribution Rates**
**Tillsonburg Hydro Inc. ("THI")**
**EB-2012-0168**
**February 20, 2013**

## GENERAL

### 0.0-Staff-9s

Ref: 0.0-Staff-5

The RRWF filed in response to 0.0-Staff-5 is filled out incorrectly, as there are no entries made in or copied into column M on Sheet 3, as documented in Note 2 of that sheet.

Please provide updated versions of the RRWF reflecting all updates made as a response of supplemental interrogatories. In doing these updates, also reflect the updated Return on Equity and deemed Short-term and Long-term Debt Rates as communicated by the Board on February 14, 2013 for 2013 Cost of Service applications with an effective date of May 1, 2013.

Please file the RRWF in working Microsoft Excel format. Use columns I and M of the RRWF to reflect the further changes made; please do not change the Initial Application in Column E.

### 0.0-Staff-10s

Ref: 0.0-Staff-1
Ref: 0.0-Staff-4

In response to 0.0-Staff-1, THI states that it inadvertently did not include the OMERS rate increase for 2013 in the amount of $13k. THI stated that it did include the 2011 and 2012 increase but that it was not proposing any adjustments at this time. In response to 0.0-Staff-4, THI lists the OMERS rate increase as one of the increases in OM&A for the test year. Please explain the conflicting responses. Please confirm whether or not the OMERS rate increase is included in test year costs shown in the Application.

### 0.0-Staff-11s

Ref: 0.0-Staff-4

In response to 0.0-Staff-4, THI lists the projected increases in OM&A for the test year arising from reasons other than a change in capitalized overhead. In this list THI identifies the proposed hire of a lineperson ($68k), increased legal costs ($20k), billing

system capitalized and amortized ($9k), replacement of a line truck ($35k) and increase in maintenance accounts due to a recent audit by the ESA ($45k).

a) Please provided further details regarding the expected hiring date of the lineperson? What has THI undertaken, to date, to fill the position?

b) Please explain the expenses related to the capitalizing and amortization of the billing system. How are these changes exclusive of changes to capitalized overhead? Do these amounts reflect the allocation of costs for the billing system (71.7%), approved in the Board's decision from THI's last cost of service application (EB-2008-0246)?

c) What is the full purchase price of line truck identified? Will it be used solely by THI? If not, please identify how the $35k cost was allocated to THI.

d) Please provide further details regarding the result of the ESA audit and the nature of the $45k increase in OM&A that will arise.

**EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS**

**1.0-Staff-3s**

Ref: 1.0-Staff-2

In response to 1.0-Staff-2, THI states that it determined its 2% wage increase assumption by investigating and utilizing other local utility collective agreements. When was the last time THI negotiated its own collective agreement?

**EXHIBIT 2 – RATE BASE**

**2.0-Staff-10s**

Ref: 2.0-Energy Probe-8d)
Ref: 2.0-Staff-7

In response to 2.0-Energy Probe-8d), THI confirmed the use of the half year rule in the calculation of depreciation expense and accumulated depreciation for each of 2008 through to 2012.

In response to 2.0-Staff-7, THI indicated the variances in 2011 CGAAP depreciation expense between the updated Appendix 2-CE (depreciation schedule) and Appendix 2-B (fixed asset continuity schedule) is due to the half year rule. Based on THI's response to the interrogatory, the depreciation expense on the updated depreciation schedule is calculated using the half year rule. If the difference between the depreciation schedule and the fixed asset continuity schedule is due to the half year

rule, then the accumulated depreciation in the fixed asset schedule would not have had the half year rule applied. This is contrary to THI's response to 2.0-Energy Probe-8d).

a) Please clarify whether or not THI has used the half year rule consistently in all schedules in the rate application.

b) If not, please update the evidence as appropriate to consistently reflect the half year rule.

**2.0-Staff-11s**

Ref: 2.0-Staff-3

In response to 2.0-Staff-3, THI indicated that "THI does not have the need to consider IAS 17 and IFRIC 4 since all services are contracted through the Master Services Agreement with the Town of Tillsonburg. This is clearly an operating lease and not a finance lease as the risks and rewards of ownership remain with the Corporation of the Town of Tillsonburg."

a) If THI has not considered IAS 17 and IFRIC 4, please explain how has THI applied IFRS with regards to lease arrangements in its current MIFRS rate application?

b) Please indicate if there are any particular sections of any IFRS standard that allows THI to be exempt from IAS 17 and IFRIC 4 with regards to lease arrangements.

c) How is THI able to conclude that the Master Services Agreement with the Town of Tillsonburg is "clearly an operating lease and not a finance lease" if THI has not performed any accounting treatment assessments under MIFRS? Have THI's external auditors considered this issue? If yes, please provide the auditor's response and conclusions.

**EXHIBIT 3 – REVENUE**

**3.0-Staff-13s**

Ref: 3.0-Staff-1

a) For each customer class, please identify whether the class is on monthly, bi-monthly (i.e. every two months) or other (and if so, specify) billing.

b) How many meter billing cycles does THI have? In other words, how many different billing dates does THI have for generating bills in a typical month?

**3.0-Staff-14s**

Ref: 3.0-Staff-8

In its response to part e), THI states:

> At the time of calculation the final 2011 OPA results had not been released. The 30% factor is simply a proxy calculation for what THI estimates will be the net impact of new CDM programs introduced in 2013 that will ultimately reduce THI retail consumption.
>
> This is premised on THI's commitment to meet its licensed CDM targets. The 30% is factored on a simple acceleration model of program implementation to meet the 2014 target (10% in 2011, 20% in 2012, 30% in 2013 and finally 40% in 2014). Ultimately the true test of success will be upon the final publication of 2013 net CDM results and the calculation of the LRAMVA. THI understands that this is intended to save harm to the customer and to the shareholder.

Board staff observes that, while the LRAMVA is trued up, the load forecast for the 2013 test year is not. Therefore, any underage or overage in the test year load forecast due to an adjustment for the persistence of previous year CDM programs, the persistence of 2012 programs and the impact of 2013 programs on the 2013 load forecast is not trued up. An under-forecasting/over-forecasting of the 2013 CDM adjustment will result in an over-forecasting/under-forecasting of the test year consumption and demand. In turn, as the class-specific consumption or demand, as applicable, also serves as the billing determinant for volumetric distribution rates and also for other rate riders and adders, this would result in overstated/understated volumetric rates and other rate riders and rate adders.

a) Please confirm that while the LRAMVA amount is subject to true up, the test year load forecast is not. In the alternative, please provide WPI's explanation as to how the load forecast is "trued up" for any overage or underage of the CDM adjustment.

b) Board staff views that the response to b) of 3.0-Staff-8 does not adequately respond to the questions posed in b), c) and d) of 3-Staff-8. In light of the further information provided in the preamble to this

supplemental interrogatory, please provide further responses to b), c) and d) of 3-Staff-8.

**3.0-Staff-15s**

Ref: 3.0-Staff-8

THI has proposed to use a CDM target of 30% as the CDM adjustment for the 2013 load forecast amount to take into account the persistence of 2011 and 2012 CDM programs, and the impact of 2013 CDM programs on 2013 demand (consumption, measured in kWh).

An alternative approach is to take into account the 2011 results and their persistence, as measured and reported by the OPA for THI, and then to assume an equal increment for each of 2012, 2013, and 2014 so as to achieve THI's CDM target of 6,330,903 kWh. Board staff views that this approach is preferable as there are results on what the utility has achieved to date, and hence what more will be needed to achieve the cumulative four-year target. In using the measured and reported results from the 2011 programs, including the persistence into 2013, Board staff views that an improved estimate of the CDM impact of 2011-2013 programs on the LRAMVA threshold for 2013 (and 2014) would result, along with the corresponding adjustment to the 2013 test year load forecast.

Based on the final 2011 OPA results provided in response to 3.0-VECC-15.0 part c, Board staff has prepared the following table, which is also provided in working Microsoft Excel format:

## *Load Forecast CDM Adjustment Work Form (2013)*

| ***Tillsonburg Hydro Inc.*** | ***EB-2012-0168*** |
|---|---|

| 4 Year (2011-2014) kWh Target: | | | | | |
|---|---|---|---|---|---|
| 10,250,000 | | | | | |
| | 2011 | 2012 | 2013 | 2014 | Total |
| | | | % | | |
| 2011 CDM Programs | 5.39% | 4.65% | 4.65% | 4.60% | 19.29% |
| 2012 CDM Programs | | 13.45% | 13.45% | 13.45% | 40.35% |
| 2013 CDM Programs | | | 13.45% | 13.45% | 26.90% |
| 2014 CDM Programs | | | | 13.45% | 13.45% |
| **Total in Year** | **5.39%** | **18.10%** | **31.55%** | **44.95%** | **100.00%** |
| | | | kWh | | |
| 2011 CDM Programs | 552,700 | 476,567 | 476,567 | 471,449 | 1,977,283 |
| 2012 CDM Programs | | 1,378,786 | 1,378,786 | 1,378,786 | 4,136,359 |
| 2013 CDM Programs | | | 1,378,786 | 1,378,786 | 2,757,572 |
| 2014 CDM Programs | | | | 1,378,786 | 1,378,786 |
| **Total in Year** | **552,700** | **1,855,353** | **3,234,139** | **4,607,807** | **10,250,000** |
| | | | | Check | 10,250,000 |

| | Net-to-Gross Conversion "Gross" | "Net" | Difference | "Net-to-Gross" Conversion Factor ('g') |
|---|---|---|---|---|
| **2006 to 2011 OPA CDM programs: Persistence to 2013** | 1 | 1 | 0 | 0.00% |

| | 2011 | 2012 | 2013 | 2014 | Total for 2013 |
|---|---|---|---|---|---|
| Amount used for CDM threshold for LRAMVA | 476,567 | 1,378,786 | 1,378,786 | | 3,234,139 |
| Manual Adjustment for 2013 Load Forecast *Manual adjustment uses "gross" versus "net" (i.e. numbers multiplied by (1 + g)* | 476,567 | 1,378,786 | 689,393 *Only 50% of 2013 CDM impact is used based on a half year rule* | | 2,544,746 |

The methodology for this is as follows:

For the top table

- The 2011-2014 CDM target is input into cell B4;
- Measured results for 2011 CDM programs for each of the years 2011 and persistence into 2012, 2013 and 2014 are input into cells C13 to F13;
- Based on these inputs, the residual kWh to achieve the 4 year CDM target is allocated so that there is an equal incremental increase in each of the years 2012, 2013 and 2014.

The second table is to calculate the conversion from “net” to “gross” results. While the LRAMVA is based on the “net” OPA-reported results, the load forecast is impacted also by CDM savings of “free riders” and “free drivers”. While Board staff has input values of “1” in each of cells D24 and E24, in the absence of information, these should be populated with the measured “gross” and “net” CDM savings for the persistence of all CDM programs from 2006 to 2011 on 2013, as reported in the final OPA reports.

For the last table, two numbers are calculated:

- The “Amount used for CDM threshold for LRAMVA” is the sum of the persistence of 2011 and 2012 CDM programs and the annualized impact of 2013 CDM programs on 2013; and

- "Manual Adjustment for 2013 Load Forecast" represents the amount to be reflected in the 2013 load forecast. This amount uses the "gross" impact, which is calculated by multiplying each year's CDM program impact or persistence by (1 + g) from the second table. In addition, the impact of the 2013 CDM programs on 2013 "actual" consumption is divided by 2 to reflect a "half year" rule. Since the 2013 CDM programs are not in effect at midnight on January 1, 2013, the "annualized" results reported in the OPA report will overstate the "actual" impact. In the absence of information on the timing and uptake of CDM programs in their initial year, a "half-year" rule may proxy the impact.

a) Please input the "gross" and "net" cumulative kWh CDM savings from all CDM programs from 2006 to 2011 on 2013 as measured in the final OPA reports into, respectively, cells D24 and E24.

b) Please verify the inputs and results of the model.

c) Please derive the class CDM kWh and kW savings that would correspond with the "net" CDM savings above.

d) Please provide THI's comments on the methodology above to develop the CDM savings that will underlie the 2013 CDM amount for the LRAMVA and the corresponding CDM adjustment for the 2013 test year load forecast. What refinements to this approach should be considered?

**3.0-Staff-16s**

Ref: 3.0-VECC-12

Are the year-to-date numbers shown for 2011 and 2012 year-end (December 31) or annual averages?

**EXHIBIT 4 – OPERATING COSTS**

**4.0-Staff-10s**

Ref: 4.0-VECC-21
Ref: 4.0-Energy Probe-22
Ref: 2.0-Staff-1

In response to 4.0-VECC-21, THI lists the reasons for increases in customer billing costs since 2009. Among the reasons cited, THI indicates staff overtime, more manual staff effort required for the Customer Information System, regulated changes and additional training requirements. Additionally, THI states that increases in meter reading expenses since 2009 included increases in subcontractor expense.

In the updated Appendix 2-I table, provided in response to 4.0-Energy Probe-22, THI shows an increase in billing and collecting expenses from $434,918 in 2009 to $611,388 in 2012. THI is forecasting billing and collecting expenses of $611,388 in the test year.

In response to 2.0-Staff-1, THI states that one of the benefits of the planned investment in its CIS upgrade is the capability of process automation which would allow staff to provide better customer service.

a) Do THI's proposed meter reading costs for the 2013 test year take in to account reductions in meter readings as a result of the implementation of smart meters? If so, please state the amount. If not, please provide an estimate of the savings in meter reading costs as a result of the implementation of smart meters.

b) THI has cited certain transitional costs (e.g. training, manual efforts) in the period of 2009 through 2012. Does THI expect that these costs will continue to be incurred beyond the 2013 test year and in to the IRM cycle? If not, how has THI accounted for these projected decreases in the 2013 test year costs shown in the Application?

c) THI is planning to upgrade its CIS system in the 2013 test year. Does THI anticipate that the upgrade will address the need for the manual staff effort currently required by its CIS system? If so, has THI adjusted the customer billing costs for 2013 test year to reflect these benefits?

**4.0-Staff-11s**

Ref: 4.0-Staff-9
Ref: Ex. 4/T. 7/Sch. 1/pages 1 & 2

In its response to 4.0-Staff-9, THI maps several useful lives from the Kinetrics Report for each asset type identified to the values shown in Ex. 4/T. 7/Sch. 1.

a) Please explain how THI uses the various useful lives identified for each asset type to arrive at the overall useful life identified in Ex. 4/T. 7/Sch. 1. Is componentization used?

b) For underground services, THI mapped its applied 40 year useful life to asset types UG # 30, 31 and 32 of the Kinetrics report. UG #30 shows a useful life of 70-80 years. How did THI arrive at the 40 year useful life for underground services provided in the Application, given the useful lives identified in the Kinetrics report?

c) Similarly, THI identified 50 years as the useful life of underground conductors and devices. The identified useful lives in the Kinetrics report are shown in the table below. Please explain how THI determined this amount.

| Kinetrics Asset # | Useful Life (years) |
|---|---|
| UG 26 | 20 – 30 |
| UG 27 | 20 – 30 |
| UG 28 | 25 – 35 |
| UG 29 | 35 – 55 |
| UG 39 | 20 – 45 |

## EXHIBIT 5 – COST OF CAPITAL AND CAPITAL STRUCTURE

### 5.0-Staff-1s

Ref: 5.0-Energy Probe-28
Ref: 5.0-Energy Probe-29
Ref: Board letter of February 14, 2013 re: Cost of Capital update for Cost of Service Applications with May 1, 2013 effective dates

Please update Appendix 2-OA and the RRWF reflecting the Cost of Capital parameter updates as issued by the Board in its letter of February 14, 2013, and also incorporating the TD Canada Trust loan as discussed in 5.0-Energy Probe-28 b) and Energy Probe-29. For the TD Canada Trust loan please use the average forecasted principal balance of $853,539.

## EXHIBIT 7 – COST ALLOCATION

### 7.0-Staff-2s

Ref: 7.0-Staff-1

In response to 7.0-Staff-1a), THI stated the following regarding its choice of distributors for the survey of average allocators for primary and secondary assets:

> A subset was chosen for having submitted cost of service application as opposed to IRM applications in 2012. The remainder was chosen on the basis of being a comparable size, age, and urban/suburban/rural composition.

a) If the goal was to survey distributors similar to THI, why did Elenchus also survey all distributors that submitted cost of service applications in 2012, regardless of their similarity to THI?

b) Please provide the primary/secondary asset split for only the distributors that Elenchus has identified as being of a comparable size, age and urban/suburban/rural composition to THI. If the resulting asset splits are materially different from the values used in THI's cost allocation study,

please provide an updated cost allocation model reflecting the resulting primary/secondary asset splits.

## EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

### 9.0-Staff-11s

Ref: 9.0-Staff-2

With regards to Account 1592, PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax Credits (ITCs):

a) Regarding the 2011 HST savings, provided in response to 9.0-Staff-2, THI indicated that "the amount reported on the rate application was incorrectly reported at $48,626. The HST savings for 2011 is $100,298.77".

   i. Please elaborate on the reason for this error. (i.e. Was it a reporting error, a change in the calculation etc.)
   ii. Please provide a detailed calculation of the 2011 HST savings.

b) In THI's 2010 IRM Decision, EB-2009-0251, the Board directed Tillsonburg to record amounts in deferral account 1592 beginning July 1, 2010. The Board stated "Tracking of these amounts will continue in the deferral account until the effective date of Tillsonburg's next cost of service rate order". In THI's current application, THI indicated that it will be requesting the disposition of this balance in a future application.

   i. Please explain why Tillsonburg is requesting a deviation from the Board's direction by requesting disposition of Account 1592 in a future IRM application.
   ii. As IRM applications only review Group 1 deferral and variance accounts, and Account 1592 is a Group 2 deferral account, when and how does Tillsonburg plan to request disposition of Account 1592 given the fact that THI may not file its next cost of service rate application for 5 years?

c) THI has indicated that it has chosen to determine the amount in Account 1592 based on actual expenditures rather than using the proxy as per Accounting Procedures Handbook FAQ #4.

   i. Given that THI has tracked savings in detail in 2010, 2011 and the majority of 2012, please provide an estimate of the PST savings for a four month period from January 1, 2013 to April 30, 2013, including carrying charges.

**9.0-Staff-12s**

Ref: 9.0-Staff-4
Ref: Ex. 2/T. 2/Sch. 3/pg. 1

In response to 9.0-Staff-4, THI indicated that the useful lives for Account 1855 Services (Overhead & Underground) changed on the depreciation schedules from 45 years to 50 years from the 2012 MIFRS Appendix 2-CG to 2013 MIFRS Appendix 2-CH because of componentization. THI adopted MIFRS effective January 1, 2013. THI indicated that for 2013, capital assets are amortized over the asset's useful life consistent with MIFRS and the Kinetric's Study.

a) Under THI's current MIFRS rate application, was componentization implemented for all capital assets as at January 1, 2012 or as at January 1, 2013?

b) When was componentization effective and reflected in the depreciation schedules (i.e. January 1, 2012 or January 1, 2013)? If effective 2012, please explain why the change in useful life for Account 1855 Services (Overhead & Underground) is due to componentization. If effective in 2013, why was componentization not effective as at January 1, 2012 given that THI completed the 2012 MIFRS Appendices in the rate application? Were there any other assets that were affected by the change in useful life in 2013 as a result of componentization?

**9.0-Staff-13s**

Ref: 9.0-Staff-4

In the response to part a) of 9.0-Staff-4, why is 7.5 years being used as the remaining useful life for smart meters? In response to part b), given that the applicable materiality threshold for this application is $50k, why does THI believe the stated variance of $85k to be immaterial?

**9.0-Staff-14s**

Ref: 9.0-Staff-8
Ref: 9.0-Staff-5
Ref: 9.0-Staff-7
Ref: 9.0-VECC-37
Ref: Smart Meter Model Version 3.0

a) On Sheet 8 of the Smart Meter Model Version 3.0 filed by THI, THI has input SMFA revenues for 2006 in December 2006, with a principal of $14,353.02. This means that no interest on SMFA revenues is calculated in 2006. However, THI had its 2006 EDR rates approved effective May 1, 2006 in Decision and Order RP-2005-0020/EB-2005-0420. Please allocate the SMFA

revenues for the months from May to December of 2006 as collected from customers in approved rates. This information should be available from the sub-account entries of Account 1555. If this is not possible, please explain.

b) THI makes reference to an updated Smart Meter Model in its response to 9-VECC-37. Please file the updated Smart Meter Model also reflecting a) above, in working Microsoft Excel format. This model should reflect the proposed class-specific SMDRs as a fixed monthly charge to be recovered over the recovery period proposed by THI. If THI has any additional adjustments, please provide explanations and show all calculations.

**9.0-Staff-15s**

Ref: 2.0-Energy Probe-11
Ref: 9.0-Staff-8

In 9.0-Staff-8, Board staff requested that THI calculate the residual net book value of the stranded meters on per class basis along with the corresponding class specific rate riders. In its response, THI indicated that the remaining net book value ("NBV") for the residential class was $13.17 per residential customer and $14.71 per GS < 50 kW customer.

a) In other applications before the Board, the purchase value of residential meters, on a per meter basis, has typically been significantly less than the purchase value of GS < 50 kW meters. The remaining net book value indicated by THI for the residential and GS < 50 kW classes is virtually identical for the two classes. Please explain why this is the case for THI.

b) Please confirm that NBVs shown for each class reflects the accumulated depreciation as collected through approved rates to December 31, 2012. If not, please explain.

c) Please provide a table outlining the following <u>by class</u>:
   i. The average purchase price of the stranded meters that were removed.
   ii. The average useful life applied to calculate the depreciation for those meters.
   iii. The average remaining useful life of the meters that were removed from service.

d) Please provide the calculation shown in the response to 2.0-Energy Probe-11 and 9-Staff-8 in a working spreadsheet. Explain all units shown in the spreadsheet.

e) The Stranded Meter Rate Rider is a fixed charge per month. Please confirm that the class-specific SMRR should be a monthly rate rounded to the nearest cent, and provide the proposed SMRRs. In the alternative, please explain.

**9.0-Staff-16s**

Ref: 9.0-VECC-36

In its response to 9.0-VECC-36, THI states that it has reviewed the allocation methodology for stranded meter costs employed by other utilities but that its proposed methodology does not reflect the Board's past decisions that the allocation should reflect cost causality. Please explain why THI does not propose to use the methodology reflected in the Board's past decisions. Please provide an updated allocation of the smart meter costs reflecting the methodology approved in the Board's prior decisions (e.g. Willington North Power Inc. (EB-2011-0249) and Guelph Hydro (EB-2011-0123)).