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**BY EMAIL**

March 14, 2013

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
P.O. Box 2319  
2300 Yonge Street, Suite 2700  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Remote Communities Inc.  
Application for Distribution Rates  
Board File: EB-2012-0137**

Pursuant to Procedural Order No. 1, please find enclosed Board Staff's Interrogatories to Hydro One Remote Communities Inc.

Yours truly,

*Original signed by*

Neil Mather  
Project Advisor

cc:

Attachment

**Board Staff Interrogatories**  
**Hydro One Remote Communities Inc.**  
**EB-2012-0137**  
**March 14, 2013**

Interrogatories are grouped by Exhibit in the Application. Additional Attachments were filed by Remotes. In the following interrogatories, Board Staff has grouped the Attachments with Exhibits as follows:

Exhibit C OM&A	Attachments 6 & 7
Exhibit D Rate Base	Attachments 3 & 4
Exhibit E Revenue Requirement	Attachment 2
Exhibit G Cost Allocation & Rate Design	Attachments 5, 8, 8A, 9A, 9B

A – Staff – 1

**Implications of Extending Service to Grid-Connected Communities**

References:

- Exhibit A / 2 / 1
- Exhibit A / 3 / 1 / p. 1

In item # 8 in Exhibit A / 2 / 1, Remotes states that it had identified the cost of extending the geographically remote grid-connected communities of Cat Lake and Pikangikum in two previous submissions to the Board. In A 3 / 1 at line 16, Remotes indicates that there are proposed grid connections for many communities.

Questions:

- a) Were the costs of extending service to Cat Lake and Pikangikum quantified in the previous submissions, and if so did the Board indicate in either of those proceedings that it would expect to receive a formal application to approve the costs and rate implications of extending Remotes' service area ? If so please provide the reference(s).
- b) Does Remotes have an estimate or a working assumption of how many communities may be desirous and/or eligible to be served from the Hydro One

grid in the foreseeable future on the same basis as proposed for Cat Lake and Pikangikum?

- c) Is the revenue requirement in this application affected by preparations to extend service to any geographically remote communities other than Cat Lake and Pikangikum,? If so, what is the cost in 2013 of Remotes' preparation for this eventuality?

A – Staff – 2

References:

- Exhibit A / 3 / 1 / p. 1
- Exhibit G1 / 1 / 2 / p. 4

2008

- a) Please provide for each of the two communities Cat Lake and Pikangikum the following:
- A single-line diagram of the transmission and distribution facilities that deliver power to the community, depicting for each : (i) the voltage level in kV, conductor size(s) used; (ii) distance in kilometres for each portion.
  - The metering point on the single-line diagram where purchase of electricity by Remotes is recorded (Energy from the IESO and Transmission or Sub-Transmission Services from HONI).
- b) For Cat Lake and for Pikangikum, using the information provided in part a), please provide an estimate of the actual electrical losses from the metering point to the community. This estimate is expected to be based on a computer program simulation of the transmission and distribution lines conductor sizes, with assumed power flows to represent a typical year when the transition to grid connection is complete. Please list all relevant assumptions influencing the estimate.
- c) Please explain why Remotes has assumed a loss factor of 1.5% in Table 4 in Exhibit G1, rather a site-specific loss factor such as calculated in part b), or alternatively the Supply Facility Loss Factor used by Hydro One Distribution for embedded distributors, which is 3.4%.
- d) Please indicate who will own the various portions of the transmission, sub-transmission and distribution lines that connect each of the two communities to the nearest Hydro One transformer station, i.e. Hydro One Transmission,

Hydro One Distribution, Remotes, local ownership, other. If owned by Remotes, is the cost included in the rate base in this application?

A – Staff – 3

Reference: Exhibit A / 3 / 2/ pp. 2 -3

Remotes has indicated that the inclusion of Cat Lake and Pikangikum has added approximately \$3,083,000 to Remotes revenue requirement for 2013.

Questions/Requests:

- a) Please provide a breakdown of the additional revenue requirement of \$3,083,000 to the various components, i.e OM&A, distribution assets, facilities,.etc.
- b) Has there been any acquisition of existing transmission or distribution assets by Remotes, or will there be any acquisition when service agreements are signed to service the two communities? If so is the value of these assets included in the rate base in this application?

A – Staff – 4

**OM&A: Pensions and OPEB**

Reference: Exhibit A / 11 / 1 / Attachment 3 / p. 16

Remotes' 2011 audited financial statements state:

"Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton Inc. The Hydro One Pension Plan does not segregate assets in a separate account for individual subsidiaries, nor is the cost of the benefit plans allocated to, or funded separately by, entities within the consolidated group. Accordingly, for purposes of these financial statements, the pension plan is accounted for as a defined contribution plan and no deferred pension asset or liability is recorded."

Questions/Requests:

- a) Please state the 2013 pension cost Remotes is proposing to recover in rates, separating the amount in OM&A and capitalized in rate base.
- b) Please explain the basis chosen by Remotes to recover pension costs in rates (e.g. defined benefit accrual basis, defined benefit cash basis, or defined

contribution basis). Please provide any documentation or memorandum that supports the choice.

- c) Please provide an estimate of what Remotes 2013 pension cost would be using each of the defined benefit accrual basis and defined benefit cash basis, including an explanation of the assumptions used in the calculations.
- d) Please detail any changes that were made to both Remotes' pension accounting for financial purposes and regulatory purposes with the move to USGAAP from CGAAP.
- e) Please provide the latest actuarial valuation for Remotes, and state the basis under which it was prepared.
- f) Does Remote's evidence reflect the latest actuarial valuation? If this is not the case, please explain.
- g) Please provide impact on the proposed Remotes annual pension cost and annual OPEB cost in 2013 of a:
  - i. 1% shift in the yield curve
  - ii. 20% return asset shock
- h) Has Mercer or another actuary prepared an Actuarial Valuation for Remotes based on the defined benefit accrual basis of accounting for pension expense? If so, please provide the most recent valuation.
- i) Is Remotes proposing to recover 2013 pension and OPEB costs in rates on a different basis than what was approved in 2009 rates? Please explain any differences and on what basis the 2009 pension and OPEB costs were recovered in rates.
- j) Please provide the December 31, 2012 Remotes audited financial statements. If the final version is not available, please provide a draft.

A – Staff – 5

Reference: Exhibit A / 11 / 1 / Attachments 2 & 3

- a) Please complete the blank cells and references in Table 1 and Table 2 on the following two pages

**Table 1**  
**Annual Pension Cost (thousands)**

	Hydro One Remotes	Reference
<b>Approved 2009 Pension Costs in Rates</b>		
OM&A		
Capital		
Total		
Total		
<b>Actual Audited 2009 Pension Costs</b>		
OM&A		
Capital		
Total		
<b>Actual Audited 2010 Pension Costs</b>		
OM&A		
Capital		
Total		
<b>Actual Audited 2011 Pension Costs</b>		
OM&A		
Capital		
Total		
<b>Actual Audited (or unaudited if not available) 2012 Pension Costs</b>		
OM&A		
Capital		
Total		
<b>Proposed 2013 Pension Costs in Rates</b>		
OM&A		
Capital		
Total		

**Table 2 Annual OPEB cost (thousands)**

	<b>Hydro One Remotes</b>	<b>Reference</b>
<b>Approved 2009 OPEB Costs in Rates</b>		
OM&A		
Capital		
Total		
<b>Actual Audited 2009 OPEB Costs</b>		
OM&A	460	Exhibit A-11-1 Attachment 2
Capital	190	Exhibit A-11-1 Attachment 2
Total	650	
<b>Actual Audited 2010 OPEB Costs</b>		
OM&A	512	Exhibit A-11-1 Attachment 3
Capital	116	Exhibit A-11-1 Attachment 3
Total	628	
<b>Actual Audited 2011 OPEB Costs</b>		
OM&A	551	Exhibit A-11-1 Attachment 3
Capital	271	Exhibit A-11-1 Attachment 3
Total	822	
<b>Actual Audited (or unaudited if not available) 2012 OPEB Costs</b>		
OM&A		
Capital		
Total		
<b>Proposed 2013 OPEB Costs in Rates</b>		
OM&A		
Capital		
Total		

- b) In the cells where Board staff has entered data, please confirm that the amounts and references reported in Table 1 and Table 2 are correct. If they are not correct, please provide the correct amounts and references in the table.
- c) Please provide explanations for the increases or decreases in each of:
- i. Pension OM&A, Pension Capital, and Pension Total from 2009 through 2013
  - ii. OPEB OM&A, OPEB Capital, and OPEB Total from 2009 through 2013.
- d) Please explain if a larger proportion is capitalized in 2013 compared to 2009, for each of pension and OPEB. Please provide reasons.
- e) Please provide the basis of capitalizing pension and OPEB versus expensing pension and OPEB. Please include Remotes' capitalization policy for pension and OPEB.

A – Staff – 6

**General - Impact of Aboriginal Affairs and Northern Development Canada (“AANDC”) Funding Constraints**

References:

- Exhibit A / 4 / 1 / p. 4
- Exhibit C1 / 2 / 2 / p. 2
- Exhibit F1 / 1 / 1 / Appendix A - D

Remotes has stated in Exhibit A / 4 / 1 / p. 4 / lines 4 - 12:

“ In 2011 AANDC informed Remotes that no funding for generation upgrades was included in its 2012-2016 capital plan due to funding constraints. In 2012, AANDC informed Remotes that the funding constraints were continuing and generation capital would not be included in the 2013-2017 capital plan. Upgrades are currently required in three communities and are expected to be needed in seven communities over the next five years. As a result, Remotes will not be able to connect new customers in communities where generation has reached its limits. As a result of the delays to planned upgrades, Remotes' capital and maintenance work programs must increase in order to meet safety, environmental and reliability standards.”

In Exhibit C1, Remotes is requesting \$10.6 million annually for Generation O&M in the test year, compared to \$9.3 million approved in the previous cost-of-service proceeding.



In the period since then, Remotes spent more than the approved amount for Generation (not including Fuel) in three of the four years, according to the evidence in Exhibit F1

Questions / Requests:

- a) How did AANDC inform Remotes or Hydro One that funding for generation upgrades would not be available in 2011 and in 2012? Please provide a copy of correspondence or a description of the communication from AANDC.
- b) Does Remotes expect that the lack of funding is temporary, or does it expect that there will be reduced or no funding for an indefinite period?
- c) Is the additional expenditure noted in Exhibit F1 during 2009 – 2012 for Generation, in excess of the amount approved in Remotes' cost-of-service application, a result of failing to upgrade generation assets according to a previous agreement?
- d) Please provide the names of the communities are the three that currently are in need of an upgrade, and also the seven additional communities where upgrade will be needed in the next five years.
- e) Has Remotes received any requests to connect new load in the three noted communities which it has had to refuse?
- f) If the response to part b) is that the lack of funding is not temporary, what is Remotes' strategy concerning upgrades of generation assets, other than requesting additional funding for maintenance and repairs?

B – Staff – 7

**Cost of Capital**

References:

- Exhibit E / 1 / 1 / item 2.5
- Exhibit F1 / 1 / 1 / Appendixes A - D

Remotes' request for recovery of the cost of long-term debt is the same as in its previous application [EB-2008-0232], at 5.60%. However, Remotes' interest costs during 2009-2012 have ranged from \$1.095 million in 2012 to \$1.134 million in 2011), all years well below the amount approved for 2009, which was \$1.72 million, and considerably below the amount requested for 2013, which is \$2.242 million.

Question:

Why is Remotes' not requesting a lower cost in 2013, similar to its annual costs in recent years?

C – Staff – 8

**Generation OM&A**

Reference: Exhibit C1 / 2 / 2/ p. 1

Requests:

- a) Please provide the name of two communities that each has a mini-hydro-electric generating facility and also provide for each installation, the year it was installed, the capacity in kW and the production in kWh achieved in each of the years 2009 – 2011, 2012 to date, and forecast for 2012 and 2013.
- b) Please provide the names of the four communities that each has a windmill project and also provide for each installation, the year it was installed, the capacity in kW and the production in kWh achieved in each of the years 2009 – 2011, 2012 to date, and forecast for 2012 and 2013.

C– Staff – 9

**Generation OM&A - Marten Falls**

References:

- Exhibit C1 / 2 / 2 / p. 1 / lines 27 -29
- Attachment 4 'Capital Projects'

At the reference it is indicated that a staff house is also planned in Marten Falls, to be built by the First Nation and maintained by Remotes.

Questions:

- a) Who would pay for construction, and who would own the staff house?

- b) The details provided in Attachment 4 for the years 2012 and 2013, there is no listing for a staff house in Marten Falls. What year is the staff house expected to be completed?

C – Staff – 10

**Generation OM&A - Automation Benefits**

Reference: Exhibit C1 / 2 / 2 / p. 4

It is indicated at the reference that changes associated with automation resulted in 10% improvement in fuel efficiency.

Question/Request:

Please provide evidence to demonstrate achievement of the noted 10% improvement in fuel efficiency, including:

- The study period;
- The names of the communities where the comparison of the Before Automation and After Automation of fuel consumption and generated kilowatt-hours is/are presented.
- The fuel consumption and generated kilowatt hours for a period of time prior to introduction of automation ("Before Automation") and for the fuel consumption and generated kilowatt hours for a period of time after introduction of automation ("After Automation");
- Please explain whether the efficiency gains were consistent across the systems before and after they were automated, or alternatively whether there was large variation amongst the project results.

C – Staff – 11

**Generation OM&A - Fuel Cost Management**

References:

- Exhibit C1 / 2 / 2 / p. 8 / Table 4
- Exhibit C1 / 2 / 2 / p.9 / lines 20-26
- Exhibit C1 / 2 / 2 / p. 10 / Table 5

At Table 4 of the first reference Remotes provides the forecast for 2013 Fuel Purchases

is \$24,067,000, which is 5.26% higher than the 2012 level of \$22,864,000.

The second reference provides the percentage of fuel delivery modes assumed, with the resulting costs for 2013 shown in Table 5 of the third reference.

Request:

Please provide the assumptions and a detailed calculation showing how the forecast for the 2013 level of \$24,067,000 is determined.

C – Staff – 12

**Generation OM&A - Fuel Cost Management**

References:

- Exhibit C1 / 2 / 2 / p. 11 / lines 8 -14
- Exhibit H / 1 / 18 / Remotes' response to Board staff IRR #18 in the previous cost-of-service proceeding [EB-2008-0232]

At the first reference, it is stated that:

“In order to mitigate the impact of rising fuel rates Remotes has done the following things:

- Negotiated long-term fuel delivery contracts with multiple suppliers
- Maximized winter road deliveries (cheaper delivery methods) where possible through supplier relationships and improved tank storage
- Negotiated an increased number of fuel contracts directly with the First Nation communities with fuel storage on site where Remotes does not have adequate fuel storage facilities to take advantage of winter road delivery pricing.

At the second reference, Remotes gave a description of the comprehensive tendering process initiated in 2007. [A 2-page excerpt is attached as Appendix A to this document for convenience]

Questions / Requests:

- a) Please provide an outline of the negotiated long term fuel delivery contracts and identify the multiple suppliers referred to in the first reference, and how these contracts are contributing to lowering the fuel delivery costs.

- b) Please identify the fuel contracts negotiated directly with the First Nation communities with fuel storage on site where Remotes does not have adequate fuel storage facilities as described in the first reference.
- c) Does Remotes still use an RFP process as described in the second reference? If so please provide an update in regard to the 2007 RFP detailing the process and the participants, and description of the terms of the contracts that provide flexibility in meeting unpredictable weather conditions affecting such conditions as less reliance on winter road access in a given year.

C – Staff – 13

**Distribution OM&A and Rate Base**

Reference: Exhibit C1 / 2 / 3 / p. 3 /

Remotes states at lines 8 – 12:

“Increases between 2012 and 2013 reflect increased trouble response (\$180 thousand), higher planned maintenance (\$111 thousand) and higher forestry services (1,200 thousand) mainly associated with clearing the transmission line right-of-way to Cat Lake and costs associated with service to Pikangikum (\$380 thousand).”

Questions:

- a) Please indicate whether or not the transmission/distribution lines connecting Cat Lake to HONI’s transmission are presently in-service? If yes please indicate whether the \$1,200,000 to be spent in 2013 on clearing the right of way is an average annual amount expected in future years or is it an amount reflecting special circumstances in 2013 due to the acquisition.
- b) Please indicate whether or not the transmission/distribution lines connecting Pikangikum to HONI’s transmission are presently in-service? Please also provide a breakdown of the services and related costs of \$380,000 required to serve Pikangikum.

C – Staff – 14

### **Community Relations - OM&A**

#### References:

- Exhibit C1 / 2 / 5
- Exhibit H/.1./ 22./ Remotes' Board staff IRR #22 in proceeding EB-2008-0232 [a 2-page excerpt is attached as Appendix B to this interrogatory for convenience]

At the reference, it is indicated that:

- Remotes' program focuses on conservation and energy efficiency awareness and on deploying energy efficient appliances within these communities and that it includes three communities a year in this program and expects that eventually each community will have participated in the program.
- In 2011, Remotes initiated an ongoing partnership with the Northern stores to offer rebates on ENERGY STAR appliances, promising to lead to long term energy savings and help make energy efficient appliances available throughout Remotes' service territory and extends energy conservation activities to communities that are not part of the intensive pilot program.
- Remotes indicated that in 2011, Remotes' customer conservation programs resulted in 245,600 kWh of in-year savings and life cycle savings of 1,891,878 kWh.

#### Questions/Requests:

- a) Please indicate which communities are now participating in deploying energy efficient appliances, and also provide the longer-term plan showing which communities will be covered in each year under that initiative.
- b) Please provide elements of Remotes' energy conservation programs for the most recent completed year, e.g., 2011, in tabular form, similar to the table provided in the second reference in proceeding EB-2008-0232.
- c) Please clarify whether the noted savings of 245,600 kWh achieved in 2011 is attributable to all conservation programs, or only to the ENERGY STAR initiative.
- d) If the noted 2011 savings are attributable to all of Remotes' customer conservation programs, please provide an explanation of the much higher amount provided in the second reference for the year 2007, which was an estimate of 1,069,848 kWh.

## C – Staff – 15

## Reference:

- Exhibit C1 / 2 / 5 / p. 2
- Exhibit A / 16 / 1 / Appendix B

Does Remotes expect that the OPA will develop its programs for delivery during the test year, and if so, does this affect the amount that Remotes would require in its revenue requirement request?

## C – Staff – 16

**Shared Services and Other Administrative Costs**

Reference: Exhibit C1 / 2 / 6 / p.3 Table 2 & p. 4

At the reference, Table 2 includes \$140,000 for each of the two years 2012 and 2013 described as “Regulatory and Project Expenses. On page 4 it is stated in part that:

“Regulatory and Project Expenses include costs directly associated with Ontario Energy Board hearings on Remotes’ matters and also include, starting in 2011, the Ontario Energy Board’s allocation of its expenses to Remotes (approximately \$80 thousand each year).”

Question:

Please explain the breakdown of the \$140,000 expenses for both 2012 and 2013, given that only about \$80,000 in each of the two years are costs allocated directly by the Ontario Energy Board to Remotes, leaving \$60,000 in each of the two years for Regulatory and Project Expenses.

## C – Staff – 17

Reference: Exhibit C1 / 2 / 6 / p. 3

Please confirm that the LEAP component of OM&A has been calculated on the basis of Remotes’ revenue requirement, including generation cost. What would be the amount of LEAP if it were calculated on the basis of distribution cost only?

C – Staff – 18

**Cost of remediation of contaminated land**

References:

- Exh A / 7 / 2
- Exh C1 / 4 / 1

Questions / requests:

- a) Please describe what type of contamination comprises the environmental regulatory asset. Over what period did the contamination occur, and/or is expected to occur?
- b) Does the “regulatory asset” consist of remediation activities that have already taken place, or the present value of future expenditures, or both?
- c) Please provide any studies or decisions that support the required remediation and the extent of the extent of Remotes’ culpability (or any of its affiliates) for the contamination whose effects are being remediated?
- d) Does the amount of the regulatory asset include the cost of remediation in Pikangikum, mentioned in the letter the Minister of Energy to Chief Strang, date-stamped March 23, 2012 ... (Exhibit A / 7 / 2)

C – Staff – 19

Reference: Exhibit C2 / 5/ 1 / Attachment A

Remotes is applying for a tax provision of (\$187,000).

Please explain why Remotes is forecasting a negative tax provision to be included in rates, considering that Remotes has a zero return on equity. Please include the regulatory basis that Remotes is relying on when applying for a negative tax provision that reduces the revenue requirement that will be applicable until Remotes’ next cost-of-service application.



Exhibit D – Staff – 20

**Generation Capital Programs - 2009**

Reference: Attachment 4 –Capital Projects, 2009

The table for 2009 Capital Projects shows:

- investment of \$125,000 for Lighting Improvement at Armstrong; and
- Investments of \$367,000 for Lighting Improvements for 11 Locations which averages out to be \$33,364 per location.

Question:

Please explain the reason for the higher than average cost (\$33,364) of implementing the Lighting Improvement at Armstrong reported (\$125,000)?

Exhibit D - Staff – 21

**Generation Capital Programs – 2011 & 2012**

Reference:

- Attachment 4 –Capital Projects, 2011 & 2012

The following amounts are shown:

- for 2011 there is a project under “Facilities”, called “Beaverhall Mezzanine” with capital cost of \$227,000
- for 2012 there is a project under “Facilities”, called “Civil Shop Beaverhall Place” with capital cost of \$176,000

Questions:

- a) Where is the Beaverhall facility located, and what is its purpose?
- b) Does the facility belong to Remotes, or does Remotes make these expenditures under an arrangement with the owner such as a leasehold improvement?

## D – Staff – 22

**Smart Meters**

## Reference:

- Decision / EB-2008-0232 / pp.6-7
- Exhibit D1 / 2 / 1

In its previous Decision, the Board approved Remotes' proposed treatment of the cost of acquiring and installing Smart Meters as a normal component of its rate base, rather than through the deferral accounts prescribed for most other distributors at the time.

- a) Please describe the extent to which Remotes installed Smart Meters in 2009 and 2010, and describe the functionality of the meters in comparison with Smart Meters installed by other distributors such as Hydro One Distribution.
- b) Please indicate whether the cost of changing meters in 2011 (Exh D1 / 2 / 1 / p. 10, line 7) involved recently-installed Smart Meters, and if so please explain why this cost would be required of nearly-new meters.

## E – Staff – 23

## References:

Exhibit D1 / 2 / 1 / p. 11

Exhibit E1 / 1 / 1 / p. 3

Amongst the factors in Remotes' request for an increase in its revenue requirement are three factors related to extending the service area to include Cat Lake and Pikangikum:

- i. Electricity purchases: \$1,368,000
- ii. Clearing Transmission right-of-way to Cat Lake: \$1,200,000
- iii. Distribution Services in Pikangikum: \$380,000

Questions:

- a) Is the second item a one-off expenditure, as opposed to an annual expenditure? If so, would it not be more appropriate to include in the rate base, or alternatively at a fraction such as 25% so that the cost would be recovered over a period of years with a lesser effect on Remotes' annual revenue requirement?

- b) Does the third item include the amount of \$60 thousand mentioned in the reference in Exh D1?
- c ) Is this list of three factors comprehensive? If not, please provide a more detailed and comprehensive listing of incremental costs associated with extending the service area. For example, are there costs of distribution service in Cat Lake analogous to those in Pikangikum? Are there costs of operating the transmission system in addition to the clearing expenditure?

F – Staff – 24

Reference: Exhibit F1 / 1 / 1

Remotes has listed three Regulatory Accounts, and does not include Account 1562 'Deferred Payments In Lieu of Taxes' Board staff is aware that Hydro One has submitted argument in EB-2012-0136, dated January 31 and February 25 2013, that the requirement for Account 1562 is not applicable.

Question:

Does Remotes consider that the same arguments apply to it as Hydro One has submitted in EB-2012-0136? Please explain.

F – Staff – 25

**IFRS Transition Costs**

Reference: Exhibit F1 / 1 / 1 / p. 1

Remotes has recorded a \$ zero balance in the Impact for USGAAP account as at December 31, 2012.

Questions / Requests:

- a) Is Remotes proposing to continue this account in this application? Please explain.
- b) Has Remotes identified any significant differences between CGAAP and USGAAP at this time? Please explain.
- c) Please explain if any of the differences noted in the answer to part a) of this interrogatory would be incorporated into the Impact for USGAAP regulatory account or the proposed revenue requirements for 2013.

- d) If there are no differences identified, please state why Remotes requires the continuance of the Impact for USGAAP regulatory account.
- e) Remotes' adoption of USGAAP is a one-time occurrence. Please explain why Remotes would need continuance of the Impact for Changes in USGAAP variance account, when USGAAP was adopted by Remotes for financial reporting purposes on January 1, 2012.

F – Staff – 26

Reference: Exhibit F1/1/1/ Page 1

- a) Please disclose the estimated USGAAP incremental transition costs embedded in the proposed 2013 test year.
- b) Please explain if Remotes is seeking to recover USGAAP incremental transition costs in the 2013 test year when the adoption of USGAAP occurred in 2012.

F – Staff – 27

Reference: Exhibit F1/Tab1/1/Page 1

Remotes has recorded a \$72,000 balance in the IFRS Transition Costs account as at December 31, 2012. Remotes is proposing to recover the balance in this account from customers in 2013 rates.

Questions:

- a) Please list reasons why the Board should approve Remotes' request to recover the balance in the IFRS Transition Costs account, when Remotes has transitioned to USGAAP and not IFRS.
- b) Is Remotes proposing to continue this account in this application? Please explain.

F – Staff – 28

**Deferral and Variance Accounts**

Reference: Exhibit F1/1/1

Remotes is required to provide explanations for the nature and amounts of any adjustments to deferral and variance account balances that were previously approved by the Board on a final basis (i.e. balances that were adjusted subsequent to the balance sheet date that were cleared in the most recent rates proceeding)

Requests:

- a) Please provide a statement as to whether Remotes has made any adjustments that were previously approved
- b) Please provide any supporting documentation of the adjustments.

F – Staff – 29

## References:

- Exhibit A / 11 / 1 / Attachment 3 / pp. 15, 17 & 18
- Exhibit C1 / 4 / 1 / Page 3
- Exhibit F1 / 1 / 1

As per Exhibit A / 11 / 1, Attachment 3, page 15, Hydro One Remotes 2011 audited financial statements includes the following as note # 7:

**“REGULATORY ASSET AND LIABILITIES**

The Company records a liability (Note 11) for the estimated future expenditures required to remediate past environmental contamination. Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2011, the carrying value of the regulatory asset was increased by \$7,043 thousand to reflect a revaluation adjustment in the Company's environmental liabilities.

This environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of the Company's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by \$7,043 thousand (2010 - higher by \$356 thousand). In addition, amortization expense in 2011 would have been lower by \$1,017 thousand (2010 - \$1,268 thousand) and financing charges would have been higher by \$261 thousand (2010 - \$495 thousand).”

As per Exhibit A / 11 / 1, Attachment 3 / page 17 & 18, Hydro One Remotes 2011 audited financial statements includes as note # 11:

**“ ENVIRONMENTAL LIABILITIES**

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2011 and in total thereafter are as follows: 2012 - \$3,402 thousand; 2013 - \$2,603 thousand; 2014 - \$1,401 thousand; 2015 - \$1,468 thousand; 2016 - \$1,027 thousand; and thereafter - \$5,519.

Consistent with its accounting policy for environmental costs, the Company records a liability for the estimated future expenditures associated with the Company's land assessment and remediation (LAR) program. The Company's LAR liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations. The revaluation adjustments in 2010 and 2011 were the result of net changes in the estimated timing and amount of future expenditures.

There are uncertainties in estimating future environmental expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.57% to 6.25%, depending on the appropriate rate for the period when the obligations were first recorded.”

As per Exhibit F1/Tab1/1, Remotes has incurred several debits to the RRRP variance account for Environmental Asset Amortization, as follows:

2009	\$ 983,000
2010	\$1,268,000
2011	\$1,017,000
2012	\$3,474,000

Questions / Requests:

- a) Please explain why the carrying value of the regulatory asset was increased by approximately \$7 million in 2011 to reflect a revaluation adjustment in Remotes' environmental liabilities. Please outline the circumstances and the assumptions used, including the choice of discount rates, timing and amount of future expenditures, etc.
- b) Are there any changes to the accounting for the environmental regulatory asset or environmental liability as a result of the adoption of USGAAP?
  - i. Please explain and indicate the regulatory implications. For example, please describe if the environmental regulatory asset is within the scope of ASC 410 Asset Retirement Obligations.
  - ii. Please provide any analysis performed by Remotes and an external third party (e.g. external auditor opinion) regarding the impact of the adoption of USGAAP on the accounting of the environmental regulatory asset and environmental liability. Please explain both financial and regulatory accounting implications.
- c) Please provide a schedule of the expected environmental asset amortization expense and its calculation from 2013 through 2017, in addition to the actual amounts incurred from 2009 to 2012, as shown in Exhibit F1/1/1.
  - i. Please explain why the amount of \$2.713 million included in the test year revenue requirement for environmental asset amortization, as per Exhibit C1/4/1/Page 3, is an appropriate amount for both the test year and IRM periods, when the amount included in 2009 rates was approximately \$1 million.
  - ii. Please explain the variation from year to year and the large increase 2012 in the audited actual amounts included in the RRRP Variance account, as shown in Exhibit F1/1/1.

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**RRRP Variance Account - Taxes**

## References:

- Exhibit F1 / 1 / 1
- Decision, EB-2008-0232
- Exhibit C2 / 5 / 1 / Attachment 3

As per Exhibit F1/Tab1/1, Remotes has incurred several debits and credits to the RRRP variance account for Income and Capital Tax, as follows:

2009:	\$2,944,000
2010:	\$1,353,000
2011:	(\$158,000)
2012:	(\$1,372,000)

The Decision in Remotes previous rebasing application, EB-2008-0232, states at p. 11:

“..the Board does not consider it appropriate to make provision for a PILs liability which has no reasonable prospect of being realized.”

Questions:

- Please provide the supporting calculations and basis for the tax amounts included in the RRRP variance account.
- Please explain why different amounts for the years 2009, 2010, and 2011 are shown on Exhibit C2/Tab/1/Attachment 3 (2009 - \$1,826,000, 2010 - \$731,000, 2011 (\$164,000)). Please state which are the correct numbers to include in the RRRP variance account and provide reasons to support these numbers.
- Please explain why the amount of taxes shown in Exhibit F1/1/1 shown in the “Approved” column is \$152,000 when the Board approved a zero amount of taxes or PILs liability in rates in EB-2008-0232.

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**Proposed Rate Increase in Existing Communities**

Reference: Exhibit G1 / 1 / 1 / pp. 1-2

Please provide the calculation that Remotes has used as the basis for the proposed distribution rate increase of 3.45%, in an Excel spreadsheet format if



available. Please sort the distributors from the largest 2011 distribution rate increase to the lowest, and if available please indicate which 2011 applications were cost-of-service applications and which were IRM applications.

G – Staff – 32

### **Forecast Consumption per Customer**

Reference: Attachment 9A

Remotes has projected annual consumption per year-round residential customer in 2013 at 13,485 kWh, in the existing communities covered in this evidence. The consumption is approximately 925 kWh per year more than the most recent actual data (2011), but slightly lower than the corresponding consumption in 2009.

- a) If 2012 actual consumption data are now available, please provide an update of Attachment 9A.
- b) Please provide an explanation for the actual consumption observed in 2011, as that year may be an anomaly in the time-series.
- c) Even disregarding the results in 2011, it appears that Remotes is projecting a reversal in the trend toward lower consumption per year-round residential customer. Please confirm that this is Remotes' assumption for this customer class, and provide any information that Remotes is relying on in coming to this assumption.

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### **Revenue Forecast**

References:

- Attachment 8
- Attachment 9A
- Exhibit G2 / 1 / 1

Attachment 8 'Revenue Reconciliation' provides a calculation of revenue from the customers in the existing communities, for an unspecified year. However, the number of customers and the energy consumption do not match those in Attachment 9A, and the rates are not those requested in Exhibit G2.

Requests:

- a) Please explain why the inputs to Attachment 8 do not match the 2013 data in the other evidence.
- b) If the inputs to Attachment 8 are preliminary forecasts that have been superseded, please provide an update.

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**Request for Annual RRRP**References:

- Exhibit: E1 / 1 / 1 / p. 3
- Exhibit: G1 / 1 / 3 / p. 8

Remotes has identified incremental costs in Exhibit E1, with three items totaling approximately \$3.9 million. It has provided a forecast of revenue from the customers in the Grid-connected communities of \$1.9 million.

Requests:

- a) Please confirm that these two facts taken together imply that Remotes is proposing to increase the revenue required from the RRRP by approximately \$2 million annually, beyond what would be requested for the existing service area.
- b) Please provide documentation of any regulation or authorization that Remotes has received that the Board may rely on in considering Remotes' request for annual RRRP, including this component.

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**Bill Impacts for Consumers in Cat Lake and Pikangikum**

Reference: Exhibit G1 / 1 / 3

- a) Please provide a detailed calculation of the forecast revenue that Remotes will receive annually from non-Standard A consumers in Cat Lake and Pikangikum, distinguishing between the Monthly Service Charge component versus the variable component
- b) Please provide a schedule showing the bill impact, in the format of Appendix 2-W in the Board's Filing Requirements, for a representative customer in each non-Standard A class in Cat Lake, and in Pikangikum if different from Cat Lake.

Appendix A

EB-2008-0232

Exhibit H / 1 / 18

Excerpt from Remotes' response to Board staff IRR #18

**Ontario Energy Board (Board Staff) INTERROGATORY #18 List 1**

**Interrogatory**

**OPERATIONS, MAINTENANCE & ADMINISTRATIVE EXPENSES**

**18. Ref: Ex C1 /Tab 2/ Sch 2 / page 8**

Remotes' evidence mentions that it has negotiated long term fuel delivery contracts with: multiple suppliers; directly with First Nations communities; and finally, that it has maximized winter roads deliveries among other measures. Please describe the nature of the contracts and indicate what savings or other benefits are expected from these contracts and the winter roads delivery strategy? In answering the question please discuss the costs of fuel delivery (i.e. transportation) separately from the costs of the commodity itself.

**Response**

Air delivery typically constitutes about 70% of fuel delivered to Remotes' communities, followed by year-round delivery at 13%, winter road delivery at 12% and First Nations (tank farms) at about 5%.

This mix of delivery modes with air delivery as the pre-dominant type reflects the relative lack of year-round road access, a short winter road season and the Remote Communities' load shape (heaviest during the winter months). Air delivery costs are 30 to 60 cents per litre greater than road delivery. The long-term fuel supply contracts are structured to establish delivery costs over a 2-3 year contract term and maximize quantity delivered to air-access communities during the critical winter road delivery season.

In 2007, a comprehensive tender process was used to establish contracts for supply of diesel and bio-diesel fuel and delivery over the winter road, all-season road and by air to a total of 18 Remote Community generating stations; air & winter road delivery for 12 sites; and all-season road delivery for 6 sites. The RFP was posted on Hydro One's website and advertised in the "Globe & Mail" and "Thunder Bay Chronicle Journal". Five proponents responded: Wasaya Airways, Morgan Fuels, Imperial Oil, Central Canada Fuels and Wilderness North Air. Following evaluation of the responses to the RFP, a primary and two secondary fuel suppliers for air delivery were selected along with a separate primary fuel supplier for road delivery and two primary suppliers for winter road delivery. The long term contracts consist of both commodity and delivery components. The commodity fuel costs fluctuate with market prices. The contracts stabilize the delivery component of the diesel fuel cost over the life of the contract with a variable fuel cost component.

1 The selection/utilisation of two suppliers for winter road supply has proven to provide an  
2 increase in winter road volume delivery to the community sites. As noted above, winter  
3 road delivery is preferable due to its lower costs per litre, arrived at through cheaper  
4 transportation, larger loads and less handling. Having secondary air-delivery suppliers in  
5 place served to enhance the competitive supply market in the region and contributed to  
6 capacity development of the new suppliers.

7  
8 In 2008, Remotes as a result was positioned to take advantage of the best winter road  
9 network in recent years and was able to road-deliver fuel to 11 of our 12 air-access  
10 communities. Over 3 million litres of diesel fuel was delivered, a 35% increase over the  
11 previous 5 year average. This additional volume of just over 1 million litres, resulted in  
12 savings of approximately \$450k, based on the lower cost of winter-road delivery and  
13 using the 45 cent mid-point of the range of per-litre savings noted above.

14  
15 The success of winter road deliveries is largely contingent on cold weather, active road  
16 construction and external funding. The construction of a winter road involves packing  
17 snow and ice over various kinds of terrain including water, in an effort to achieve a drive-  
18 able trail. These roads are critical to community development since supplies for  
19 construction projects are brought in during this time. The key is to have enough ice to  
20 support the weight of the vehicle. Normally, the winter road season lasts only  
21 approximately 4-7 weeks for fuel delivery due to the heavy vehicle weight.

22  
23 In addition to the increased winter-road delivery in 2008, local fuel supply contracts for  
24 3.4 million litres of winter road fuel from First Nation tank farms were negotiated,  
25 representing a 25% increase over the previous highest quantity. The delivered price of  
26 winter road fuel, obtained from local tank farms, is approximately 30 cents per litre less  
27 than fuel supplied by air delivery. The estimated savings from the purchase of fuel from  
28 First Nation tank farms exceeded \$1.0 million (3.4 million litres x 30 cents/ litre = \$1  
29 million), compared with air delivery.  
30

Appendix B

EB-2008-0232

Exhibit H / 1 / 18

Excerpt from Remotes' response to Board staff IRR #22

**Ontario Energy Board (Board Staff) INTERROGATORY #22 List 1**

**Interrogatory**

**OPERATIONS, MAINTENANCE & ADMINISTRATIVE EXPENSES**

22. Ref: Ex C1 /Tab 2/ Sch 5 / page 3

The evidence mentions that conservation programs helped customers save over one million kWh of electricity and 300,000 liters of diesel fuel during the last year. Please describe the elements of these programs and what each element contributes in terms of savings, including financial savings to customers. What are the expected savings of these programs for 2009 and have these savings been built into the budget?

**Response**

The table below shows the 2007 savings by program element.

Item	Number of Units	Estimated 2007 kWh Savings per Unit	Estimated 2007 Annual kWh Savings	2007 Estimated Diesel Savings (litres)
27 W CFL Lighting Exchanges	1,023	174	178,002	50,878
15 W CFL Lighting Exchanges	800	139	111,200	31,771
Xmas LED Lighting Exchanges	250	13	3,250	929
Outside light Motion Detectors	279	209	58,311	16,660
Block Heater Timers	140	810	113,400	32,400
Low flow shower heads	968	545	527,560	150,731
Faucet Aerator	400	34	13,600	3,886
Hot Water Pipe Insulation 10"	400	76	30,400	8,686
PowerCost Monitors	175	195	34,125	9,750
Total		2,097.5	1,069,848	305,671

The program elements were targeted at residential consumers, based on the assumption that most consumers use electricity in the first block and pay 7.75 cents per kWh, Remotes estimates that residential consumers saved a total of \$82,913.22 as a result of this program

The 2009 Test Year program and forecast is shown below.

Item	Number of Units	2009 kWh Savings per Unit	2009 Annual kWh Savings	2009 Estimated Diesel Savings (litres)
27 W CFL Lighting Exchanges	150	174	26,100	7,457
Xmas LED Lighting Exchanges	75	13	975	279
Outside light Motion Detectors	75	209	15,675	4,479
Block Heater Timers	75	810	60,750	17,357
Refrigerator Replacement	81	760	61,560	17,589
Hot Water Tank Wrap	1,034	270	279,180	79,766
PowerCost Monitors	40	195	7,800	2,228
Total		2,097.5	452,040	129,154

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Conservation initiatives are factored into the load forecast model through reduced average usages based on lower historical data. Efficiency improvements are realized in the load forecast model through improved operating efficiency ratios, reducing the litres burnt. The reduction in litres burnt is in turn reflected in the budget through reduced diesel fuel costs.