Board Staff Supplemental Interrogatories
2013 Electricity Distribution Rates
London Hydro Inc. ("London Hydro")
EB-2012-0146/EB-2012-0380

Exhibit 3 – Board Staff – 64 s

Load Forecasting and CDM Adjustment

References:

- Exhibit 3/Page 24/Table 3-19
- Exh 3 – VECC # 12
- Exh 3 – VECC # 15

London Hydro has proposed to take into account the CDM savings achieved in 2011 to develop 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), on an assumption of achieving 100% of its 4-year target of 156,640,000 kWh and the corresponding kW demand target over the period 2011 to 2014. The derivation, shown in Table 3-19 of Exhibit 3, is originally based on the preliminary 2011 CDM report from the OPA.

An update to this would be to use the final 2011 OPA results for the effect of 2011 CDM programs and their persistence, as measured and reported by the OPA for London Hydro, and then to assume an equal increment for each of 2012, 2013, and 2014 so as to achieve London Hydro's CDM target of 156,640,000 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 filed by London Hydro, Board staff has prepared the following table, which is also provided in working Microsoft Excel format:

Load Forecast CDM Adjustment Work Form (2013)

London Hydro Inc. ***EB-2012-0146***

4 Year (2011-2014) kWh Target:					
156,640,000					
	2011	2012	2013	2014	Total
%					
2011 CDM Programs	13.49%	13.40%	13.40%	13.36%	53.65%
2012 CDM Programs		7.73%	7.73%	7.73%	23.18%
2013 CDM Programs			7.73%	7.73%	15.45%
2014 CDM Programs				7.73%	7.73%
Total in Year	**13.49%**	**21.13%**	**28.85%**	**36.53%**	**100.00%**
kWh					
2011 CDM Programs	21,134,911	20,990,325	20,990,325	20,921,557	84,037,117
2012 CDM Programs		12,100,480	12,100,480	12,100,480	36,301,441
2013 CDM Programs			12,100,480	12,100,480	24,200,961
2014 CDM Programs				12,100,480	12,100,480
Total in Year	**21,134,911**	**33,090,805**	**45,191,286**	**57,222,998**	**156,640,000**
				Check	156,640,000

	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	20,990,325	12,100,480	12,100,480		45,191,286
Manual Adjustment for 2013 Load Forecast	20,990,325	12,100,480	6,050,240		39,141,046
Manual adjustment uses "gross" versus "net" (i.e. numbers multiplied by (1 + g)			*Only 50% of 2013 CDM impact is used based on a half year rule*		

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” and other factors, as discussed in the response to VECC-15. 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.

<u>Requests:</u>

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? For example, since the 2011 actual results are impacted by 2011 CDM programs, should some adjustment (e.g. a half-year rule) be used to account for the fact that 2011 CDM programs would have impacted the 2011 actual results and, in a stochastic manner the resulting regression models and base forecast? Also provide London Hydro's views on whether this approach integrates with the adjustment to account for historical CDM impacts factored into London Hydro's base forecast through the CDM variable.

Exhibit 4 – Board Staff – 65 s

GIS Survey Technician Positions

Reference: Exh 4 – BdStaff # 31(a)

Do the duties of the three new positions replace or update duties of existing positions or contracted labour? If so, how many positions or full-time equivalent contract positions do they take the place of, and to what extent do the new positions represent an increase in productivity if at all? If the new positions are not replacements or updates, please explain why London Hydro's maps and drawings require additional effort to this extent.

Exhibit 4 – Board Staff – 66 s

Bad Debt

References:

- Exh 4 – Energy Probe # 27 (c) & (d)
- Exh 4 – LPMA # 25(a)

In its response to Exh 4 – Energy Probe # 27, London Hydro states that both its field collection calls and its actual disconnections had increased in 2012, which indicates continued financial pressure experienced by its customers. However, in its response to Exh 4 – LPMA # 25(a), London Hydro states that its current year bad debt expense, based on account aging and risk assessment, is $750,000, which is close to the four-year average of $767,500.

How does London Hydro reconcile this recent experience with its request for approval of $1,000,000 annually?

Exhibit 4 – Board Staff – 67 s

Miscellaneous Revenue from Generation Assets

References:

- Exh 4 – SEC # 30;
- Exhibit 4 / pp. 98-9;
- *Affiliate Relationships Code for Electricity Distributors and Transmitters*, revised March 15, 2010

On pages 98-99 of Exhibit 4, London Hydro states that, in addition to third party costs actually incurred, London Hydro carried out a series of steps to ensure that the interactions between the regulated distribution business and its renewable generation assets are consistent with the *Affiliate Relationship Code for Electricity Distributors and Transmitters*. This included charging the renewable generation project an interest rate at prime less 1.75%, which was subsequently changed by London Hydro in its response to 4 – SEC # 30.

The Affiliate Relationship Code provides at section 2.4.3 that:

> "any loan, investment or other financial support provided to an affiliate may be provided on terms no more favourable than what the distributor could obtain directly for itself in the capital markets if the loan, investment or other financial support is for the purpose of financing the ownership of one or more qualifying facilities."

Requests:

a) Please provide the calculations showing the derivation of the $50,500 and $128,500 interest expense for 2013 documented in 4-SEC # 30.
b) Did London Hydro increase the amount that it borrowed from any source in order to accommodate the renewable generation project?
c) Is London Hydro obtaining debt financing for its distribution operations at the Prime Interest Rate (Series V122495) as documented on the Bank of Canada website http://www.bankofcanada.ca/rates/interest-rates/canadian-interest-rates/ ?
d) Please provide London Hydro's views on whether, in order to hold its distribution ratepayers harmless, the interest expense should be calculated as the greater of the deemed long-term debt rate and London Hydro's weighted average long-term debt rate.
e) Please provide an estimate, showing calculations, of what would be the interest expense from the generation project to be included as a revenue offset, based on the greater of the Board's deemed long-term debt rate of 4.12% as issued on February 14, 2013 and London Hydro's weighted average long-term debt rate for 2013 (after adjusting for any debt financing for specifically identified capital projects such as smart meters).

Exhibit 9 – Board Staff – 68 s

RSVA 1588, Global Adjustment Sub-Account

References:

- Exh 9 – BdStaff #51(b)
- Board Decision EB 2011-0181
- Deferral/Variance Account Work Form for COS 2013 Filers
- Exh 9 - BdStaff #54(a), 'Table 9-3'

In Board Decision EB- 2011-0181, London Hydro obtained Board approval for the disposition of the December 31, 2010 principal and interest balances in Account 1588 RSVA, Power and Account 1588, Sub Account Global Adjustment. In London Hydro's response to BdStaff #51 and in the table labeled as "1588 RSVA Power Sub Account Global Adjustment Recalculated with Eliminating the Amount for Fixed Price Credit Accrued in Error After the Accrual Method is Implemented", London Hydro provided the debit adjustment of $4,262,161 for the year 2010 (made up of debit balance of $459,200, credit balance of $1,998,139 and debit balance of $5,801,100).

Requests:

a) When was the $4,262,161 debit adjustment recorded by London Hydro in its books? Please provide the journal entries and General Leger postings and supporting documentation.

b) Please confirm if the debit adjustment of $4,262,161 is a prior year adjustment that was made by London Hydro in 2010.

c) Please confirm if the $4,262,161 debit adjustment was included in the amount requested for disposition in EB- 2011-0181.

d) If the $4,262,161 debit adjustment was recorded in 2010, please explain why did London Hydro record a prior year adjustment in 2011 and bring it to the Board for disposition, given the fact that the rates for 2010 were approved on a final basis.

e) Based on the table in the response to BdStaff # 54, London Hydro made the adjustment for the $5,801,100 in the year 2010. This is different from the year this adjustment was reflected in the Deferral/Variance Account Work form for 2013 Filers which is 2011 and from the year this adjustment was shown in Table 9-3 which is

2013. Please explain why the entry $5,801,100 is shown in different years.

Exhibit 9 – Board Staff – 69 s

CGAAP and IFRS

References:

- Exh 9 – BdStaff #49 (b) & (c)
- Exh 10 – BdStaff #58(a)
- AcSB IFRS Changeover Adoption Date Pronouncement, dated February 14, 2013

London Hydro stated, in part, in its responses to BdStaff #49(b) and (c):

> "Since the transitional P&OPEB adjustment is a material amount ($1,844,800), London Hydro is requesting that a deferral account be opened for use when the Company does in fact move to IFRS."
>
> "This transitional adjustment is an adjustment to the opening balance sheet on transition to IFRS rather than a charge to OM&A for a given year."

In its response to BdStaff # 58 (a) London Hydro stated:

> "London Hydro confirms that it is asking for a deferral and variance account as per the Addendum to EB 2008-0408 dated June 13, 2011, pp. 23-24 which states that "Individual utilities that can demonstrate the likelihood of large variances can seek an individual variance account from the Board."
>
> As mentioned in the COS rate application and above, although London Hydro has not yet transitioned to IFRS, this deferral account is being requested as a place holder for its forthcoming transitional P&OPEB adjustment which will be made when transition to IFRS is in fact complete."

In its response to BdStaff # 58 (b) London Hydro stated:

> "The Company has chosen to defer IFRS implementation to the new mandated transition date of January 1, 2014. In view of the foregoing, London Hydro has not yet developed a proposed accounting treatment associated with the P&OPEB adjustment for rate-setting purposes.
>
> Once London Hydro has transitioned to IFRS and has made this P&OPEB adjustment to the opening balance sheet, it will provide a proposed accounting treatment that is consistent with that used by LDC's as the industry standard at that time."

On February 14, 2013, the Accounting Standards Board (AcSB) has extended the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities by an additional year to January 1, 2015.

Requests:

a) Please confirm that the unamortized actuarial loss referred to in the response to BdStaff # 49 s related to employee benefits (P&OEB).
b) Please confirm that London Hydro is adopting IFRS on January 1, 2014 or January 1, 2015 per AcSB.
c) Please confirm that London Hydro is not making a one- time adjustment of $1,844,800 in this application, given that LONDON HYDRO is adopting IFRS in 2014 or in 2015.
d) Please confirm that the one-time adjustment of $1,844,800 will be changed when London Hydro adopts IFRS in 2014 or in 2015. If so, please provide an estimate of the adjustment amount when LONDON HYDRO will transition to IFRS, as well as the actuarial valuation.
e) Why is London Hydro requesting for a deferral account for P&OPEB when it has chosen to defer IFRS implementation to the new mandated transition date of January 1, 2014 or January 1, 2015?

Exhibit 9 – Board Staff – 70 s

Account 1592, sub account HST/OVAT/ITC

References:

- Accounting Procedures Handbook ("APH") Q & A, December 2010
- Exh 9 - BdStaff # 60
- Exh 9 - BdStaff # 54(a) & (b), Table 9-3
- Exhibit 9 –Table 4
- Application: Excel spreadsheet 'Appendix 2-T'

The December 2010 Q & A #5 states as follows:

Q.5

"The 2010 Decisions and Orders provided the reasons the Board concluded that fifty percent (50%) of the confirmed balances recorded in "Subaccount HST / OVAT Input Tax Credits (ITCs)" shall be returnable to the ratepayers. The reasons include the following: "The Board's view is whether a distributor's cost reductions arising from the implementation of the HST should be returned to the ratepayers. In that regard, the Board notes that to do so would be consistent with what the Board has done with tax changes in second and third generation IRMs. In second generation IRM, the Board treated 100 % of the tax changes as a Z factor. In the third generation IRM, the Board determined that tax changes would be shared equally between ratepayers and the shareholder. The 50% was considered appropriate as the changes in input prices will flow through the GDP-IPI over time to some degree. The same rationale applies in the case of the HST.

Can a distributor record only the 50 percent portion of the HST savings attributable to ratepayers in the sub-account?"

A.5
"No. The Board would first want to review the quantum of savings associated with the ITCs recorded in the sub-account to confirm, among other things, the reasonableness of the amount and consider any adjustments, as appropriate."

Appendix 2-T shows the amount $185,548 plus carrying charges requested for disposition for account 1592, sub account HST/OVAT/ITC. Board staff notes that the principal balance shown in Table 9-3 of $185,548 is the same balance as is shown in Appendix 2-T. The APH guideline requires that HST savings attributable to ratepayers in the 1592 sub-account HST / OVAT Input Tax Credits (ITCs) be recorded at 100% and not 50%. The 50% of the HST savings attributable to ratepayers in the 1592 sub-account HST / OVAT Input Tax Credits (ITCs) is the amount returnable to the ratepayers.

a) What is the balance recorded in London Hydro's books as of December 31, 2011 for Account 1592, sub account HST/OVAT/ITC? Please confirm if the amount in part 1 represents 100% of the total HST savings in the sub-account. If not, what is the amount representing 100% .
b) Please confirm if the balance of $185,548 in Appendix 2-T represents 100% and the balance in Table 9-3 for Account 1592, sub account HST/OVAT/ITC represents 50% of the HST savings attributable to ratepayers in the sub-account? If not, what should be the principal total representing the 50% in Table 9-3?
c) Please make any adjustments that are necessary to ensure that Appendix 2-T reflects the 100% total HST/ OVAT/ITCs and thatTable 9-3 reflects the 50% balance returnable to the ratepayers.

Exhibit 10 – Board Staff – 71 s

Reference: Exh 10 - BdStaff #58(b)

London Hydro stated in the referenced response:

"The Company has chosen to defer IFRS implementation to the new mandated transition date of January 1, 2014."

Please confirm that for its 2013 COS rate application London Hydro is still on a MIFRS basis.

BoardS taff – 72 s

Consolidation of Corrections and/or Modifications in the Revenue Requirement Work Form (“RRWF”)

References:

- Exh 1 – BdStaff # 2;
- Exh 1 – LPMA # 1(e);
- Exh 4 – SEC # 30

London Hydro has provided updates to the RRWF in its responses to Board Staff # 2 and LPMA # 1(e). It appears that an update is required from London Hydro’s response to SEC # 30 with respect to Miscellaneous Revenue. The Board has recently sent a letter to distributors, dated February 14, 2013, with updated cost of capital parameters to be used in rates such as those in this application.

Request:

> Upon completion of all interrogatories, please provide an update of the RRWF, modifying the middle column with the updated inputs identified above and such additional updates as may be required by corrections and/or modifications accepted by London Hydro.