ONTARIO ENERGY BOARD

STAFF SUBMISSION

2013 ELECTRICITY DISTRIBUTION RATES APPLICATION -

Board Staff Submission

Centre Wellington Hydro Ltd.

EB-2012-0113

April 1, 2013

This is Board staff's submission on Centre Wellington Hydro Ltd.'s ("CWH's") cost of service application for rates effective May 1, 2013 (the "Application"). There is an extensive record, comprised of the Application filed on October 17, 2012 and completed on November 16, 2012, as well as two rounds of interrogatories and responses in early 2013. Further, on March 26, 2013, CWH filed updated evidence consisting of an updated Revenue Requirement Work Form, asset continuity schedules, and spreadsheets documenting changes proposed through discovery. The update was to correctly show the reconversion back to CGAAP, with updated capitalization and depreciation rates, from MIFRS. This update is referenced throughout this submission.

The submission follows the order of exhibits in CWH's Application and as documented in the Board's current *Filing Requirements for Transmission and Distribution Applications*, issued June 28, 2012 (the "Filing Requirements"). The order is as follows:

1 Exhibit 1 – Administration;
2. Exhibit 2 – Rate Base and Capital Expenditures;
3. Exhibit 3 – Operating Revenues and Load Forecast;
4. Exhibit 4 – Operating Expenses;
5. Exhibit 5 – Cost of Capital;
6. Exhibit 6 – Revenue Requirement and Sufficiency/Deficiency;
7. Exhibit 7 – Cost Allocation;
8. Exhibit 8 – Rate Design;
9. Exhibit 9 – Deferral and Variance Accounts;
10. Exhibit 10 – Smart Meters; and
11. Other Matters.

Within each section there may be sub-issues on various aspects of CWH's Application and proposals that staff addresses.

Exhibit 1

Administration

Effective Date for Rates

In its Application, CWH requested an effective date for rates of May 1, 2013. In Procedural Order No. 2, issued February 14, 2013, the Board made CWH's current approved rates interim pending a determination on this proceeding.

CWH filed its Application on October 17, 2012. The Application was found to be incomplete on October 30, 2012. CWH filed additional information on November 16, 2012. The Application was subsequently found to be complete and the Board issued the Letter of Direction directing publication of Notice of Application and Written Hearing.

CWH has been timely in responding to two rounds of interrogatories from Board staff and the one intervenor, the Vulnerable Energy Consumers Coalition ("VECC").

Board staff takes no issue with CWH's proposed effective date of May 1, 2013. If a final rate order cannot be issued to allow for new rates effective May 1, 2013, Board staff takes no issue with the recovery of foregone incremental revenues back to the proposed effective date of May 1, 2013.

Exhibit 2

Rate Base and Capital Expenditures

In its original Application, CWH proposed a 2013 test year rate base of $11,984,186 (MIFRS) and $11,017,389 (CGAAP). Through interrogatories, CWH has revised the rate base to $11,706,804 (CGAAP) with the March 26, 2013 updated evidence. Increases in rate base reflect the following:

- General asset replacements for poles, transformers, wires, conduit and other equipment;

- Municipal statistic replacement or refurbishments, with the MS-2 station in Fergus completed in 2012 and the MS-1 station in Fergus scheduled for 2013;
- Addition of smart meters, and related communications (AMI) infrastructure and computer hardware and software into the 2013 rate base as a result of the completion of smart meter deployment, offset partially by the removal from rate base of conventional meters “stranded” through replacement by smart meters; and
- Changes in the working capital allowance, for increased RPP and non-RPP rates, the revised loss factor, updated RTSRs and LV rates and other changes to OM&A. Some of these resulted in additions, while others resulted in reductions, with the Working Capital Allowance going from $2,234,483 in the original application to $2,274,170 in the updated evidence filed on March 26, 2013.

Board staff takes no issue with CWH’s 2013 test year rate base of $11,706,804 (CGAAP), as revised on March 26, 2013.

CWH has documented its capital programs from 2009 actual to the 2013 test year in its Application.[1] Table 2.21 of Exhibit 2/Tab 3/Schedule 1 is informative, showing historical capital additions ranging from $400,000 to $600,000 per annum from 2007 to 2011 (with an outlier of $174,224 in 2008) but increasing to $1,396,366 in 2012 and $1,876,400 for 2013. The increases in 2012 and 2013 are largely influenced by the municipal station capital projects. Board staff takes no issue with CWH’s proposed capital budgets and expenditures subject to the following comments.

CWH has filed its Asset Management Plan (“AMP”), as required in the Filing Requirements, in its Application to support its planned capital expenditures.[2] In addition, CWH filed an Asset Condition Study of its Municipal Stations conducted by an external engineering consulting firm, Costello Associates Inc.[3] While an extensive AMP is corroborative support for a capital plan, Board staff submits it is

[1] Exhibit 2/Tab 3/Schedule 2
[2] Exhibit 2/Tab 3/Schedule 3/Appendix A
[3] Exhibit 2/Appendix D

not sufficient in and of itself. A utility must also consider its resources – time, money, and people – and decide what it can and must do, and with what priorities. Board staff submits that CWH's AMP is generally adequate and supportive of its capital projects and expenditures.

The AMP and the Municipal Station Asset Condition Study support the need for the replacement and rehabilitation primarily of the Municipal Stations. CWH's evidence notes that five out of the six need extensive capital work, and CWH has planned to do major work on all six stations over five years.

The Fergus MS-2 station was re-built in 2012, and was the subject of an Incremental Capital Module ("ICM") application as part of CWH's 2012 IRM application EB-2011-0160. The Board approved the ICM. CWH has stated that the Fergus MS-2 project was completed,[4] and has provided the actual, but unaudited, capital expenditures of $1,185,262.97.[5] CWH explained that the actual amount is below the budgeted amount of $1,199,400 by 1.18%. CWH indicated that the amounts will be audited the week of March 18, 2013, and also stated that the rate base and revenue requirement will be updated to reflect the actuals. Board staff submits CWH should provide the audited amounts in its reply submission. Based on the numbers on the record, Board staff considers the difference between the forecast and actual capital expenditures to be negligible and accepts the inclusion in rate base of the net book value of these assets as reasonable.

CWH has also included proposed capital expenditures for the rehabilitation of the Fergus MS-1 station as part of the 2013 capital expenditures. The proposed capex for this project is $1,145,000.[6] Board staff takes no issue with this proposal as need and prudence have been demonstrated by CWH.

Further, in its Application, CWH states:

[4] Response 2-Staff-6
[5] Exhibit 2/Tab 3/Schedule 1/Table 2.20 and response to 2-Staff-48s
[6] Exhibit 2/Tab 3/Schedule 1/Table 2.20

> Further in CWH's application a listing of anticipated substation projects lays out the forecasted year of completion for four more substations. CWH will be applying for an ICM for 2014 costs to replace Elora MS-1 substation and 2015 for rehabilitation of Fergus MS-3 and Elora MS-2 substations.[7]

In its response 2-Staff-5 b), CWH stated:

> In stating that CWH may be seeking approval through the ICMs in 2014 and 2015, beyond the level of capital expenditures approved in the Application was to inform the OEB Board of the possible need for further funding. At the time of the IRM process, CWH will complete the prudent testing to determine whether or not the additional funding is required.

From the above, Board staff submits that CWH is indicating that it could be seeking the capital funding in four consecutive years, three under the ICM.

Board staff observes that CWH has had lower capital expenditures in recent history; CWH acknowledged this in response to interrogatories.[8] 2009 actual capital expenditures were below Board-approved, and this trend continued in 2010 and 2011. Capital expenditures in those years were also below depreciation expense. Board staff acknowledges that the deployment of smart meters was a major undertaking that required a redeployment of resources and contributed to reduced and deferred capital spending elsewhere, but CWH's capital expenditures were lower than what would have been expected based on approved rates. Adequate capital expenditures in prior years could have offset, at least in part, the need for and quantum of capital expenditures that CWH may be seeking for capital expenditures on all of its distribution stations.

Board staff submits that CWH should be looking for how it can plan and prioritize its capital expenditures, including the rebuild and rehabilitation of the remaining

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[7] Exhibit 2/Tab 3/Schedule 1/page 2
[8] Response to 2-Staff-4

municipal stations, through the revenues from approved rates rather than through repetitive reliance on the ICM. The ICM should be relied upon strictly for non-discretionary incremental capital that cannot be funded through existing rates by prioritizing and pacing of the distributor's capital projects.

Service Reliability

In response to 2-Staff-9 and 2-VECC-9, CWH reported corrected service reliability statistics (i.e., a revised Table 2-27) and explanations for historical performance. CWH indicates that outages in some of the distribution stations being replaced accounted for some degradation in service reliability in some recent years. However, the declines do not appear to be material or persistent at this time. Overall, Board staff takes no issue with the reported performance and accepts the explanations provided.

Working Capital Allowance

CWH has used the default 13% formula, whereby the Working Capital Allowance ("WCA") is calculated as 13% of the sum of the cost of power plus controllable expenses. In response to interrogatories, CWH updated the WCA to reflect the HOEP and RPP commodity rates documented in the Board's October 17, 2012 *Regulated Price Plan* Report as well as for any changes to OM&A expenses.[9]

Board staff takes no issue with CWH's proposal for calculating the WCA based on the default 13% formula. Should the Board direct any further changes to CWH's OM&A (i.e., controllable expenses), CWH should update the WCA to reflect any such changes in its draft Rate Order filing. Due to timing, Board staff also submits that updated RPP and non-RPP prices in the updated RPP Report expected to be issued by the Board in mid-April 2013 should also be reflected in the updated WCA in the draft Rate Order.

[9] Response to 2-Staff-10

Exhibit 3

Operating Revenues and Load Forecast

Load Forecast

While it is generally treated separate from the development of the test year capital and operating costs, the rate base and, as a consequence, the revenue requirement to be recovered in rates, the customer and load forecast underpins the application. Further, the load forecast also enters into the allocation of costs, as well as serving as the billing determinants (i.e. denominators) of the rates necessary to recover that revenue requirement.

There are two parts of the load forecast for electricity distribution rate-setting. First, there is the forecast of the number of customers or connections, at a customer class level. This is needed as an average or mid-year count. Generally, developing the forecasted number of customers and connections by class is relatively simple. Using historical data, often now going back around 10 years, the growth rate, estimated as the geometric mean of the year-over-year changes, is used to extrapolate the counts from the last historical year. This works well for classes with relatively large numbers of customers (e.g. Residential and GS < 50 kW). For classes with fewer and more stable numbers of customers, such as Large Use, Intermediate or Sentinel Lighting, a manual estimate is often used. Further, manual adjustments may be used in any event to reflect special circumstances, such as reclassification or loss of customers, or macroeconomic factors that may be triggering a slowdown or acceleration of growth in the distributor's service territory.

In Board staff's view, the estimation of the number of customers and connections is fairly straightforward. Growth rates are generally stable, often less than 2% per annum, and knowledge of the utility's service territory and local economic conditions, make it easy to assess whether the forecasted number of customers and connections is reasonable. Based on the record of this Application, Board staff submits that CWH's approach to estimating the number of customers (or connections) by class conforms to standard practice and that the results are reasonable.

The second part of load forecasting deals with estimating the consumption (kWh) and the related demand (kW) that the forecasted number of customers will use in the test year. To date, two methods have primarily been used in electricity distribution cost of service rates applications beginning in 2008.

Beginning in 2008, most utilities used a Normalized Annualized Consumption ("NAC") approach that looked at the historical trends of the average consumption per customer in each class. An average, or trend, over the historical period was used to estimate what would be expected in the test year. Multiplied by the forecasted number of customers or connections in the class gives the estimated consumption (kWh), and a conversion to kW for demand-rated classes based on the kW-to-kWh ratio from historical data gives the class demand. The NAC approach is fairly straightforward. However, one shortcoming is that there is no direct means of taking into account various drivers that affect consumption either on a per customer or on an aggregate basis. Thus, changes in consumption reflecting the economic cycle or reflecting Conservation and Demand Management ("CDM") are not easily reflected in the NAC approach.

A second approach uses statistical regression to model consumption based on a number of exogenous (i.e. independent) factors that would affect demand in a period. For electricity consumption, these would be market size, economic activity, weather (generally measured by both Heating Degree Days ("HDDs") and Cooling Degree Days ("CDDs")), time (number of days or number of business days in the month), and CDM. This approach is basically that of estimating a demand function to estimate the influence of key determinants – such as customer base, economic activity, and seasonal and weather variations on realized demand. The relatively small sizes of many distributors and their service territories also makes determination of good variables problematic and their data can be highly influenced by other factors that may be hard to identify or model. However, Board staff notes that the main purpose here is to get a "good" load forecast, rather than analyzing all of drivers of demand.

CWH has used both approaches. For the Residential and GS < 50 kW customer classes, the regression approach is used. For other customer classes, which are less weather sensitive, the NAC approach is used.

As estimated by CWH, the Residential and GS < 50 kW models contain standard explanatory variables:

- Heating Degree Days ("HDDs");
- Cooling Degree Days ("CDDs");
- Spring-Fall Binary Flag;
- Number of Days in the Month;
- Employment (3-month moving average from Statistics Canada Labour Force Survey for the Kitchener-Waterloo-Barrie region, which includes CWH's service territory); and
- CDM variable.

All coefficients are statistically significant except for the intercept of the GS < 50 kW model. CWH was requested to run alternative models in response to some interrogatories, and on the reasonableness of some of the variables chosen.

Board staff accepts CWH's explanation regarding the choice of Pearson Airport rather than Fergus as the source for the Environment Canada HDD and CDD data. Pearson is not too far outside of CWH's service territory for the modelling at this time, and is acceptable in Board staff's view. However, it would be preferable if more local data could be used, if data quality and availability for Environment Canada stations for Fergus (preferred) or for Waterloo Regional Airport, Guelph or Mount Forest could be used. Board staff submits that CWH should examine this in preparation for its next cost of service application.

Board staff has more concerns with the CDM variable, which is constructed. Board staff notes that the variable is constructed so that the full "annualized" impact of a CDM program in its first year is accounted for, and this occurs for all years from 2006 to 2011. This works in terms of the persistence of programs beyond the first year, but is unrealistic for the year of introduction of the program. Programs introduced in a year occur at various times, and also their uptake/implementation will also occur later. The annualized impact in the first year thus overstates the actual CDM impacts. In the absence of other information, Board staff submits that a “half-year” rule, whereby the impact of each year’s CDM program impacts in the year of introduction should be assumed to be 50% of the reported “annualized” impact, is more realistic.

Board staff also observes that the explanatory variable, monthly billed consumption by class, is itself a constructed variable. While the deployment of smart meters and TOU data collections now allows for measurement of billed consumption for a calendar month, meter reading and billing cycles mean that historical billed data for Residential and GS < 50 kW customer classes do not correspond with the calendar month. Thus the data used in the regression are constructed to account for unbilled demand and billing cycle variations, but introduce “errors” that may perturb the regression results.

The issues raised by the class-specific models, with the proposed specifications, along with the issue of the CDM adjustment that needs to correspond with the amount used for the 2013 and 2014 balances for the LRAMVA, has resulted in a number of interrogatories and supplementary interrogatories from Board staff and VECC.[10] This situation is not unique to CWH, but is encountered in most 2013 electricity distribution cost of service applications.

Even with the above criticisms, Board staff observes that the resulting forecasts for alternative models tried in response to interrogatories are little different than the proposed load forecast. This is not too surprising; with a high degree of multicollinearity amongst many variables, with a resulting high R^2 in each equation, we have accounted for most of the variability in the demand variable in each equation, even if the explanatory variables may not be ideal in Board staff’s submission.

The CDM Adjustment on the Load Forecast and the LRAMVA

As part of its Application CWH has identified the amount of CDM savings for 2011 to 2013 CDM programs that are reflected in the 2013 load forecast, and the corresponding amount that is used to derive the balance for 2013 (and hence also for 2014) for the LRAMVA. This requirement is set out in the Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003) issued April 26, 2012[11].

In those guidelines, the Board states:

> If during the term of the four-year CDM program (2011-2014) a distributor's rates are rebased, the distributors will be expected to be explicit on the magnitude of the CDM reduction component (kWh and MW) in its load forecast. The revised load volumes approved in that rebasing application will form the basis of the comparison to the actual verified annual results to determine the variances to be recorded in the LRAMVA. The difference between the approved CDM amount (kWh and MW) in the distributors load forecast and the actual verified final program results, either from the OPA or a third party in accordance with the OPA's EM&V protocols, will be the LRAM amount available for recovery.

The amount to be used for the LRAMVA and the CDM adjustment in the load forecast are two different, but related, numbers. This is due to a number of factors:

- First, the CDM results as reported by the OPA are annualized, meaning that the estimated savings assume that the program was in place and effective from January 1 of that year. This is reasonable for the estimated persistence of CDM programs in subsequent years, but is not true in terms of the real impact of a CDM program in its first year. In the absence of

[11] *Guidelines for Electricity Distributor Conservation and Demand Management* (EB-2012-0003) issued April 26, 2012, pp. 12-13

specific information on the timing of, and on seasonal fluctuations of, a utility's CDM programs in any year, Board staff submits that it is reasonable to assume a "half-year" rule for the impacts of a given year's CDM programs in that year.[12]

- Second, CDM results are reported on both a "gross" and a "net" basis. It is the "net" OPA results which are used for measuring achievement against the 4-year target that is a condition of a distributor's license and for the LRAMVA. "Net" results reflect the estimated impacts of customers that undertake CDM due to the CDM program offering. "Free riders" – customers who take advantage of the program but would have done the CDM even in the absence of the CDM program are included in the "net" results but as a negative entry, thus eliminating them. Also included in the "net" results is spillover.

For the LRAMVA balance for 2013 and 2014, the annualized "net" results for the OPA will be used. As discussed in the response to interrogatory 3-Staff-51s, this would be 974,577 + 2 x 657,422 = 2,288,799 kWh for 2013 and 2014.[13]

The corresponding adjustment to the load forecast is less clear. First, for reasons stated above, a half-year rule should be applied to the 2013 CDM program forecast on the 2013 load forecast.

Second, there is the matter of "net" versus "gross" CDM savings. While Settlement Agreements arrived at and approved in some recent 2013 cost of service rates applications have used the "net" results for the load forecast CDM adjustment, Board staff submits that this understates the real decline of CDM and hence results in a higher forecast and lower rates, all else being equal. As one example of this, we have the matter of "free riders". While the utility is not

[12] Thus, while the OPA's final result for 2011 CDM programs on 2011 consumption is estimated as 0.975 GWh, the "real" impact in 2011 would be about half of that, or 0.488 GWh, in the absence of any other information on the timing of when the CDM program was promoted by the utility and its uptake began.

[13] While the OPA results reflect some drop-off in 2011 CDM program persistence in 2014, it is the CDM adjustment in the 2013 test year rates that, implicitly, underlies the base rates subject to the IRM rate adjustment until the utility next rebases rates through a cost of service application, and hence it is the test year adjustment that persists in any subsequent year(s).

compensated for free ridership through the LRAMVA, the CDM savings (i.e. reduced consumption) of free riders occur in reality and will reduce consumption. There is also the matter of “free drivers” and other “natural conservation” which occurs. While these occur, and are assumed to occur in the absence of the proffered CDM programs, there is no evidence that the timing or impact of these savings would have occurred as has been experienced. It is because of these additional factors that Board staff is concerned that relying solely on “net” results understates the real impact of CDM on the load forecast. This is reflected in the Board staff proposal, as stated in 3-Staff-51s and the accompanying Load Forecast CDM Adjustment Work Form.

The presence of, and the issues with, the constructed CDM variable complicates the situation here. Nonetheless, Board staff submits that the most conceptually sound and reasonable approach is to take the load forecast arising from the regression and NAC analyses, and to subtract the CDM adjustment as calculated from the response to interrogatory 3-Staff-51s, including the “net”-to-“gross” factor, allocated appropriately to each class. This would establish a load forecast that is based on the historical data and also factor in the CDM adjustment on the load forecast that corresponds with the amount to be used for establishing the 2013 and 2014 balances for the LRAMVA. While not exact, Board staff views that limitations and errors introduced through data construction and estimation in this approach are no greater than estimation errors elsewhere in the model.

CWH’s Customer and Load Forecast

Board staff takes no issue with CWH’s forecasted number of customers and connections for the 2013 test year.

Board staff understands that CWH’s customer and load forecast is documented in Table 3-23 from Exhibit 3/Tab 2/Schedule 1. CWH should confirm this. Board staff submits that the load forecast should be updated to reflect the CDM adjustment as calculated in response to 3-Staff-51s, rather than as proposed CWH in its Application, but otherwise does not take issue with CWH’s customer and load forecast.

Other Revenues

In its Application, CWH has forecasted Other Operating Revenues as $240,938 for the 2013 test year.[14] In the Application and in response to various interrogatories, CWH has explained the year-over-year variances. Board staff submits that the utility has adequately explained and supported its proposal. As such, Board staff takes no issue with CWH's forecast for Other Operating Revenues for the 2013 test year in this Application.

Exhibit 4

Operating Expenses

OM&A

CWH has forecasted $2,303,000 for Operations, Maintenance and Administration ("OM&A") expenses for the test year, subsequently updated to $2,250,013. The revised proposed OM&A represents a 28.3% increase over its 2009 Board-approved OM&A. CWH's OM&A over time is documented below:

Year	2009 Board approved	2009 Actual	2010 Actual	2011 Actual	2012 Bridge year forecast	2013 Test Year forecast	2013 Test Year forecast (revised)
OM&A	$1,753,350	$1,708,477	$1,758,814	$1,976,448	$2,278,700	$2,303,000	$2,250,013

Source: Exhibit 4/Tab 1/Schedule 1/Table 4.1 and 1-Staff-47s

CWH lists the drivers for the increases in OM&A as follows:

- Two new staffing positions (Systems Analyst – IT in 2011 and Financial/Regulatory Analyst in 2012) to deal with increasing work in these areas;
- Annual increases in wages, salaries and other benefits;
- Decreased meter reading costs due to automated meter reading of smart meters; Increase in bad debt expenses due to economic factors and changes in deposit refund policy;
- Increased regulatory expenses;

[14] Exhibit 3/Tab 1/Schedule 2/Table A. Further details are provided in Exhibit 3/Tab 3/Schedule 1

- Increased computer-related costs due to move to TOU billing;
- Increased outside services for legal, audit and consulting service, unrelated to regulatory rate-setting;
- Non-labour inflation increases estimated at Canadian CPI of 2.11% (July 2012 to October 2011);
- Change in useful lives of transportation equipment, which affects OM&A through burden rates; and
- Reduction in contracted work and re-allocation of outside crew between capital and O&M work.[15]

Revisions to OM&A through discovery reflect certain corrections, as well as CWH's proposal to amortize certain one-time operating expenses over the period of the rate plan until next rebasing[16]. The changes are summarized in the tables provided in the response to 1-Staff-47s and filed with the updated evidence on March 26, 2013.

CWH has used a 2.0% inflation to forecast 2012 bridge and 2.11% 2013 test year amounts for budgeted expenses. CWH has documented the OM&A expenses, and the year-over-year changes in the Application[17] and in responses to interrogatories. Board staff takes no issue with CWH's explanations.

Board staff submits that, despite the large percentage increase from the 2009 Board-approved OM&A, CWH has filed support for the proposed changes to OM&A, and takes no issue with CWH's proposals.

Regulatory and Legal Expenses

CWH has budgeted approximately $40,100 for its CoS rate application (including consulting, legal and intervenor costs). CWH proposes to recover this amount over 4 years. CWH notes that costs incurred in 2011 and 2012 for preparation of the application have been absorbed as part of OM&A in those years.

[15] Exhibit 4/Tab 1/Schedule 1/pages 5-8
[16] e.g. Response to 4-Staff-52s b)
[17] Exhibit 4/Tab 2/Schedule 4

As noted in response to another interrogatory,[18] CWH had included one-time expenses for external legal assistance in preparation of service area amendment applications being considered. CWH noted that, if the applications proceed and are approved, CWH's existing customers would also benefit through the increased customer base and opportunities for increased economies of scale. However, in recognition that these are one-time costs, CWH amended its application to amortize these expenses over the four years by including only 25% of the forecasted expense in the 2013 test year.

Board staff takes no issue with CWH's proposals with respect to the claimed for expenses and the recovery over the 4 year period.

Employee Complement and Compensation

CWH has documented its workforce and compensation in its Application.[19]

CWH has forecasted a staff complement of 16.50full-time employees and 4 part-time staff for the 2013 test year, compared to 14.50 full-time employees for the 2009 Board-approved. CWH has documented the staffing increases due to increasing regulatory requirements. In particular, increasing IT, accounting and regulatory requirements, driven by smart meters, TOU pricing, MIFRS and "smart grid" and CDM programs are documented as drivers for staffing increases.

With the documentation and explanations provided, Board staff takes no issue with CWH's proposals with respect to its workforce complement and associated expenses, although Board staff notes that utility staff working on CDM programs should be funded through the OPA funding mechanism and not through distribution rates.

Depreciation

CWH has documented its depreciation expense in its Application.[20] The historical and proposed depreciation expense is summarized in the following table:[21]

[18] Response to 4-Staff-52s b)
[19] Exhibit 4/Tab 2/Schedule 4/pages 34 to 42 and Appendix 2-K

Year	2009 Actual (CGAAP)	2010 Actual (CGAAP)	2011 Actual (CGAAP)	2012 Bridge (CGAAP)	2012 Bridge (MIFRS)	2013 Test (MIFRS)	2013 Test (CGAAP) (updated March 26, 2013)
Depreciation Expense	$639,222	$691,305	$705,181	$671,718	$360,270	$538,396	$508,619

CWH states that it has complied with Board policy and practice. CWH used the half-year rule for depreciation in the year that assets enter service and depreciation rates for 2012 and 2013 under MIFRS have been updated to be in accordance with the Kinectrics Report. The change in 2012 reflects the updated and generally increased useful lives. CWH documents that the increase in 2013 largely reflects the addition of smart meters and related assets into the rate base, and the removal of stranded meters.

In response to interrogatory 1-Staff-47s, CWH has documented that depreciation expense for 2013 was revised to $508,560, reflecting the conversion back to CGAAP. Most of the change ($77.862) was due to the removal of the PP&E adjustment. As is discussed later in this submission, Board staff observed that the reversion to CGAAP was not done correctly, as the January 1, 2013 opening balance was still based on the 2012 transition year for MIFRS. With its updated evidence filed on March 26, 2013 to correctly reflect a continuation of GCAAP but with an updated capitalization policy and updated depreciation rates, CWH has documented a 2013 depreciation expense of $508,619. Board staff takes no issue with the March 26, 2013 revised evidence.

Board staff notes that the depreciation expense for the 2013 test year may need to be revised in accordance with any adjustments to rate base and capital expenditures as determined by the Board. Board staff submits that CWH should file sufficient evidence, such as an updated Capital Asset Continuity Schedule to

[20] Exhibit 4/Tab 2/Schedule 7
[21] Exhibit 4/Tab 2/Schedule 7/Table 4.27, 9-Staff-61s and updated evidence filed March 26, 2013

allow for confirmation of any updated depreciation expense to support its draft Rate Order, when filed.

PILs

In its original Application, CWH proposed a grossed-up PILs expense allowance of $5,887.[22] This has been subsequently revised to $5,030, reflecting changes to the Cost of Capital parameters and to capital and operating expenses including the impact of changed commodity prices on the working capital allowance and changed RTSRs.[23] In the updated evidence filed on March 26, 2013 reflecting the reversion back to updated CGAAP, the grossed-up PILs allowance was revised to $2,969.

CWH has used the Board-issued PILs model for its calculations. As documented in the Application, loss carry-forwards are used to reduce the PILs provision for the 2013 test year.

This amount is subject to adjustments as determined by the Board in its decision. Board staff takes no issue with the methodology, as amended through discovery, used by CWH to calculate its tax/PILs allowance for 2013, and submits that CWH should use this approach to calculate any updated allowance for taxes/PILs to reflect to the Board's Decision.

Low Income Energy Assistance Program (LEAP)

CWH has proposed that an expense amount for LEAP should be included, equal to $3,680 (the greater of $2,000 or 0.12% of 2013 revenue requirement, dependent on the Board's decision), incorporated within the proposed OM&A.[24] Board staff submits that CWH's proposal is compliant with Board policy. If necessary, this should be updated as part of CWH's draft Rate Order filing.

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[22] Exhibit 4/Tab 3/Schedule 1
[23] Response to 1-Staff-47s
[24] Exhibit 4/Tab1/Schedule 1/page 11

Green Energy Act

CWH has submitted a Basic Green Energy Plan, which was reviewed by the OPA and found to be reasonably consistent with the OPA's information regarding renewable energy generation applications to date. CWH is not seeking any specific GEA-related costs in this Application, but requests approval to track third-party costs of $8,542.80 in Account 1532 – Renewable Connection OM&A Deferral Account.[25] Further explanation was provided in response to interrogatories.[26]

Board staff notes that the third party start-up costs could be socialized in accordance with Board policy and practice, but also notes that the documented amounts are not material and CWH is not proposing disposition at this time. Board staff takes no further issue with CWH's proposed GEA Plan.

LRAM and LRAMVA

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on April 26, 2012 outline the information that is required when filing an application for LRAM.

CWH requested the recovery of an LRAM claim of $5,997.11 which includes $50.99 in carrying charges[27]. The LRAM is for persisting lost revenues from 2010 CDM Programs in 2011. CWH is seeking recovery over a one-year period.

CWH has provided all relevant rate riders by customer class and the request is consistent with the CDM Guidelines. Board staff does not have any concerns with CWH's request.

The total LRAMVA amount is $15,130.95, which includes $128.64 in carrying charges[28]. The amount is related to lost revenue from 2011 CDM programs as

[25] Exhibit 4/Tab 5/Schedule 1
[26] 2-Staff-11, 2-Staff-12 and 4-VECC-29
[27] Response to 4-Staff-23
[28] Response to 4-Staff-22

reported in the 2011 Final Evaluation OPA Report[29]. CWH did not include any CDM amounts in its last load forecast. In Board staff's view the LRAMVA claim is eligible for recovery.

Exhibit 5

Cost of Capital

In its original Application, CWH used an estimated Cost of Capital of 6.18%, based on a deemed capital structure of 60% debt (56% long-term debt and 4% short-term debt) and 40% equity. CWH used the then-current ROE of 9.12% and deemed short-term debt rate of 2.08%, which were the Cost of Capital parameters for 2011 applications with May 1, 2012 effective dates as announced in the Board's letter of March 2, 2012. CWH acknowledged that these parameters would be updated with data three months in advance of the proposed effective date of May 1, 2012 for its new rates, in accordance with the methodology documented in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*, issued December 11, 2009 (the "Cost of Capital Report").

CWH's documented long-term debt for 2013 is summarized in the following table:[30]

Debt holder	**Principal**	**Rate (%)**	**Interest**
Township of Centre Wellington – Promissory Note	$5,046,753	4.41%	$222,562
Capital Projects Loan – Capital Projects (new for 2013) – 5-year fixed, 25-year amortization	$1,329,000	4.23%	$56,217
Total	$6,375,753.00	4.37%	$278,779

With respect to the new loan for 2013, CWH notes that it did not have the new debt in place as of January 1, 2013 as forecasted but expected to have it done within 2013 Q1. The 4.23% rate reflected a preliminary quote from a commercial

[29] Response to 4-Staff-22 a) and b)
[30] Exhibit 5/Tab 1/Schedule 3/Table 5.3

bank. The Promissory Note to the Township of Centre Wellington has a fixed rate of 7.25%, but is affiliated debt with no fixed term or repayment. In CWH's 2009 cost of service application, the Board determined that this affiliated debt would attract the Board's deemed long-term debt rate when reviewed in a cost of service application. CWH has adhered to this in this Application. Board staff takes no issue with CWH's long-term debt and the proposed rates for each debt instrument.

On February 14, 2013, the Board issued a letter documenting updated Cost of Capital parameters for rates effective May 1, 2013. The updated Cost of Capital parameters are:

Cost of Capital Parameter	**Rate**
Return on Equity	8.98%
Deemed Short-term Debt	2.07%
Deemed Long-Term Debt	4.12%

With its update to 9-Staff-48s filed on March 8, 2013, CWH has reflected the updated Cost of Capital parameters in calculating its revenue requirement. With the ROE and short-term debt rates, and a change in the weighted average long-term debt rate addressed from 4.23% to 4.14%, the weighted average cost of capital becomes 5.99% versus 6.18% as originally applied for.

Board staff submits that CWH's proposal for its Cost of Capital in this Application conforms with the Cost of Capital Report and Board policy and practice.

Exhibit 6

Revenue Requirement and Revenue Sufficiency/Deficiency

In the Application as originally filed, CWH requested a Service Revenue Requirement of $3,461,309, composed of a Base Revenue Requirement of $3,220,371 and Other Revenues of $240,938. The proposed revenue requirement included recovery of a gross revenue deficiency of $438,967 (about 14% of the Base Revenue Requirement) under current approved rates.

CWH explained that the main drivers for the increased revenue requirement are as follows:

- Increased NBV of assets, mainly due to smart meter deployment and replacement of aging distribution infrastructure (e.g., municipal stations);
- Increase in rate base due to the change in the useful lives of capital assets resulting from the changeover from CGAAP to MIFRS (i.e. adoption of new depreciation lives in accordance with the Kinectrics Report); and
- Decreased interest expense but increased return on equity from the changes in the Cost of Capital.

As a result of discovery, CWH has amended the revenue requirement as follows:

	Application November 16, 2012	**After Discovery March 8, 2013**	**Updated Evidence March 26, 2013**
Service Revenue Requirement	$3,461,309	$3,483,916	$3,463,407
Other Revenues	$240,938	$240,938	$240,938
Base Revenue Requirement	$3,220,371	$3,242,978	$3,222,468
Revenue Sufficiency/(Deficiency)	($438,967)	($460,651)	($440,142)

The Revenue Requirement Work Form (“RRWF”) provides a summary of the derivation of the revenue requirement and the revenue deficiency.

Board staff submits that CWH has adhered to Board policy and practice with respect to the determination of the revenue requirement and revenue deficiency. The RRWF filed at the close of discovery on March 8, 2013 as part of 9-Staff-47s should be dismissed, as it incorrectly reflects a conversion back to CGAAP; this is discussed later in this submission under Other Matters. Board staff takes no issue with the revised revenue requirement and revenue sufficiency calculations and the revised RRWF filed by CWH on March 26, 2013 to correctly reflect a continuation of CGAAO, with updated capitalization and depreciation lives, for 2013.

Dependent upon the Board's determinations with respect to CWH's Application, CWH should amend its revenue requirement. This would include preparation of an amended RRWF summarizing the revenue requirement as amended by the Board's Decision as part of the draft Rate Order filing. For the amended RRWF, CWH should use the "Board Decision" columns of Sheet 3 of the RRWF to input the necessary numbers and adjustments in columns Q and U of that sheet.

Exhibit 7

Cost Allocation

As part of its Application, CWH conducted an updated Cost Allocation study. CWH states that the study reflects the findings of the *Report on the Review of Electricity Distribution Cost Allocation Policy*, issued March 31, 2011. The revenue-to-cost ("R/C") ratios from the updated cost allocation study are shown in the "2013 Cost Allocation" column in the following table, and the R/C ratios from the previous cost allocation study are shown in the "2011 IRM" column.

Revenue-to-Cost Ratios – 2011 IRM and 2013 Proposed[31]

Customer Class	Range (%)		2011 IRM	2013 Cost Allocation	2013 Proposed
	Low	High			
Residential	85	115	101.70	97.49	99.65
GS < 50 kW	80	120	105.30	95.56	99.00
GS 50-2999 kW	80	120	104.70	90.41	99.65
GS 3000-4999 kW	80	120	87.0	100.96	100.96
Streetlighting	70	120	70.0	305.88	120.00
Sentinel Lighting	80	120	70.0	124.72	120.00
Unmetered Scattered Load	80	120	103.70	271.84	120.00

CWH is proposing adjustments to the R/C ratios to bring the R/C ratios within the Board's target ranges. There are some larger changes proposed for classes such as Streetlighting and Unmetered Scattered Load; this is not uncommon given the smaller class revenues and number of customers in these classes.

[31] Exhibit 7/Tab 1/Schedule 2/page 12 and Appendix 2-P

Board staff submits that the updated cost allocation study is likely more accurate than the previous one, as distributors are now enabled to provide their own inputs, rather than relying on default values as was done previously.

What Board staff has observed is that the R/C ratios have flipped across unity (100%) for all classes (except USL, where the R/C ratio went from 103.70 to 271.84) from the 2009 Cost Allocation study. In responses to interrogatories, CWH was only able to provide partial explanation for the changes in the successive Cost Allocation studies.[32]

Board staff takes no issue with the proposed R/C ratios for all customer classes. While CWH should have provided better explanations for the changed results, Board staff's review of the Cost Allocation study and documentation does not reveal any apparent errors, and the changes appear to be related to inputs and assumptions updated for the current study. However, Board staff submits that the Board and CWH should be cautious towards volatility in subsequent Cost Allocation studies. In particular, Board staff submits that CWH should have a better understanding of the determinants of any swings in class R/C ratios and whether the inputs, assumptions and outputs are reasonable and appropriate for CWH's operating environment.

<u>Exhibit 8</u>

Rate Design

Rate Classes

CWH has the following existing customer rate classes:

- Residential;
- General Service < 50 kW;
- General Service 50 to 2,999 kW;
- General Service 3,000 to 4,999 kW;
- Streetlighting;

[32] Response to 7-Staff-27

- Sentinel Lighting; and
- Unmetered Scattered Load.[33]

CWH is proposing no changes to its customer classes. Board staff takes no issue with CWH's proposal on this matter.

Fixed/Variable Split

CWH has proposed to retain the existing fixed/variable split for all remaining customer classes, as documented in Table 8.1.6 of the Application[34]:

Customer Class	Fixed (% of class revenues)	Volumetric (%)	Volumetric Billing Determinant (from Table 8.1.5)
Residential	62.88%	37.32%	kWh
GS < 50 kW	29.52%	70.48%	kWh
GS 50-2,999 kW	19.12%	80.88%	kW
GS 3,000-4,999 kW	8.77%	91.23%	kW
Streetlighting	57.76%	42.24%	kW
Sentinel Lighting	57.54%	42.46%	kW
USL	11.17%	88.83%	kWh

Board staff takes no issue with CWH's proposal.

MicroFIT

CWH has requested an increase of the MicroFIT rate from $5.25/month to $5.40/month, in accordance with the Board's letter of September 20, 2012.[35] Board staff submits that CWH's request is appropriate.

Low Voltage

As an electricity distributor, CWH is fully embedded under Hydro One Networks Inc. In its Application, CWH proposed Low Voltage ("LV") rates that would recover a forecasted 2013 LV charge from Hydro One of $84,024.[36]

[33] Exhibit 8/Tab 1/Schedule 1/Table 8.1.2
[34] Exhibit 8/Tab 2/Schedule 1
[35] Exhibit 1/Tab 1/Schedule 2/page 18
[36] Exhibit 8/Tab 1/Schedule 4/Table 8.1.10

In response to interrogatory 8-Staff-57s, CWH proposed revised LV charges that would recover $243,490.91 of forecasted LV charges from Hydro One Networks Inc. The amendment was to correspond with the LV charges that CWH has been billed in the recent past. The updated LV rates should recover what CWH is being charged, and thus avoid significant imbalances in Account 1550.

Board staff takes no issue with CWH's proposed LV rates as amended in the response to interrogatory 8-Staff-57s.

Retail Transmission Service Rates

In its Application[37], CWH filed for adjusted Retail Transmission Service Rates ("RTSRs") based on the Board's *Guideline G-2008-0001: Electricity Distribution Retail Transmission Rates*, and based on an analysis of historical trends/patterns for over- or under-collection in the RSVAs and the approved Uniform Transmission Rates effective January 1, 2012, using the Board-issued model.

In response to 8-Staff-56s, CWH submitted revised proposed RTSRs reflecting the updated Uniform Transmission Rates effective January 1, 2013.

Board staff submits that CWH's proposal complies with Board policy and practice, and takes no issue with the proposed updated RTSRs.

Transformer Ownership Allowance

The Transformer Ownership Allowance ("TOA") credit is paid to those customers within an applicable class that own their own transformation facilities. The estimated credit to be paid is then factored as an addition to the revenue requirement to be recovered through distribution rates, and for the applicable customer classes. In its Application, CWH proposed to maintain the current approved Transformer Ownership Allowance ("TOA") credit of ($0.60)/kW.[38] Board staff takes no issue with CWH's proposal.

[37] Exhibit 8/Tab 1/Schedule 3/Table 8.1.9
[38] Exhibit 1/Tab 1/Schedule 4/page 1

Loss Factor

In its Application,[39] CWH has proposed updates to its Board-approved loss factors. While losses were 4.73% in 2007 and average around 3% from 2008 to 2010, losses increased to 5.66% for 2011. In response to an interrogatory asking about the increased losses in 2011, CWH corrected the data for 2011 and provided an updated loss factor calculation.[40] The 2011 losses were reduced to 3.96%, and the 5-year average losses were revised to 3.55%. CWH's current total loss factor for a secondary metered customer with demand < 5000 kW is 1.0449; while CWH is proposing an updated TLF of 1.0497 for the same customer.

Despite there being a slight increase in the proposed loss factors from the current Board-approved ones, Board staff considers that CWH's methodology for updating its Loss Factors conforms with Board policy and practice, and takes no issue with its proposal on this matter.

Specific Service Charges

CWH is proposing no changes to its existing Specific Service Charges. Board staff takes no issue on this matter.[41]

Rate Mitigation

CWH has complied with the Filing Requirements and has provided the bill impact analysis as required by the Filing Requirements. The necessary bill impact analysis was provided in the Application[42] and updated in response to interrogatories.[43]

In its Application, CWH did not propose any rate mitigation, on the basis that the impacts to customers that would result from approval of the Application would not

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[39] Exhibit 8/Tab 1/Schedule 5/Table 8.1.12 (Appendix 2-R)
[40] 8-Staff-28
[41] Exhibit 1/Tab 1/Schedule 4/page 1
[42] Exhibit 8/Appendix C
[43] Response to 8-Staff-58s

be significant.[44] However, in response to 9-Staff-62s, CWH has revised the recovery of the Smart Meter Disposition Riders ("SMDRs") to 4 years to mitigate the impacts on GS < 50 kW customers; this is discussed later in this submission under Exhibit 9.

Board staff submits that CWH's proposal for no rate mitigation beyond the recovery period for the SMDRs, is reasonable.

Exhibit 9

Deferral and Variance Accounts

CWH is proposing to dispose of the following December 31, 2010 Group 1 and Group 2 DVA balances, including Accounts 1521 (Special Purpose Charge). CWH's Account 1562 (Deferred PILs) balance was disposed of in its 2012 IRM application EB-2012-0052.

Table 9.4 - Deferral and Variance Account Balances

Account Description	Account Number	Principal Amounts A	Interest Amounts B	Total Claim C=A+B
LV Variance Account	1550	236,865	2,069	238,934
RSVA - Wholesale Market Service Charge	1580	(337,169)	(4,739)	(341,908)
RSVA - Retail Transmission Network Charge	1584	(150,245)	(2,966)	(153,211)
RSVA - Retail Transmission Connection Charge	1586	(110,549)	(3,587)	(114,135)
RSVA - Power (Excluding Global Adjustment)	1588	(12,843)	(894)	(13,737)
RSVA - Power (Global Adjustment Sub-account)	1588	236,465	3,345	239,809
Recovery of Regulatory Asset Balances	1590	-	-	-
Recovery of Regulatory Asset Balances-Sub Acct-2009 Approvals***	1595	(429,456)	81,881	(347,574)
Recovery of Regulatory Asset Balances-Sub Acct-2010 Approvals***	1595	(74,833)	13,372	(61,462)
Recovery of Regulatory Asset Balances-Sub Acct-2011 Approvals***	1595	(62,603)	(11,107)	(73,710)
Recovery of Regulatory Asset Balances-Sub Acct-GA-2011 Approvals***	1595	(50,950)	(2,441)	(53,391)
Recovery of Regulatory Asset Balances-Shared Taxes	1595	(3,930)	(48)	(3,978)
Total Group 1		**(759,247)**	**74,885**	**(684,362)**

[44] Exhibit 8/Tab 1/Schedule 6/page 2

Other Regulatory Assets	1508	79,092	1,160	80,252
Other Regulatory Assets-LLP ***	1508	10,293	-	10,293
Retail Cost Variance Account - Retail	1518	24,890	856	25,745
Special Purpose Variance	1521	1,987	363	2,350
Retail Cost Variance Account - STR	1548	783	13	797
Smart Meters Revenue and Capital**	1555	841,256	18,683	859,939
Smart Meter Expenses**	1556	174,503	5,991	180,494
RSVA - One Time	1582	20,484	576	21,060
PILs and Tax Variance - Sub Account HST/OVAT ITCs	1592	(20,017)	-	(20,017)
Total Group 2		**1,133,271**	**27,642**	**1,160,913**
Total		**374,024**	**102,528**	**476,551**

****Requesting Disposition as Separate Rate Rider-Exhibit 10**

*****Not requesting disposition**

The balances for the smart meter Account 1555 and Account 1556 are excluded from the table, as the issues related to the smart meters are discussed elsewhere in this submission.

CWH proposes to recover the requested DVA balances over a period of one year, per the Board's EDDVAR Report.

CWH is requesting the continuation of its existing Group 1 and Group 2 accounts, as well as continuation of its Deferred MIFRS Transition Costs account. CWH is requesting several new sub-accounts of Account 1595 to deal with the recovery and true-up of DVA amounts approved for disposition in this Application.

Board staff asked a number of interrogatories seeking clarification on CWH's DVA balances and disposition. In response to 9-Staff-30, CWH provided an update to Table 9.4 and referred to the revised table as Table 9.7.

The updated Table 9.7 also included CWH's removal of the request for the disposition of Account 1521 – Special Purpose Charge.[45]

[45] 9-Staff-30 a)

Table 9.7
Deferral and Variance Account Balances requested for Disposition

Account Description	Account Number	Principal Amounts A	Interest Amounts B	Projected Interest 2012	Projected Interest Jan-Apr 2013	Total Claim C=A+B
LV Variance Account	1550	236,865	2,069	3,482	1,145	243,561
RSVA - Wholesale Market Service Charge	1580	(337,169)	(4,739)	(4,956)	(1,629)	(348,494)
RSVA - Retail Transmission Network Charge	1584	(150,245)	(2,966)	(2,209)	(726)	(156,146)
RSVA - Retail Transmission Connection Charge	1586	(110,549)	(3,587)	(1,625)	(534)	(116,294)
RSVA - Power (Excluding Global Adjustment)	1588	(12,843)	(894)	(189)	(62)	(13,987)
RSVA - Power (Global Adjustment Sub-account)	1588	236,465	3,345	3,476	1,143	244,428
Recovery of Regulatory Asset Balances	1590	-	-			-
Recovery of Regulatory Asset Balances-Sub Acct-2009 Approvals	1595	-	-			-
Recovery of Regulatory Asset Balances-Sub Acct-2010 Approvals	1595	-	-			-
Recovery of Regulatory Asset Balances-Sub Acct-2011 Approvals	1595	-	-			-
Recovery of Regulatory Asset Balances-Sub Acct-GA-2011 Approvals	1595	-	-			-
Recovery of Regulatory Asset Balances-Shared Taxes	1595	(3,930)	(48)	(58)	(19)	(4,054)
Total Group 1		**(141,405)**	**(6,820)**	**(2,079)**	**(683)**	**(150,987)**
Other Regulatory Assets	1508	79,092	1,160	1,163	382	81,797
Other Regulatory Assets-Sub Acct-LLP	1508	-	-			-
Retail Cost Variance Account - Retail	1518	24,890	856	366	120	26,232
Special Purpose Variance	1521	-	-			-
Retail Cost Variance Account - STR	1548	783	13	12	4	812
Smart Meters Revenue and Capital	1555	-	-			-
Smart Meter Expenses	1556	-	-			-
RSVA - One Time	1582	20,484	576	301	99	21,460
PILs and Tax Variance - Sub Account HST/OVAT ITCs	1592	(20,017)	-			(20,017)
Total Group 2		**105,232**	**2,605**	**1,841**	**605**	**110,283**
Total		**(36,173)**	**(4,214)**	**(237)**	**(78)**	**(40,703)**

As noted in the above table, CWH is not seeking disposition and recovery of certain DVAs in this Application.

Board staff addresses the following issues:

1. Disposition of Group 1 DVA and Group 2 DVA Balances
2. Account 1508; and
3. Account 1575

Disposition of Group 1 DVA and Group 2 DVA Balances

Subject to the points raised below with respect to Account 1508 and the removal of Account 1575 at this time, Board staff takes no issue with CWH's proposed disposition of Group 1 and Group 2 DVA balances as of December 31, 2011 in this Application. Board staff takes no issue with the billing determinants and the rate riders proposed to dispose of the DVA balances, but notes that the Board's determination in its decision may affect the load forecast and hence the billing determinants. CWH may be required to update its DVA rate rider calculations as a result of the Board's decision and should provide the supporting documentation in its draft Rate Order filing with respect to the DVA balance disposition and the corresponding rate riders.

Account 1508

CWH is requesting the disposition of Account 1508, Other Regulatory Assets, sub-account Deferred IFRS Transition Costs for its audited December 31, 2011 combined principal and interest balance of $75,704.

Based on the evidence and CWH's responses provided to a number of interrogatories, Board staff notes that CWH stated the following:

- CWH will be deferring the adoption of IFRS from January 1, 2013 to January 1, 2014.[46]
- By the end of 2012, CWH has completed most of the work related to IFRS for which the cost was posted to the Account 1508, Other Regulatory Assets, sub-account Deferred IFRS Transition Costs. There is a small amount being posted in 2013 to the sub-account of 1508.[47]
- CWH has not included any one-time administrative IFRS transition costs in the 2013 OMA expenses for the test year.[54]

Board staff notes that on February 14, 2013, the Accounting Standards Board (AcSB) 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. This may result in CWH deferring its IFRS adoption by an additional year to January 1, 2015.

Board staff is unclear on how much additional cost CWH will incur for implementation of its IFRS project beyond the costs incurred as of December 31,

[46] Exhibit 2/Tab 5/Schedule 5/page 1
[47] Response to 9-Staff-29

2011, given CWH's decision to delay adoption of IFRS per the AcSB's pronouncements. Board staff is also unclear what other system changes to its financial system, processes, etc., CWH may need to make in order to complete its IFRS implementation for the mandatory changeover from CGAAP to MIFRS.

Furthermore, Board staff notes the Accounting Procedures Handbook – FAQ #1, dated October 2009 stated the following with respect to the disposition of Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition:

> The Board has approved a deferral account for a distributor to record **one-time administrative incremental IFRS transition costs**, which are not already approved and included for recovery in distribution rates.
>
> In the distributor's next cost of service rate application **immediately after the IFRS transition period**, the balance in this sub-account should be included for review and disposition *[emphasis added]*.

It is Board staff's position that it is expected that a distributor will request for cost recovery of one-time administrative incremental IFRS transition costs in a CoS rate proceeding immediately after the IFRS transition period is complete. Board staff submits that the Board may wish to consider deferring the CWH's request for disposition of one-time administrative incremental IFRS transition costs under Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs, to its next cost of service rates application after CWH completes its IFRS transition and fully implements and adopts IFRS. Alternatively, the Board may wish to dispose the 2011 balance of Sub-account 1508 on an interim basis in this Application, conditional on CWH completing its IFRS transition and bringing forward that incremental amount including the 2011 balance for review by the Board in CWH's next cost of service rates application.

Account 1575

In its Application, CWH provided the IFRS-CGAAP transition PP& E amount in Appendix 2-EB under Account 1575 for a total difference between the net closing

CGAAP and IFRS balances on December 31, 2012 of $311,448 to be amortized and refunded to customers over 4 years as proposed by CWH. CWH also stated that it had adopted new useful lives from the Kinectrics Study for 2013 in its 2013 CoS rate application.[48] CWH also did not make any other change in its accounting policy with respect to capitalization, stating that its existing capitalization policy is consistent with IFRS.

In its response to a supplementary interrogatory and in a subsequent letter to the Board dated March 26, 2013, CWH proposed to remove the PP&E Account 1575 adjustment from its 2013 revenue requirement because it has deferred the adoption of IFRS.[49]

During the course of preparation of its submission, Board staff observed anomalous results in the updated revenue requirement and RRWF. These anomalies were due to the fact that, while CWH had changed the accounting basis used in its application from Modified IFRS to CGAAP (with updated depreciation lives consistent with the Kinectrics Report), CWH was still using the closing balance of the 2012 MIFRS fixed asset as the opening balance of the 2013 CGAAP fixed asset. Further to discussions with Board staff, CWH filed revised summary information to correctly reflect the updated opening balance for the 2013 fixed asset under CGAAP. With these revisions, Board staff takes no issue with the CWH's request to withdraw the disposition of the Account 1575 amount. Further information related to CWH's change in the basis of accounting standards that was used in its 2013 CoS rate application from a Modified IFRS to CGAAP is provided later under Section Other Matters.

Exhibit 10

Smart Meters

CWH is seeking approval for the disposition of its smart meter costs recorded in Accounts 1555 and 1556 in this Application. CWH is seeking approval to dispose of capital and operating costs related to the deployment of smart meters

[48] 9-Staff-36
[49] 9-Staff-61s

to all Residential and GS < 50 kW customers. CWH has noted that smart meters are being deployed to GS > 50 kW customers, as needed, but that these smart meter conversions are being dealt with as part of regular metering capital investments under Account 1860. By this, Board staff understands that these conversions would normally be done upon replacement of the existing meter upon failure or for re-sealing/reverification per Measurement Canada requirements. Board staff addresses this later on.

In its Application, CWH sought Smart Meter Disposition Riders ("SMDRs") of $1.29 per month for Residential customers and $8.55 per month for GS < 50 kW customers, applicable over a period of 24 months from May 1, 2013 to April 30, 2015.

In responses to interrogatories, CWH updated its evidence with respect to the smart meter costs and SMDRs to recover the net deferred revenue requirement to December 31, 2012 for the following:

- Corrected Cost of Capital parameters for 2006 and 2007, which had a flow-through effect on 2008 and 2009 through the k-factor adjustment; to correspond with the cost of capital approved in CWH's 2006 EDR rates application (10-Staff-41);
- Corrected taxes/PILs rates (10-Staff-42);
- Corrected interest expense calculations to calculate carrying charges on SMFA revenues to April 30, 2013 (10-Staff-43);
- In response to 9-Staff-62s a), CWH netted out smart meter procurement costs of $10,972 for smart meters taken from inventory and installed for GS > 50 kW customers. These were originally shown as the negative capital entries for 2010 and 2011 in the smart meter model, while the original costs were included in the smart meter inventory in 2009.
- In addition, in response to 9-Staff-62s b), CWH re-allocated the smart meter procurement costs to align with when the meters were actually installed for customers.[50]

[50] While Article 410 of the APH allows for spare meters (and transformers) held in inventory to be accounted for as if in service as part of rate base rather than as inventory, this was done on the

CWH filed an updated smart meter model in response to 9-Staff-62s. The changes that CWH has made have resulted in the following changes to the proposed class-specific SMDRs:

Customer Class	**Application (October 17, 2012)**		**9-Staff-62s (March 8, 2013)**	
	Rate ($/month)	**Recovery Period**	**Rate ($/month)**	**Recovery Period**
Residential	$1.29	2 years	$0.57	4 years
GS < 50 kW	$8.55	2 years	$4.08	4 years

In its response to interrogatory 9-Staff-62s, CWH states that it has extended the recovery period of the SMDR to 4 years in order to mitigate the rate impacts on GS < 50 kW customers to being under the 10% total bill threshold. Board staff takes no issue with CWH's updated SMDRs and its proposal for rate mitigation specifically for the GS < 50 kW class. However, Board staff submits that one option worth considering would be to keep the SMDR recovery for Residential customers to 2 years, as originally proposed, while allowing the four year recovery for the GS < 50 kW class.[51] Board staff estimates that the 2-year recovery for the Residential SMDR as updated for 9-Staff-62s would be $1.14/month. CWH should respond as to the reasonableness and the capability of its CIS and billing system to accommodate differing recovery periods for different customer classes.

CWH has documented $34,974 capital costs and $7,131 OM&A expenses related to "beyond minimum functionality", largely related to computer system

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premise that utilities needed a "working capital" inventory of spare meters for "like-for-like" replacement for resealing/reverification per Measurement Canada requirements. In a recent decision regarding Kingston Hydro's smart meter cost recovery EB-2012-0310, the Board determined that Article 410 of the APH should not pertain to the "inventory" of smart meters that distributors procured prior to mass deployment, on the basis that the replacement of conventional meters by smart meters was not a "like-for-like" replacement. Board staff observes that, in most applications to the Board to date for smart meter deployment, distributors have generally aligned the smart meter procurement costs with when the smart meters were installed and hence went into service for their customers and not when they were procured.

[51] The Board has considered and approved different recovery periods for SMDRs for different customer classes in certain applications for smart meter recovery. With respect to Bluewater Power's stand-alone smart meter application EB-2012-0263, the Board approved a 6-month recovery for the Residential SMDR and a 24-month recovery for the GS < 50 kW customer class.

upgrades for TOU billing and integration with the provincial MDM/R. Board staff takes no issue with these amounts.

CWH has filed documentation in support of its smart meter proposal in compliance with Guideline G-2011-0001.

As a result of CWH's revised smart meter evidence filed on March 8, 2013 in response to supplementary interrogatories, Board staff has prepared the following table of per meter costs:

Year	2006	2007	2008	2009	2010	2011	2012	2013	Total
Capital	$ 6,521	$ 16,082	$ 16,224	$ 993,113	$ 243,766	$ 81,446	$ 21,279		$ 1,378,431
OM&A	$ -	$ -	$ -	$ -	$ -	$ 9,234	$ 85,726		$ 94,960
Total Capex and OM&A	$ 6,521	$ 16,082	$ 16,224	$ 993,113	$ 243,766	$ 90,680	$ 107,005	$ -	$ 1,473,391
Number of Smart Meters Installed	0	0	0	6219	137	63	143		6562
Average Capital Costs per Smart Meter									$ 210.06
Average Capital and OM&A Costs per Smart Meter									$ 224.53

Board staff submits that these average capital and average total costs per installed smart meter are within the range that the Board has reviewed and approved in other smart meter applications, many of which have been completed within the past year. While the per meter costs may be slightly higher, Board staff considers that this may be due to CWH's smaller size which would inhibit realizing economies of scale available to larger distributors. Given its size, its participations with other utilities, and after review of the documentation filed in the Application, Board staff takes no issue with CWH's proposed smart meter costs, either on an aggregate or on a per meter basis.

Board staff notes that CWH became authorized for smart meter deployment in accordance with the London Hydro RFP process pursuant to O.Reg. 427/08 amended by O.Reg. 235/08. CWH is a member of the Cornerstone Hydro Electric Concepts ("CHEC") group, along with about 15 other Ontario electricity distributors. The documentation provided demonstrates how CWH collaborated with other CHEC group distributors to ensure that its smart meter procurement, deployment and operation was and is economical.

Stranded Meters

CWH is proposing a Stranded Meter Rate Rider of $0.90 per month for Residential customers and $2.79 per month for GS < 50 kW customers, to be effective for a period of two years, to recover the net book value of $175,247.80 for conventional meters for those two customer classes stranded through replacement by smart meters.[52] Costs for stranded meters were allocated based on the capital-weighted meter costs from sheet I7.1 of CWH's 2007 Cost Allocation model. A copy of this sheet was filed in response to an interrogatory from Board staff.[53]

Board staff submits that CWH has calculated the Stranded Meter Rate Riders in accordance with Board policy and practice, and takes no issue with CWH's proposal.

Other Matters

Accounting Standards Used for the Application

In its CoS rate application filed on November 16, 2012 for the 2013 rate year, CWH used Modified IFRS as the accounting basis for its application. In its evidence, CWH provided the IFRS-CGAAP transition PP& E amount in Appendix 2-EB under Account 1575 for a total credit balance of $311,448 for the closing net 2012 PP&E difference between the Canadian GAAP ("CGAAP") and Modified IFRS to be amortized over 4 years.[54]

CWH stated that it has deferred the implementation of IFRS from January 1, 2013 to January 1, 2014 or until a final decision is made by the Canadian Accounting Standards Board (AcSB) and the International Accounting Standards Board (IASB) regarding regulatory assets and liabilities.[55] In a response to a Board staff supplementary interrogatory, CWH proposed to remove the PP&E

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[52] Exhibit 10/Tab 1/Schedule 1/Table 10.2
[53] 10-Staff-37
[54] Exhibit 2/Tab 5/Schedule 3/page 2
[55] Exhibit 2/Tab 5/Schedule 2/page 1

Account 1575 adjustment from its 2013 revenue requirement because it decided to defer the adoption of IFRS.[56]

In a subsequent letter to the Board dated March 26, 2013, CWH informed the Board that it changed the basis of accounting standards that was used in its 2013 CoS rate application from a Modified IFRS to a CGAAP basis and subsequently provided updates to its evidence based on CGAAP. CWH requested that the Board approve the proposed change. CWH also requested to withdraw the disposition of Account 1575 since filing a 2013 CoS rate application based on CGAAP does not require the use of Account 1575. In addition, CWH noted that it had changed its depreciation expense policy effective as at January 1, 2013 consistent with the Kinectrics Report. Furthermore, CWH stated that it was not forecasting any change to its capitalization policy for 2013 and therefore the schedule for Account 1576 no longer applies.

Board staff notes that, similar to CWH's case, several distributors have deferred the adoption of mandatory changeover from CGAAP to IFRS from January 1, 2013 to January 1, 2015. On that basis, these distributors have changed the accounting basis that was used initially for their 2013 CoS rate applications from MIFRS to a CGAAP during the course of their 2013 rates application proceedings. In these situations, there was no need for these distributors to make an adjustment to their 2013 revenue requirement for the change in PP&E as a result of changes to their capitalization and depreciation policies. Under a CGAAP application, the changes to these policies are regarded as changes in accounting estimates, which are treated as prospective.

Board staff reviewed the updates that were provided by CWH on March 26, 2013 and has found no issues with the revised evidence that has been filed on a CGAAP basis on an updated CGAAP basis for 2013.

– All of which is respectfully submitted –

[56] 9-Staff-61s, b) & c), dated March 8, 2013