

# **Board Staff Second Supplemental Interrogatories West Coast Huron Energy Inc.**

**EB-2012-0175**

## **Exhibit 1 Administration**

### ***1 Staff 58s Updates***

There will be a number of changes that flow from the following Board staff interrogatories. Please provide a schedule similar to Appendix 1 which was in response to 1 VECC 1, and update the following:

- RRWF
- Chapter 2 Appendix
- Cost Allocation
- Rate Design
- EDDVAR Continuity Sheet
- Smart Meter Model

Please provide all models in a live Excel format.

## **Exhibit 2 Rate Base**

### ***2 Staff 59s Cost of Power***

**Reference 2 Staff 2**

[http://www.ontarioenergyboard.ca/OEB/\\_Documents/EB-2004-0205/RPP\\_Price\\_Report\\_May2013\\_20130405.pdf](http://www.ontarioenergyboard.ca/OEB/_Documents/EB-2004-0205/RPP_Price_Report_May2013_20130405.pdf)

WCHE responded to Board staff request by updating the cost of power for the cost of transmission. Please update cost of power for the most recent RPP cost found in the referenced link.

### ***2 Staff 60s Net Book Value***

**References: Application Appendix 2 – (Chapter 2 Appendices)**

**Intervenor Interrogatory Responses Appendix 3 – (Chapter 2 Appendices)**

**Board staff Interrogatory Response Appendix 2 – (Chapter 2 Appendices)**

**Application RRWF**

**Intervenor Interrogatory Responses Appendix 2 – (RRWF)**  
**Board staff Interrogatory Response Appendix 1a – (RRWF)**  
**Exhibit 2 Tab 2 Schedule 2; Rate Base Summary Table**  
**Intervenor Interrogatory Responses Appendix 27 – (Rate Base Summary Table)**  
**Board staff Interrogatory Responses Appendix 1, Tab: Rate Base-Cost of Capital.**  
**2 VECC 4 Appendix 4**  
**2 Staff 8**

From the respective documents referenced above and as identified by the column headings below, Board staff has developed the following table:

<b>Variations in Rate Base Exhibits: West Coast Huron EB-2012-0175</b>						
	<i>col. 1</i>	<i>col. 2</i>	<i>col. 3</i>	<i>col. 4</i>	<i>col. 5</i>	<i>col. 6</i>
	<b>Appendix 2</b>	<b>RRWF</b>	<b>RB Summary</b>	<b>Col. 2 - 1</b>	<b>Col 3 - 1</b>	<b>Col. 3 - 2</b>
<b><u>Gross Book Assets</u></b>						
1 Application	12,721,085	11,797,335	12,721,085	-923,750	0	923,750
2 Intervenor	11,569,729 <sup>1</sup>	10,058,479	11,569,729	-1,511,250	0	1,511,250
3 Board Staff	11,522,494	10,034,861	10,034,861 <sup>2</sup>	-1,487,633	-1,487,633	0
<b><u>Gross Book Assets</u></b>						
4 Application	-2,868,270	-2,678,937	-2,868,270	189,333	0	-189,333
5 Intervenor	-2,767,439	-2,609,065	-2,767,439	158,374	0	-158,374
6 Board Staff	-2,768,724	-2,609,708	-2,609,708	159,016	159,016	0
<b><u>Gross Book Assets</u></b>						
7 Application	9,852,815	9,118,398	9,852,815	-734,417	0	734,417
8 Intervenor	8,802,290	7,449,414	8,802,290	-1,352,876	0	1,352,876
9 Board Staff	8,753,770	7,425,153	7,425,153	-1,328,617	-1,328,617	0

**Notes:**

1 Appendix 2-B Fixed Asset Continuity Schedule was filed as Appendix 3 to the IRRs

2 The RB Summary was found as Appendix 1 Tab Rate Base to staff IRRs

Board staff have concerns over the inconsistencies found in the respective evidence as set out in columns 1 – 3. Columns 4 – 6 show the inconsistencies in the variances. For clarification, column 1 is from the Appendix 2-B Fixed Asset Continuity Schedule, column 2 is the Revenue Requirement Work Form, and column 3 is the Rate Base Summary Table found at Exhibit 2 Tab 2 Schedule 2, and adjusted in the subsequent interrogatories. The following questions are to set a clear and understandable record. In Board staff Interrogatory Response Appendix 1, Tab: Rate Base-Cost of Capital, WCHE details the adjustments to the Gross Book Assets (“GBA”), Net Book Assets

("NBA") and Depreciation arising from the interrogatories of the intervenors and of Board staff. The starting point in the table is a GBA of \$11,797,335 which is not the value shown in the Application Exhibit 2 Tab 2 Schedule 2, or the Chapter 2 Appendix 2-B (MIFRS 2013). From line 1 of the above table it is still unclear as to what WCHE considered its 2013 asset related values to be when it filed the application.

- a) In regards to line 1 from the Application, please state which value is the GBA. If it is not \$11,797,335, please state why, and show complete details with a full explanation making it clear as to why the number is different from the asset continuity table, Appendix 2.

Interrogatories posed by Intervenors and Board staff resulted in the adjustments shown in Board staff Interrogatory Response Appendix 1, Tab: Rate Base-Cost of Capital. The first adjustment is (\$1,738,856) to reflect 2012 actual fixed asset additions and deferrals from 2012 into 2013.

- b) Please provide a detailed and itemized calculation of the (\$1,738,856) adjustment to the GBA, and the calculation of the depreciation adjustment.
- c) Please reconcile the (\$1,738,856) adjustment to 2 VECC 4 Appendix 4.

The second adjustment is in response to 2 Staff 8

- d) It appears that only half of the proceeds are considered on the adjustment. Please state the date that the proceeds were received, or are expected to be received.

For the purposes of establishing rate base, the net book value included in rate base is the opening 2013 balance plus  $\frac{1}{2}$  of the total 2013 capital expenditures for assets that were placed into service in 2013 recognizing the half year rule.

- e) Please show a detailed trail from the opening 2013 GBA balance and accumulated depreciation in Board staff Appendix 2 to the NBA that WCHE proposes as the NBA to be included in the 2013 rate base. Please state the reference for the opening values, include the two adjustments arising from the intervenors interrogatory responses and Board staff interrogatory responses, showing any adjustments flowing from all supplemental interrogatories, and show the determination of the depreciation, including the depreciation for contributions.

## **2 Staff 61s CAPEX**

**References: 2 Staff 4**

**Exhibit 2 Tab 2 Schedule 1 Table <>, Capital Spending  
2 VECC 4 Appendix 4**

Board staff is still concerned about the continuation of investments that are categorized as storm damages from the Tornado. In response to Board staff, WCHE states that it has prioritized investments due to the extent of the damages. To Board staff, it is also clear that WCHE was not able to deliver on its 2012 CAPEX of \$5,015,000, and only invested \$2,708,007 as shown in 2 VECC 4 Appendix 4. In the referenced Exhibit 2 table, CAPEX tapers to \$722,500 in 2016.

In Appendix 4 WCHE has revised CAPEX for 2013 to \$3,297,500. The 2013 CAPEX amount is also greater than it has managed in its past. Board staff is concerned that the amount proposed in 2013 will overstate the rates over the next 4 years. Staff feels that given the somewhat arbitrariness of labelling work as storm damage related, and WCHE's statement that it can prioritize the CAPEX, Board staff would like to see a levellized amount for CAPEX in the 2013 additions that reflect the anticipated expenditures through to the next rebasing year. Please provide a detailed calculation, stating the work to be done by year and the levellized amount for inclusion in 2013.

## **Exhibit 5 Cost of Capital**

### **5 Staff 62s Depreciation**

**Reference 5 Staff 34 Appendix 11**

**5 Staff 35 Chapter 2 Appendix OB-Debt 2013 (revised)**

In Appendix 11, WCHE has a weighted long term debt rate of 4.12% for 2013. In Chapter 2 Appendix OB-Debt 2013, WCHE calculates a weighted long term debt rate of 3.68% for 2013. The weighted cost of debt should be based on the estimate of the debt financing for the test year found in Chapter 2 Appendix OB-Debt 2013.

- a) Please structure the debt to meet WCHE's 2013 requirements in Chapter 2 Appendix OB-Debt 2013 (revised), and use that in Chapter 2 Appendix 2-OA, Appendix 11, and in the RRWF.
- b) Please confirm that the principal amounts and interest rates.
- c) Does line 1 "start date" of Jan 1, 00 in Chapter 2 Appendix OB-Debt 2013 refer to January 1, 2000? If not please explain.

Please explain line 6 start date "above" in Chapter 2 Appendix OB-Debt 2013.

d) Please explain any changes to the table.

## Exhibit 8 Rate Design

### 8 Staff 63s Loss Factors

Reference 8 VECC 41

8 Staff 38

### Appendix 2 to Board staff Interrogatory Responses

Board staff would like clarification of WCHE's comments on loss factors. Staff is concerned about the physical behaviour of the distribution system, and therefore uses the simple logic that volumes delivered to the customer are less than the volumes delivered to the distributor. Although the LU customer is a market participant, WCHE still moves its energy. Board staff has developed the following table from Appendix 2. The line identification is consistent with Appendix 2. However line F is redefined as Gross.

		Historical Years					5-Year Average
		2007	2008	2009	2010	2011	
<b>A(1)</b>	"Wholesale" kWh delivered to distributor (higher value)	150210128	158943653	160147594	143170517	149114365	152317251.4
<b>D</b>	"Retail" kWh delivered by distributor	82588100	91774459	94418183	79127580	85610621	86703788.6
<b>E</b>	Portion of "Retail" kWh delivered by distributor to its Large Use Customer(s)	62029064	69504960	75068856	60219889	68188925	67002338.8
<b>F</b>	Gross "Retail" kWh delivered by distributor = <b>D + E</b>	144617164	161279419	169487039	139347469	153799546	153706127.4
<b>G</b>	Delivered to Distributor less Delivered to Customer	5592964	-2335766	-9339445	3823048	-4685181	-1388876

- a) Does the LU own and operate the line from the TS to its metering point?
- b) Please explain the negative losses found in line G.

## Exhibit 9 Deferral and Variance Accounts

### 9 Staff 64s Account 1592 – sub-account HST/OVAT ITCs

References: 9 Staff 40 (e)

### Chapter 2 Filing Requirements Section 2.12.2

WCHE indicated in Appendix 13 of its response that it is proposing to recover \$22,305 for account 1592, sub-account HST/OVAT ITCs.

The Provincial Sales Tax ("PST") and the Federal Goods and Services Tax were harmonized into the Harmonized Sales Tax ("HST") effective July 1, 2010. As a result of this harmonization, applicants benefitted from an overall net reduction in costs in the form of Input Tax Credits ("ITCs"). This arose due to cost decreases from the receipt of additional ITCs on the purchases of goods and services previously subject to PST that became subject to HST. The balance in this account would generally be a credit balance, i.e. refund to the customers, and not a debit balance which is a recovery from the customers.

- a) Please review the variances record in the sub-account of Account 1592 to cover the period from July 1, 2010 to April 30, 2013 and make the proper adjustments and re-file the amended evidence, as necessary.
- b) When re-filing the amended evidence for the balance in account 1592, please include an analysis to support the calculation of the balance in account 1592 per Section 2.12.2 of the Filing Requirements using the example shown in the FAQ #4 December 2010 APH FAQs.

**9 Staff 65s *Account 1590 – Recovery of Regulatory Asset Balances***

**Reference:** 9 Staff 41 (b)

WCHE has not provided the reason(s) to continue to have balance in account 1590 after Board ordered its disposition in EB-2009-0254 and again in EB-2010-0120.

Please confirm and provide assurance to the Board that:

- a) The residual balance requested for disposition of a credit amount of \$40,567 will be moved out of account 1590 in its entirety, from the principal and carrying charges, if approved by the Board.
- b) There will be zero balance left in account 1590 once the approved balances have been transferred out of this account and WCHE will not record any balances under this account moving forward.

**9 Staff 66s *Deferral Account Balance Rate Riders***

**Reference:** 9 Staff 42 (a) and (b)

WCHE did not provide the rate rider calculations with amounts properly allocated to each rate class, as requested in the Board staff IR. Instead, it provided two versions of the EDDVAR model, one where accounts 1580 and 1588 Power were excluded from allocations and the amounts were allocated to all rate classes. The second EDDVAR

model allocated accounts 1580 and 1588 Power to rate classes, excluding the LU customer class.

WCHE did not provide the reasons or references to the Board as guidance for permitting the exclusion of the LU customers from allocation of balances in accounts 1580 and 1588 Power. However, WCHE stated that it does not bill its LU customers for power or WMS and therefore does not have a RSVA variance amount that this class participates in for power and WMS.

- a) Please indicate how many of WCHE's LU customers are Wholesale Market Participants (WMP) customers where these WMP customers have an arrangement with the IESO for the commodity and wholesale market service charges and settle directly with the IESO for these items. Please identify these WMP customers.
- b) What is the justification for excluding the LU customer class from the variance account allocations of 1580 and 1588 Power? Please provide reference to any Board guidance permitting to exclude the LU from such allocations.
- c) Please explain why WCHE's LU customers should not contribute to the disposition of the difference between actual line losses and those recovered in rates.
- d) Please provide an estimate of the amount of line losses included in account balance for account 1588 Power that is attributable to the LU customer(s). Please comment on its materiality.
- e) Please provide a rate rider calculation including all accounts (except GA), with amounts allocated to all rate classes, per the Board's EDDVAR report.

### **9 Staff 67s Account 1575 – Transitional PP&E**

**Reference: 9 Staff 55(a)**

**9 SEC 22 Appendix 17**

Board staff requested WCHE to provide a detailed breakdown and an explanation for the change in balance in account 1575 from a credit of \$207,733 to a credit of \$145,015. The information provided was insufficient. Please explain and reconcile the additions in Appendix 2-EB per the pre-filed evidence of \$3,015,000 to the revised evidence per Appendix 17.

**9 Staff 68s Account 1562 PILs**

**Reference:** 9 VECC 42 Appendix 21

Appendix 21 shows that the evidence is for Erie Thames. Please explain the purpose of filing this evidence.

**9 Staff 69s Account 1562 PILs**

**Reference:** Letter of the Board, September 13, 2011 re: Disposition of Account 1562 deferred PILs

The Board, in its letter of September 13, 2011 established that the evidence required for a stand-alone PILs 1562 application consists of:

- Rate models from 2002, 2004 and 2005 applications.
- Board decisions and rate orders for 2002, 2004 and 2005 and any others that may have been issued during this period.
- PILs proxy models from the 2002 (for 2001 & 2002) and 2005 applications.
- Federal T2 and Ontario CT23 tax returns with supporting schedules for the 2001 through 2005 tax years.
- Notices of assessments, reassessments and statements of adjustments.
- Audited financial statements for 2001-2005 that were sent with the tax returns or were used in the preparation of the tax returns.
- SIMPIL models for 2001 through 2005 tax years that compare the PILs proxy data supporting the Board's 2002, 2004 and 2005 decisions with the data from the tax returns filed with the tax authorities.

Please file the missing evidence.

**9 Staff 70s Account 1562 PILs**

**Reference:** 9 VECC 42 Appendix 21

In Appendix 21 for the PILs 1562 continuity workbook, WCHE has used \$197,248 as the 2001 PILs proxy and \$155,069 for 2002, 2003 and 2004 PILs proxies. In the Board's 2002 Decision and Order the Board approved a 2001 PILs proxy of \$16,728 and a 2002 PILs proxy of \$155,069.

- a) Please explain why WCHE did not use the PILs proxy amount stated in the Board's Decision and Order for 2001.

In the Board's 2002 Decision and Order the Board also reduced the claim for interim transition cost recovery from \$195,582 to \$10,533.61.

- b) Please explain why WCHE did not use the approved interim transition cost amount of \$10,533.61 in the 2002 SIMPIL.



On January 14, 2003 the Board issued an order which rescinded its decision and order in RP-2002-0063/EB-2202-0072. The Board advised WCHE that the rates in effect were the rates as set out in Appendix B of the rate order issued in RP-2000-0263/EB-2000-0563. Board staff has filed these decisions and the orders to assist WCHE to reply to the interrogatories.

- c) Please confirm that WCHE complied with this order.
- d) Please confirm which rates WCHE used to bill its customers for the period from November 16, 2001 through April 1, 2004.

Since the date of rates when PILs were first approved to be collected from customers was April 1, 2004, WCHE did not have the entitlement to bill, nor the ability to collect PILs from its customers.

In its compendium, staff has included the following decisions to assist WCHE in answering staff's interrogatories.

- EB-2011-0146 Fort Frances Power Corporation
  - EB-2011-0187 North Bay Hydro Distribution Ltd.
  - EB-2012-0061 Veridian Connections Inc.
  - EB-2012-0197 Thunder Bay Hydro Electricity Distribution
  - EB-2012-0196 St. Thomas Energy Inc.
- e) Is WCHE familiar with the Board's many decisions on the subject of delayed implementation of rates with respect to the recalculation of PILs 1562 balance?
  - f) Does WCHE believe that it should comply with previous decisions of the Board in other proceedings?
  - g) If WCHE believes it should not comply with previous decisions of the Board in other proceedings, please provide the regulatory reasons with references supporting WCHE's position.

The PILs proxy approved by the Board at WCHE's request in its 2004 application was only \$18,000 and this amount was included in rates. In Appendix WCHE has used \$197,248 as the 2001 PILs proxy, \$155,069 for 2002, 2003 and 2004, and \$46,689 as the 2005 PILs proxy.

In the rate adjustment model ("RAM") filed by WCHE in 2004 the following note appears on sheet 7.

"Enter the 2002 PILs proxy amount as approved by the OEB in 2002 and shown on your 2002 RAM model at Sheet 8. \$18,000

Due to delays caused by a motion made in 2001 by Sifto Canada Inc., for a rate hearing on the Large User Rates, 2002 RAM Rates although approved in principle, by the OEB, for West Coast to recover 2nd year MARR, transition costs and PILs for 2001 and 2002 PILs Proxy, were not approved as a rate freeze was legislated by the Province on Dec. 9, 2002. West Coast has paid PILs to Dec. 31, 2002 of \$28,500 but was erroneously identified in 2002 Financials. This will be adjusted in 2003 financials as a Regulatory Asset. PILs Proxy for 2004 is expected to be the same as 2002 actual of \$18,000.”

- h) Does WCHE accept that the PILs proxy is zero for 2002, 2003 and the period up to April 1, 2004, \$18,000 for 2004 and \$46,689 for 2005?
- i) If WCHE disagrees, please explain the regulatory reasons for WCHE's disagreement and provide the supporting documents and references.

In the 2005 SIMPIL it shows that WCHE used the minimum income tax rate of 18.62% in its 2005 rate application. However, in the SIMPIL true-up section of sheet TAXCALC WCHE has used 33.28% and 32.16% in different places.

WCHE's rate base for that period was \$5,186,158. Rate base is a Board approved proxy for taxable capital. When taxable capital is below \$10,000,000 the taxpayer is eligible to claim the small business deductions.

- j) Please explain how WCHE calculated the tax rates of 33.28% and 32.16%.
- k) Please explain why the minimum income tax rate of 18.62% should not be used. Please provide regulatory references to support WCHE's position.
- l) Please refer to the table of minimum tax rates on page 17 of the Decision in the Combined Proceeding and note that the tax rate to calculate the tax impact is different than the tax rate used to gross up the tax impact. The gross-up tax rate is derived by deducting 1.12% from the combined tax rate.

In its 2004 application, WCHE requested a PILs recovery of only \$18,000 based its own tax forecast. A PILs proxy model was not used to calculate the PILs amount.

- m) Since a PILs proxy model was not used, does WCHE agree that there can be no true-up calculations between the amount included in rates and the tax returns?

In 2005 WCHE had a loss for tax purposes of \$391,776. WCHE carried this loss back and recovered taxes paid in 2004, 2003 and 2002.

- n) Does WCHE agree that it paid no income taxes for the period 2001 through 2005?

Staff has prepared a continuity schedule based on staff's understanding of the prior Board decisions and WCHE's evidence as filed in its applications.

- o) Please provide comments on staff's approach.
- p) Please describe how WCHE has reflected the unbilled revenue accrual as at April 30, 2006 in its calculations. Please refer to Issue #6 in the Settlement Agreement of the Combined Proceeding EB-2008-0381.

### **9 Staff 71s *Depreciation***

**Reference: 9 Staff 58**

In response to the stated interrogatory, WCHE adjusted its depreciation rates to reflect economic life. Board staff needs clarification. WCHE is depreciating Account 1840; Conduits over 50 years, while it is depreciation Account 1845: Underground Conductors and Devices over 45 years.

- a) Does WCHE replace the retired underground conduits and devices by placing new equipment into old conduits that it only expects to last another 5 years?
- b) If not, please align the depreciation to reflect the actual useful lives from an economic perspective.

### **9 Staff 72s *Lost Revenues from the Tornado***

**Reference: 9 Staff 44 e)**

Board staff requested a determination of lost volumes and a calculation by class of the lost revenues. The response does not provide sufficient rationale and details for setting lost volumes; for example a note to the schedule only states "18 months at 4%" as a description.

- a) What was the normalized volume base that was established to determine the lost volumes? By way of understanding what is required, the base may have been a series of Augusts dating back to a certain year or a series of contiguous months for a certain period.
- b) What alternatives were also considered?
- c) Why did WCHE choose the alternative that they did?
- d) Please show by customer class the number of customers and estimated volumes applied to the respective billing factors, which WCHE claims totals to \$127,878.

### **9 Staff 73s Smart Meter Costs**

#### **Reference 9 Staff 47**

The referenced interrogatory requested an explanation why no capital or repairs for smart meter infrastructure was included for 2012. The answer is not clear. It only stated that the costs were for the initial implementation.

- a) Were there any Smart Meter capital costs incurred in 2012?
- b) Were there any costs of operating and maintaining the smart meters and related infrastructure incurred in 2012?
- c) Were there any smart meters remaining to be installed at the end of 2011?
- d) If so, have they all been installed?
- e) If there are 2012 costs, please update the model with the 2012 audited costs.

### **9 Staff 74s Stranded Meters**

#### **Reference: 9 Staff 46**

Board staff requested that the stranded meters be allocated to the customer classes using the 2009 weighted factors from the cost allocation study. The allocator used allocated costs to all unmetered classes. Please explain the rational for allocating costs to these classes.

### **9 Staff 75s Z-Factor**

#### **Reference: 9 Staff 57**

In its response to part c) WCHE has included interest of \$11,348 at line 33 of the table;

- a) Please show a detailed calculation of the interest.

In the response, WCHE provided its own table, including interest for 2011, 2012, and January 13 to April 2013.

- b) Please show a detailed the calculation of the interest.