Board Staff Interrogatories

Oshawa PUC Networks Inc.
2012 Electricity Distribution Rates Application
EB-2011-0073

As identified in the Procedural Order No. 1 issued on July 22, 2011, the Board has set August 11, 2011 for the date on which Board staff is to file its interrogatories for Oshawa PUC Networks Inc.'s ("OPUCN" or "Oshawa")) 2012 cost of service rebasing application, EB-2011-0073. The following are Board staff's interrogatories.

GENERAL (EXHIBIT 1)

1 Reference: Letters of Comment

a) Following publication of the Notice of Application, did the applicant receive any letters of comment?
b) If so, please confirm whether a reply was sent from the applicant to the author of the letter.
c) If a letter of reply was sent, please file that reply with the Board.
d) If OPUCN did not reply, please explain why a response was not sent and confirm if the applicant intends to respond.

Issue 1.2 Is service quality, based on the Board specified performance indicators, acceptable?

2 Reference: Exhibit 2 page 29 Service Reliability Indices

OPUCN has provided a table of the last three year's Service Reliability Indices. Please expand the table to include the indices starting in 2006 through to 2010.

3 Reference: Exhibit 2 page 33 Table 6 Service Quality Requirements

OPUCN has provided a table of Reported Electricity Service Quality Requirements for 2008 – 2010. It appears that the quality of the service for telephone accessibility is declining.

a) Please comment on this decline.
b) Please state any steps that OPUCN is taking to improve this service.

RATE BASE (EXHIBIT 2)

Issue 2.1 Are the Applicant's asset planning assumptions (e.g. asset condition, economic conditions, etc.) appropriate?

4 Reference: Exhibit 1 page 16 – 21
Exhibit 2 page 140

Board staff request greater clarity in the evidence.

a) In regards to the first reference, please provide larger sized more legible maps and diagrams, or a more detailed electronic version.
b) In regards to the second reference, please confirm that all the tables are on the basis of a financial and rate year starting January 1 of each year.

5 Reference: Exhibit 2 page 19 – Asset Management Plan Summary
Exhibit 2 Appendix A – Assert Condition Assessment & Asset Management Plan

In the Assert Condition Assessment & Asset Management Plan, Exhibit 2 at pages 166 to 168, METSCO sets out a schedule of capital works. It appears to Board staff that for the purposes of setting a capital plan for 2011, 2012 and the ensuing five to ten years, OPUCN seems to be accepting the proposals by METSCO made in the Asset Condition Assessment & Asset Management Plan it prepared.

a) Please indicate if this is a correct observation. If not, state the parts of the proposal that were not incorporated in the capital plan for 2011 and 2012, and the reason for not adopting them.
b) Please indicate whether there was any prioritization of the projects to be completed and the principles that contributes to establishing this priority list of projects.

6 Reference: Exhibit 2 page 23 Transformers

OPUCN states, starting at line 19, that seven transformers are at or are close to their end-of-life. Two of the transformers are indicating specific problems.

a) Are all the 44kV -13.8kV transformers of the same rating?
b) Please state OPUCN's plans for maintaining the distribution system if one of these transformers catastrophically failed.
c) Does OPUCN maintain spare transformers or is there a shared arrangement with other distributors?
d) Please state the present peak loads of each of the transformers.
e) Please state any anticipated future peak load used for sizing the replacement transformers and provide reasons for the change.

7 Reference: Exhibit 2 pages 25 – 27 Overhead Primary Circuits

Board staff requests additional information regarding the plans for overhead primary line circuits.

a) Please confirm that the definition used for circuit length is that of the Canadian Electrical Association.
b) Please state the vertical scale of the graphs.
c) For the 3-phase lines, the length for #6 conductors.
d) For the 3-phase lines, provide a histogram similar to that provided for the single phase lines on page 26.
e) For the single phase lines, please provide a histogram similar to that for the 3-phase lines on the previous page.
f) The study indicates that in some cable feeds the configuration will be changed from a radial network to a loop network as a matter of operational design. Please clarify the implications of this change by stating:
    - The number of circuits to be added;
    - Circuit lengths; and
    - Identify expenditures in the application which relate to changing from a radial to a loop network.
g) Please provide a similar histogram for the 3-ph underground cable as that provided on page 25 for the 3 ph overhead lines.

<u>8 Reference:</u> Exhibit 2 page 29 Ground Grid testing

OPUCN states, beginning at line 4, that it has never performed ground grid testing in the past.

a) Please state any incremental benefits for commencing a programme of ground grid testing now.
b) Has OPUCN had problems in the past from ground grids?
c) Please provide a description of the program and the schedule for substation ground grid testing program.

Issue 2.3 Are the capital expenditures appropriate?

<u>9 Reference:</u> Exhibit 2 pages 34 – 54 Capital Project Details

2) Chapter 2 of the *Filing Requirements for Transmission and Distribution Applications*

The following table is derived from the individual project tables in Exhibit 2. Information in accordance with section 2.5.2 of the filing requirements (reference 2) is required for each of the projects:

Year		**2008**	**2009**	**2010**	**2011**	**2012**
Data Reference		Exh 2 p36	Exh2p40	Exh2p44	Exh2p48	Exh2p48
		($)	($)	($)	($)	($)
Project						
1	Enhancements Capital (OH/UG rebuilds or Upgrades	1,454,070	1,200,526	1,448,906	1,399,813	1,234,713
2	Durham Region or City of Oshawa Initiatives	849,388	538,230	n.a	295,000	365,000
3	Regulatory Reqt (LTLT elimination)				296,931	225,288
4	Stations Equipment Upgrades	839,482	620,233	406,926	3,558,352	4,951,977
5	Annual Pole Replacement	208,876	454,620	314,145	336,675	638,156
6	Unplanned Distribution Transformer Replacements	316,132	409,111	437,526	212,112	214,218
7	Unplanned OH/UG Cable Replacement	587,975	782,138	315,005	374,058	348,300
8	OH/UG Distribution Components Replacement					402,000
9	Development/Subdivision Projects	-	n.a	n.a	323,552	323,000
10	Customer Driven Projects New Connections or Upgrades	549,151	258,104	n.a	458,000	458,000
11	Fleet New Vehicles				1,040,000	1,020,000
12	General Plant and System Capital	377,743		246,903	260,000	450,000
13	Meter Installations	-	116,798			6,389,384

a) For each of the projects proposed for 2011 and 2012, please provide the information set out in Chapter 2 at page 21, section 2.5.2.1, which are:
- Need;
- Scope;
- Purpose;
- Related customer attachments (where applicable);
- Volumes and capital costs;
- Cost benefit analyses;
- Detail breakdown of starting and in-service dates for each project; and
- Capitalization policy and proposed changes to that policy.

b) OPUCN has more than doubled its capital expenditures. Please comment on the ability of OPUCN to complete the proposed work for 2011 and 2012 in the specified time frames. In the response please indicate:
- Workload accommodation (OPUCN crews or contractors),;
- OPUCN's ability to develop, issue and assess Requests for Purchase; and
- OPUCN's ability for inspecting and monitoring of the contracts.

c) For the total projects which are below the materiality threshold, provide the total dollar value and the number of projects for each year.

10 Reference: Exhibit 2 page 56 Overhead and Underground Distribution Components

OPUCN is forecasting $402,000 for overhead and underground distribution components replacements in 2012. OPUCN is not showing any expenditure in this category for the years prior to 2012.

a) Is the total expenditure to replace 3 below grade switches?
b) If not, please state the other major components being replaced.
c) Please explain why OPUCN has not been investing in this asset type in prior years.
d) Please confirm that the present switchgear cannot be modified to be remotely controlled?

11 Reference: Exhibit 2 page 56 Pole Replacement Programme

Board staff is interested in additional information on OPUCN's pole replacement programme. Please state the average cost of an installed pole, total materials, labour and associated costs. If this varies by type, please provide a table of costs by size and type.

12 Reference: Exhibit 2 page 57 Development/Subdivision Projects

Board staff is interested in additional information on OPUCN's development/subdivision projects.

a) Please indicate the total capital contributions for projects in the historical years 2009 and 2010, estimated for 2011 and forecast for 2012.
b) Please indicate the number of Developments/Subdivisions projects for the same years stated in a) above.

13 Reference: Exhibit 2 page 57 New Connections or Upgrades

Board staff is interested in additional information on OPUCN's new connections or upgrades.

a) Please indicate the number of New Connections/Upgrades in 2009 and 2010, estimated for 2011 and forecast for 2012.

b) Please indicate the average expenditure per Connection/Upgrade provided in response to a) above.

c) Please explain any significant changes in the average expenditure.

Issue 2.5 Is the working capital allowance for the test year appropriate?

14 Reference: Exhibit 2 page 64 Table 15 Working Capital Allowance
Exhibit 2 page 66 Table 17

OPUCN has estimated its 2011 and forecast its 2012 cost of power using the RPP price for commodity for residential and general service < 50 kW.

a) Please recalculate the costs of commodity splitting the costs between RPP and non-RPP customers.
b) Please show the detailed calculation for the RPP costs of commodity.
c) Please state your source and show your calculation of the non-RPP cost of commodity.
d) Please explain why there are no costs for commodity for the rate classes that are not residential or general service > 50 kW.

Issue 2.6 Is the proposed rate base for the test year appropriate?

15 Reference: Exhibit 1 page 15 Reconciliation
Exhibit 2 page 25

The first reference indicates 562 km of primary 4 phase lines, while the second indicates 343km of 3 phase primary lines.

a) Please reconcile the difference.
b) Are any of these lines above 50 kV?

16 Reference: Exhibit 2 page 47 GIS System

In July 2010, OPUCN's Board of Directors gave approval to replace its GIS system (the "existing system") at a cost of $246,903, claiming that the existing system "was not operating as expected and negatively impacted design and operations productivity".

a) Please state all reasons that gave rise to the need to replace the existing system.
b) Please provide any other relevant documents.
c) Did the existing system not meet the specification stated by OPUCN when it went to tender?
d) If the existing system did not perform to the specifications, is OPUCN taking any legal/commercial recourse?
e) If the existing system met the specifications, did OPUCN not anticipate the needs that gave rise to the deficiencies?
f) When was the existing system acquired?
g) What was the original cost of the original system?
h) When was the existing system removed from rate base?
i) What is the original system's net book value on December 31, 2010?
j) Does the cost of $246,903 reflect any recovery of previous system's costs?

17 Reference: Exhibit 2 page 48 Highway 401 Crossing

OPUCN has proposed to replace the 401 crossings at an estimated cost of $1,399,813 in 2011. Part of this project is a carryover from 2010.

a) OPUCN states: "Previous assessment on all existing OPUN's 401 crossings, confirmed that the 401 Crossing projects are urgently required…" When was the "previous assessment"?

b) Please provide the documentation of the assessment which was the basis of the projects.

c) Were the five crossing facilities included in the METSCO Asset Condition Assessment?

d) If the crossings were part of the METSCO Asset Condition Assessment, please reference the sections of the METSCO Report, or provide the assessment.

e) Was the 401 line crossing that failed in 2010 one of the lines previously assessed as requiring urgent replacement?

18 Reference: Exhibit 2 page 51 Unplanned Overhead and Underground Cable Replacements

Board staff wants to understand the basis of the estimates for unplanned future capital expenditures in this category. Board staff prepared the following table:

Unplanned Overhead and Underground Cable Replacements

	2008	**2009**	**2010**	**2011**	**2012**
Annual Total	$ 587,975	$ 782,138	$ 314,145	$ 374,058	$ 348,300

a) When a cable fault occurs, does OPUCN replace the entire cable or is the fault repaired in some fashion, such as splicing in short pieces?

b) Is there coordination between the Asset Condition Plan and emergency cable repair? In other words, if OPUCN is aware that the cable is scheduled to be replaced in the near term, is the replacement accelerated by expending the capital at the time of the needed repair?

c) Does OPUCN replace cables even if they are not listed to be replaced when a fault occurs on the cable?

d) Please provide any other information that would help in understanding OPUCN replace/repair decision making.

e) When OPUCN sets the budget for this category, is there a contingency for replacing cable during emergency repairs? If there is how is the contingency determined and how much is it?

f) How are the costs estimated for the forecast?

19 Reference: Exhibit 2

Board staff requests completion of the following table filled in. The referenced page in the second line of the header is the page in Exhibit 2 on which the explanation of CAPEX for a specific year starts. By way of example, the discussion of CAPEX for 2008 begins on page 36 of Exhibit 2. An example is in the cell for the 1st project in the 2008 column..

	Year (Exh 2 reference starting page)	2008 *P36*	2009 *p40*	2010 *P44*	2011 Estimate *p 48*	2012 Forecast *P 54*
1	Enhancements Capital (OH/UG rebuilds or Upgrades	$XXX/1,454,070				
2	Durham Region or City of Oshawa Initiatives					
3	Regulatory Reqt (LTLT elimination)					
4	Stations Equipment Upgrades					
5	Annual Pole Replacement					
6	Unplanned Distribution Transformer Replacements					
7	Unplanned OH/UG Cable Replacement					
8	OH/UG Distribution Components Replacement					
9	Development/Subdivision Projects					
10	Customer Driven Projects New Connections or Upgrades					
11	Fleet New Vehicles					
12	General Plant and System Capital					
13	Meter Installations					

a) For each of the project categories listed on the left side of the table state the amount of the successful competitive bid relative to the total amount of the CAPEX for the project category. (i.e. $competitive/$total).

b) For each of the projects in the table above, for which there was or will be no competitive bidding, or for which only a part of the project was or will be competitively bid, please

   I. Indicate the basis for the project cost (standard costs, time & material, etc.).

   II. Where a standard cost is applied, provide this information e.g. a standard estimate for installing a pole.

   III. Please provide a project estimate sheet showing how the expenditures were developed, and the justification for proceeding.

c) For each of the projects in which work is being done by contractors or consultants please provide the value of the contract and whether or not the contract was a result of a competitive bid.

d) For each of the projects for which there was a bidding process please indicate the details and reasons for any contracts in which the lowest qualified bidder was not chosen.

20 Reference: Exhibit 2, page 12 lines 8 – 15 Fleet

Board staff requests additional information on the new fleet investments that OPUCN is proposing.

a) Please provide a table indicating:

   i existing fleet vehicles,;

   ii purpose of vehicle;

   iii date of acquisition;

   iv current net book value;

- v planned replacement date;
- vi reason for replacement;
- vii budgeted cost for replacement; and
- viii description of replacement vehicle.

b) Please explain fully the meaning of “ergonomically unsuitable to the employees” and state the implications of the new vehicle compared to the replaced vehicle.

Issue 2.7 Is the accounting for smart meters in rate base appropriate?

21 Reference: Exhibit 9 page 17 Smart Meter Proposal
G-2008-0002 Guideline Smart Meter Funding and Recovery

OPUCN is proposing to include in rate base its estimated 2011 smart meters assets and related accumulated depreciation based on the audited December 31, 2010 balances and an estimate of the December 31, 2011 balances. The Board has listed evidence that must accompany an application for smart meter cost recovery. Please provide or explain:

a) An updated status report. Please include the number of smart meters installed and outstanding by class, and the status of the Metering Automation Server. The costs are to reconcile to audited costs up to and including 2010.

b) Capital and operating unit costs per meter and in total for:
- i Procurement and installation of the components of the AMI system;
- ii Customer information system;
- iii Incremental operating and maintenance activities;
- iv Change to ancillary systems; and
- v Stranded meters.

c) A breakout of the originally budgeted costs and actual costs for smart meters, AMI and other systems based on Appendix A of the Board’s Decision with Reasons EB-2007-0063, August 8, 2007. Explain any differences between the budgeted and actual costs.

d) Justification for any smart meter or AMI costs incurred to support functionality that exceeds the minimum functionality adopted in O. Reg. 425/06

e) The basis on which recovery of costs is allowed under applicable law for any costs incurred that are associated with functions for which the SME has the exclusive authority to carry out pursuant to O. Reg. 393/07.

f) The selection process of each contractor.

Issue 2.8 Is the accounting for stranded meters appropriate?

22 Reference: Exhibit 9 page 14 Stranded Meters
EB-2010-0132 Hydro One Brampton Networks Inc.

OPUCN has stated that it is not seeking disposition of its stranded meter costs, and that it continues to recover the related costs by including the net book value of stranded meters in its rate base for rate-making purposes, consistent with the findings in the combined hearings EB-2007-0063. Recently the Board has given further direction in its EB-2010-0132 Decision, stating that continued inclusion of stranded meters in rate base, while at the same time allowing smart meters in rate base would constitute a double counting of assets in rate base.

In that Decision, the Board directed the distributor to remove the stranded meters from rate base and establish rate riders for the applicable customer classes.

a) On June 22, 2011, the Board issued an update to its Appendices to the Chapter 2 Filing Requirements for Transmission and Distribution Rate Application which included a new Appendix 2 –R Stranded Meters. Please file Appendix 2-R.
b) Please restate rate base as a result of removing the stranded meters.
c) Please provide a detailed calculation that allocates the costs of the stranded meters by rate class.
d) Please also provide a reasonable disposition period and associated rate riders.

2.9 Is the basic Green Energy Plan appropriate?

23 Reference: Exhibit 2 Appendix B page 197 Basic Green Energy Plan

OPUCN has filed with the Board a Basic Green Energy Plan.

a) Please confirm that OPUCN is not seeking approval in this cost of service application for any projects which fall under the GEA plan.

b) Please confirm that OPUCN is expecting to recover all future costs for GEA connection projects, such as the General Motors project, through using Account 1531: Renewable Generation Connection Capital Deferral Account.
c) If OPUCN is not intending to use Account 1531, please explains OPUCN's plan for accounting for green energy CAPEX.

24 Reference: *Filing Requirements Distribution System Plans – Filing Under Deemed Conditions of Licence EB-2009-0397 March 2010*

Section 2, Planned Development to Accommodate Renewable Generation Connection, lists information that is to be provided related to OPUCN's outlook and objectives for accommodating the connection of renewables over the next five years. Please provide a table that addresses the following points culled from section 2 for each of the five years of OPUCN's Green Energy Plan:

i The number and MW of renewable generation connections anticipated;
ii The infrastructure projects and activities to be undertaken;
iii Direct benefits calculation if appropriate;
iv Method and criteria for prioritization; and
v Any required consultations with distributors and transmitters.

25 Reference: Exhibit 2 Appendix B page 197

OPUCN states in its Green Energy Plan that on average it expects about 20 microFIT and FIT requests per year.

a) Has OPUCN hired, or does it plan to hire in 2012, any staff as a result of incremental work from the Green Energy Plan?
b) If the answer to a) is yes, please provide an estimate of the percentage FTE that would be for due to the Green Energy Plan.
c) The OPA indicates in its letter of April 28, 2011 that it is unable to confirm the number of MicroFIT applications that are being processed by OPUCN. Please provide an update on the current number of micro FIT applications that have been received by OPUCN so far in 2011?

LOADS, CUSTOMERS - THROUGHPUT REVENUE (EXHIBIT 3)

Issue 3.1: Is the load forecast methodology including weather normalization appropriate?

26 Reference: Weather Normalized Load and Customer/Connection Forecast, Exhibit 3, page 9 - 25.
Exhibit 2 page 10

Board staff would like to better understand the decision stated on page 10 to model energy purchases rather than model billed consumption. OPUCN states that the billing volumes are based on a period that is different from a calendar month. Did OPUCN perform any regressions of billed volumes by rate class through aligning the dates of the daily degree days with the dates in the billing period stated in the bills? If not why not?

27 Reference: Exhibit 3, page 13 Temperature Sensitivity

It appears that purchases for the low-temperature sensitive and non-temperature sensitive loads, Large User, Street Lighting, Sentinel Lighting, and USL, were included in the regression.

a) Did OPUCN include the four rate classes mentioned above in the model and regress them against HDD and CDD?
b) If they were included in the regressions, please explain the HDD and CDD sensitivity of the Street Lighting, Sentinel Lighting, and USL rate classes.

Board staff suppositions that with the penetration over the past half century of natural gas as the preferred choice for heating by homeowners and housing developers, that there are very few residential customers with electric heating.

c) What percentage of the residential market is electric heating?
d) What percentage of the GS < 50 kW market is electric heating?

e) Was there any attempt to replace the HDD variable with a variable that effects the hours of daylight. Such a factor could be the factor used to determine the load profile of street lighting for billing purposes.

f) What is the bias in the model by including loads that either are very low, or non temperature sensitive in a regression with HDD and CDD as determinants?

g) Were there any attempts to refine the HDD and CDD calculations by varying the balance points to different values in order to recognized the increases in building envelope efficiencies from what existed when 65 ^{o}F was established by the American Gas Association in the 1920's?

28 Reference: Exhibit 3, page 15 Models Statistical Variables

Oshawa_Weather Normalization Regression Model - 2012 OPUCN Net 20110531.xls.XLS

OPUCN provides some statistical parameters for its regression variables and model on page 15. Board staff found additional information in the forecast model in the filed Excel workbook Oshawa_Weather Normalization Regression Model - 2012 OPUCN Net 20110531.xls.XLS. Please confirm that the following statistical variables apply to the volumetric forecast model:

Issue 3.2: Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?

Regression Statistics	
Multiple R	93.0%
R Square	86.4%
Adjusted R Square	85.7%
Standard Error	4,052,733
Observations	96

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	9.4297E+15	1.88594E+15	114.8237504	1.66426E-37
Residual	90	1.47822E+15	1.64246E+13		
Total	95	1.09079E+16			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	9,117,916.67	16,120,234.64	0.57	0.573060	(22,907,742.37)	41,143,575.72
Heating Degree Days	40,387.02	2,521.04	16.02	0.000000	35,378.54	45,395.50
Cooling Degree Days	124,443.41	20,434.51	6.09	0.000000	83,846.68	165,040.13
Oshawa Unemployment Rate	(993,723.26)	250,618.56	(3.97)	0.000147	(1,491,620.77)	(495,825.75)
Number of Days in Month	2,803,296.84	530,003.85	5.29	0.000001	1,750,351.70	3,856,241.98
Spring Fall Flag	(7,532,047.96)	1,077,976.05	(6.99)	0.000000	(9,673,635.49)	(5,390,460.43)

29 Reference: Exhibit 3, Page 17 Trend Plots.

OPUCN states that it is using a 7 year trend analysis for estimating degree days in order to be consistent with the period on which the regression model was developed and supports that position with two trend diagrams.

a) Please define the vertical axis (annual kWh, Degree Days?).
b) Please state how the trend lines were determined and provide the descriptive statistics if it was a statistical regression.
c) Please state the strengths and weaknesses of employing normal degree days developed from trends on seven, ten, and twenty years' data.

Issue 3.4: Are the revenues from the microFIT customers appropriate?

30 Reference: Exhibit 3 Table 16 MicroFIT Revenues

It is not clear to Board staff how OPUCN is including its microFIT revenues.

a) Please state in which account the microFIT revenues are included.
b) Please show the calculation of the estimated revenues for microFIT in 2011, and 2012.

Issue 3.5: Are the proposed revenue offsets appropriate?

31 Reference: Exhibit 3 page 26 Other Operating Revenue

Board staff is concerned that there might be charges in the Conditions of Service that are not stated in the Standard Service Charges.

a) Please state if there are charges in the Conditions of Service that are not in the Standard Supply Service.
b) Please file the conditions of service or provide a reference to the web page on which it is posted.

OPERATING COSTS (EXHIBIT 4)

Issue 4.1 Is the overall OM&A forecast for the test year appropriate?

32 Reference: Exhibit 4 page 25 Cost Drivers

OPUCN has provided Table 16, which itemizes cost drivers that have affected the level of OM&A from 2008 to the forecast 2012 Test Year. Board staff is interested in examining the effects of item A, General Inflation on the provided evidence.

a) For Cost Driver A, General Inflation, please state the rate of inflation and the components affected by the inflation factor for 2009 and 2010 that gave rise to $20,515 and $130,281 respectively.
b) Please restate all years by using the respective GDP – IP – FDD for each year in the table.

An identified cost driver to O&M is due to the inclusion of FTEs for smart meters in 2012, which is $256,700.

c) How many FTE's does this represent?
d) Please itemize the components that total $256,700.

Board staff notes that OPUCN has lost a significant load and bad debt has risen significantly. However, Board staff is interested in whether past experiences will continue into 2012.

e) Does OPUCN have a watch list, which is a list of customers that could potentially close down, or declare bankruptcy?

f) If there is a watch list, was the forecast based on the list?

g) For those that are in arrears, is OPUCN negotiating in order to help maintain them as a customer by discussing reasonable terms for both parties going forward?

OPUCN is showing a reduction in the cost driver "Overhead Allocations to Capital". OPUCN is also undertaking increased capital projects in 2012 and beyond, and has filed its application under MIFRS. Under MIFRS, only direct costs are allowed to be capitalized, while under CGAAP, direct and indirect costs were allowed to be capitalized.

h) Is the $72,665 reduction to OM&A arising from greater overheads being allocated to capital only the direct costs and overheads? In other words, it excludes indirect costs.

<u>33 Reference:</u> Exhibit 4 page 39 – 40 Regulatory Costs

OPUCN estimates that its regulatory costs for 2012 will be $400,000. In Table 17 regulatory cost for 2012 is $100,000.

a) Is the $100,000 the forecast $400,000 amortized over the base year and the next three IRM years?

b) Whether the answer to a) is yes or no, please provide a detailed breakdown of regulatory costs for 2012.

OPUCN has included LEAP program funding of $26,717 in Account 5410 – Community Relations calculated as 0.12% of the 2012 Test year Revenue Requirement.

c) Please stats if there are any amounts in the forecast test year for legacy programmes, such as Winter Warmth.

<u>34 Reference:</u> Exhibit 4 page 46 Incentive Pay

OPUCN states that it offers an incentive plan to non-union staff which ranges between 5% and 10% of base salary, the final payout being made based on performance compared to targets set at the beginning of the year.

a) Are the incentives based on measured performance levels?

b) If the answer to a) is yes, are any of the measures related to reducing costs, increasing performance, or increasing productivity?

<u>35 Reference:</u> Exhibit 4 page 7 Board of Directors

OPUCN is forecasting total OM&A of $11,682,079 for 2012, which is a $2,838,977 or 32% over 2008 actual OM&A.

a) Is the cost of OPUCN's Board of Directors included in the $11,682,079?

b) If the answer to a) is yes please state:
   i The number of directors,
   ii The total forecasted cost for the Board of Directors,
   iii The total level of remuneration, and
   iv Details of other expenses related to the Board of Directors.

Issue 4.2 Are the methodologies used to allocate shared services and other costs appropriate?

36 Reference: Exhibit 1 page 22 Management Fee

OPUCN is a member of a family of companies owned by Oshawa Power and Utility Corporation ("OPUC").

a) Please provide all current service level agreements between OPUCN and OPUC, OPUCN and Oshawa PUC Energy Services Inc. ("OPUCES") and OPUCN and Oshawa PUC Services Inc. ("OPUCS").
b) Please provide the nature of the services provided to OPUCN by OPUC for the Management Fee.
c) Please provide all current cost allocations supporting the rates and charges between OPUCN and OPUC.

37 Reference: Exhibit 4 page 30 Management Fee

Management fees from OPUC to OPUCN rose by $220,000 to $700,000 for the test year, or approximately 45%.

a) Please state the number of members on the Board of Directors of OPUC?
b) Please state the number of members on the OPUC Board of Directors that are also on the Board of Directors for OPUCN?
c) Please provide the audited financial statements for 2008 and 2009 and the prospective statements for 2011 and 2012, for OPUC.
d) Please provide the cost allocation that supports the $480,000 Management Fee for 2010, and the cost allocation supporting the $700,000 Management Fee for 2012.

38 Reference: Exhibit 2 page12 lines 20-21 Rent

OPUCN states that the City of Oshawa (the "City") is the owner of the office buildings that OPUCN occupy.

a) Are all of the buildings occupied by OPUCN, including garage(s) and warehousing, owned by the City?
b) Does OPUCN pay rent to the City for the buildings occupied by OPUCN?
c) Does OPUCN rent land as well?
d) Please indicate the individual buildings and state the applicable rent.
e) How are the rents determined? Please provide any reports, studies or analysis that underpin the rents.

f) Who is responsible for the costs for improvements to these city properties?

39 Reference: Exhibit 4 page 40 Services with OPUCES and OPUCS

OPUCN states that it charges poles and duct space rent to OPUCES and to OPUCS.

a) Please state the rates charged to OPUCES and OPUCS separately for duct and pole rent.
b) Please show the source for posted rates. If calculations were used rather than posted rates, please show the calculations, and state sources and references.
c) OPUCN states that it allocates costs to affiliates based on the costs of service provided. Are the costs derived in accordance to the Affiliate Relationship Code?
d) Are there other costs and services that transpire between OPUCN and OPUCES and OPUCS?
e) If there are other costs, what are the services being provided, and by whom to whom?
f) Are the charges for these services compliant with ARC?

Issue 4.3 Is the proposed level of depreciation/amortization expense for the test year appropriate?

40 Reference: Exhibit 4 page 62 Depreciation
Board Staff Interrogatory 65 (below)

OPUCN states at line 15 that the depreciation rates are in line with those set out in the Accounting Procedures Handbook (“APH”). Board staff would like some clarification.

a) Please state the source for the depreciation rates used by OPUCN.
b) Please explain the variations in the amortization period observed between the five tables starting with Table 28 for the same asset. By way of example:

	Amortization Period in Years				
	2008	**2009**	**2010**	**2011**	**2012**
Account 1820: Distribution Station Equipment	31	34	33	33	32

c) If the explanation in a) above is due to OPUCN’s adjustments for the remaining life of the asset group, please show the remaining life calculation for the test year. Please state any assumptions and all reference to the factors used in establishing the remaining life.
d) Some column headings have superscripts. Please provide the superscripts.

41 Reference: Exhibit 1 page 14 Straight Line Remaining Life

OPUCN states that its pro forma statements are reported using IFRS. Under IFRS, depreciation is calculated using the straight line remaining life method.

a) Please calculate the depreciation for 2011 and 2012 using the straight line remaining life method and the half-year rule.
b) Please show the remaining life calculation for the test year. Please state any assumptions and all reference to the factors used in establishing the remaining life.

Issue 4.4 Are the 2012 compensation costs and employee levels appropriate?

42 Reference: Exhibit 4 page 57 OMERS

OPUCN states that it has included an anticipated increase in pension contributions to OMERS. Please provide the forecasted increase by years and the documentation to support the increases.

43 Reference: Exhibit 4 Page 28 Post Retirement Benefits

OPUCN states that movement in post retirement benefits expenses is due to meet updated actuarial valuations of the post-retirement non-pension benefit liability. Please provide the actuarial valuation reports.

Issue 4.7 Is the Test Year forecast of PILs appropriate?

44 Reference: Exhibit 4 page 70 PILs
Exhibit 4 Appendix A

Board staff require additional information regarding OPUCN's income taxes and PILs.

a) Please provide the 2010 signed tax return and all supporting schedules.
b) Please provide the federal and Ontario Notice of Assessments, Notice of Re-assessments (if applicable), Statements of Adjustments, and any other correspondence with the CRA and Ministry of Finance regarding any tax items, or tax filing positions that may be in dispute, or under consideration or review, for tax years 2008 to 2010.
c) Were the 2010 audited financial statements filed in Exhibit 1/Appendix D, the source of the numbers used in the 2010 Schedule 100 General Index of Financial Information – GIFI (included in the 2010 tax return)? If no, please provide the audited financial statements that were used as the source of the numbers used in the GIFI included in the 2010 tax return. (Please provide unaudited financial statements if audited financial statements were not generated.)
d) Please complete all schedules and file the "Income Tax / PILs Work Form" as published on the Board's website under "Filing Requirements for Transmission and Distribution Applications." For example, details of the Schedule 8 UCC Historic and Schedule 13 Reserves for Historic, Bridge and Test were not included in the pre-filed evidence.

e) Regarding Table 36, “Detailed Tax Calculations” on page 71, please state what comprises the End of Year Reserves from Financial Statements and Beginning of Year Reserves from Financial Statements.

COST OF CAPITAL AND RATE OF RETURN

Issue 5.2 Is the cost of debt appropriate?

45 Reference: Exhibit 5 page 4 Debt Cost

OPUCN is proposing a cost of long term debt of 5.21%. Please show a detailed calculation supporting this rate.

46 Reference: Exhibit 5 page 2 Long Term Debt

OPUCN states that it has a note with the Toronto Dominion Bank which is due in December 2012. It also states that through an interest swap agreement the debt has been converted to a fixed rate of 4.86%.

a) When was the interest swap agreement made?
b) What were the previous terms for setting interest?
c) For what period is the new fixed term?
d) How was 4.86% determined?
e) What are the benefits of the interest swap agreement?
f) Please provide the agreement for the fixed rate loan with Toronto Dominion Bank.

COST ALLOCATION (EXHIBIT 7)

Issue 7.1: Is the Applicant’s cost allocation appropriate?

47 Reference: Cost Allocation Model
Exhibit 2 page 67 Table 18
Board Letter, August 5, 2011, Issuance of Revised Cost Allocation Model

On August 5, 2011 the Board posted Version 2.0 of it cost allocation model on its website. This new model reflects new policies of the Board on cost allocation.

a) Please file Version 2.0 of the cost allocation model.

In reviewing the cost allocation filed by OPUCN, Board staff observed that some information is not properly represented in the model, and requests OPUCN to do the following when preparing Version 2.0 of the cost allocation model:

- OPUCN has stated that it has lost customer load and customers over the past few years and has set a forecast of kWh and KW for the test year that is reflective of this fact.
  b) Please review and adjust your original determination of the peak demands listed in Column A of Worksheet I8 – Demand Data and adjust them to reflect the 2012 forecast volumes.

- In Exhibit 2 page 67 Table 18, OPUCN has itemized the components of its $94,216,678 cost of power. On Worksheet I3 TB Data Columns D311 – D 320, OPUCN has only input the total as opposed to breaking out the components.
  c) Please break-out the components of the cost of power into the appropriate account listed in Column A of Worksheet I3 – TB Data.

RATE DESIGN (EXHIBIT 8)

Issue 8.2: Are the proposed Retail Transmission Service Rates appropriate?

48 Reference: Exhibit 8 page 11 Retail Transmission Service Rates

OPUCN states, beginning at line 4 of the referenced exhibit that it is not proposing to revise the Retail Transmission Network and Connection rates stating that there does not seem to be a growth trend in the balances of the variance accounts 1584 and 1586, and any year over year change in the balances is due to timing differences. Please provide an updated estimated 2011 balances for Account 1584 and Account 1586.

Issue 8.3: Are the proposed loss factors appropriate?

49 Reference: Exhibit 8 page 11 Los Factors

OPUCN is proposing to set its loss factors of 1.0390 based on the three years 2008 – 2012. Board staff notes that the Appendix 2-P provided by OPUCN has a 5 year loss factor of 1.0384. OPUCN is also undertaking a large capital improvement programme to upgrade its distribution system.

a) Does OPUCN expect the asset improvement programme to reduce loss factors over the next four years?
b) Please provide an explanation as to why the three year average is more appropriate than the five year average.

Issue 8.4 Is the Applicant’s proposed Tariff of Rates and Charges appropriate?

50 Reference: Exhibit 8 page 4 Table 3 Revenues by Class

The referenced table shows the proposed base revenue requirement by rate class. Please provide the calculation showing the derivation of the revenues by rate class.

51 Reference: Rate Mitigation

Through the interrogatory process, a number of questions have arisen that affect the final revenue requirement, such as smart meters, Deferral and Variance Accounts, and MIFRS.

a) Please review the rate impacts that result from the change and state whether mitigation is required.

b) If mitigation is required, please state OPUCN mitigation plan.

DEFERRAL AND VARIANCE ACCOUNTS (EXHIBIT 9)

Issue 9.1: Are the account balances, cost allocation methodology and disposition period appropriate?

52 Reference: Exhibit 9 General

OPUCN filed its Application before the Board posted additional Appendices that accompany the Chapter 2 of the Filing Requirements. Board staff also require information on past balances.

a) Please complete and file Appendix 2-T Deferred PILs Account 1592 Balances from Chapter 2 of the Filing Requirements published June 22, 2011 in support of the disposition of account 1592.

b) Has the OPUCN made any adjustments to deferral and variance account balances that were previously approved by the Board, subsequent to the balance sheet date that was cleared in the most recent rates proceeding? If yes, please provide explanations for the nature and amounts of the adjustments and include supporting documentation.

c) Please provide a schedule that links the balances in Table 5 2012 Deferral and Variance Account Disposition Amounts on page 15 to the balances in Table 3 Account Balance Reconciliation on page 13.

d) Please provide a schedule that shows the forecasted interest to December 31, 2011 that underpins the balances shown on Table 5 page 15. Board staff is assuming that the interest is derived based on the Adjusted December 31, 2010 Balances in Table 3. If this is not correct, please explain.

e) Please revise Table 5 2012 Deferral and Variance Account Disposition Amounts on page 15, to include the projected balance of Account 1521 Special Purpose Charge Assessment Variance as at December 31, 2011 and the projected balance in Account 1592 PILs and Tax Variance for 2006 and Subsequent Years as at December 31, 2011.

53 Reference: Exhibit 1 Appendix D – Cost of Power

Board staff is interested in understanding the net balances of the cost of power.

a) Please provide breakdown of energy sales revenue and cost of power expense, as reported in the audited financial statements for 2009 and 2010, by Uniform System of Accounts ("USoA") account number.
b) Please reconcile the balances to the audited financial statements.
c) If there is a difference between energy sales and cost of power, please explain.

54 Reference: Global Adjustment

Board staff would like further information on the accounting treatment of the IESO Charge Type 146.

a) Does the applicant pro-rate IESO Charge Type 146 Global Adjustment into the RPP portion and non-RPP portion?
b) Is the RPP portion that is included in Account 4705 Power Purchased control account and then incorporated into the variance reported in Account 1588 RSVA Power control account?
c) Is the non-RPP portion included in Account 4705 Power Purchased Sub-account Global Adjustment and then incorporated into the variance reported in Account 1588 RSVA Power Sub-account Global Adjustment?

55 Reference: Special Purpose Charge

The Board has said:

> "In accordance with section 9 of the SPC Regulation, recovery of your SPC assessment is to be spread over a one-year period, starting from the date on which you begin billing to recover your assessment. The request for disposition of the balance in "Sub-account 2010 SPC Variance" and "Sub-account 2010 SPC Assessment Carrying Charges" should be made after that one-year period has come to an end, and all bills that include amounts on account of that assessment have come due for payment."[1]

a) Please provide the timing of the completion of the recovery period.
b) Please provide the actual or most recent balance in Account 1521 Special Purpose Charge Assessment Variance, "Sub-account 2010 SPC Variance".
c) Please provide the forecasted carrying charges in "Sub-account 2010 SPC Assessment Carrying Charges" as of December 31, 2011.

56 Reference: Account 1595 Disposition and Recovery of Regulatory Assets

OPUCN has stated that its "2010 IRM rate approval calculated $124,964 to be refunded to customers." This amount was in respect to OPUCN customers' share of tax savings resulting from reduced Corporation Tax rates.

[1] *Letter of the Board Variance Account for "Special Purpose Charge" Assessment, April 23, 2010*

a) Please state why Account 1595 is being used for the purpose of recording these tax savings.

b) Please recalculate the balance in Account 1595 accordingly and update the relevant schedules.

c)

57 Reference: Account 1592 PILs and Tax Variance Account for 2006 and Subsequent Years

The Board expects distributors to file for disposition of account 1592 in their cost of service applications.

a) Please explain why OPUCN is not filing for disposition of Account 1592.

b) Please update the appropriate schedules with an updated balance in Account 1592 and include in OPUCN's request for clearance.

58 Reference: HST

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 may benefit from an overall net reduction in costs in the form of Input Tax Credits ("ITCs"). This arises due to cost decreases from the receipt of additional ITCs on the purchases of goods and services previously subject to PST that become subject to the HST. These cost decreases may be partially offset by cost increases on certain items that were not previously subject to PST but become subject to the HST with no additional ITCs having been granted (i.e., these items are subject to recaptured ITC requirements).

During the 2010 IRM application process, the Board directed electricity distributors to record in Account 1592 PILs and Tax Variances, Sub-account HST/OVAT Input Tax Credits ("ITCs"), beginning July 1, 2010, the incremental ITCs received on distribution revenue requirement items that were previously subject to PST and became subject to HST.

In December 2010, as part of its Frequently Asked Questions on the Accounting Procedures Handbook for electricity distributors, the Board provided accounting guidance on this matter and provided a simplified approach designed to facilitate administrative cost-saving opportunities.

No additional amounts should be recorded in Account 1592 PILs and Tax Variances, Sub-account HST/OVAT ITCs for the Test Year and going forward, as the impact of the HST and associated ITCs on capital and operating costs in the Test Year should be reflected in the applied-for revenue requirement. For the 2012 Test Year for example, entries to record variances in the sub-account of Account 1592 would cover the period from July 1, 2010 to December 31, 2011 since the Test Year, which starts January 1, 2012 would include the HST impacts in it revenue requirement for 2012.

a) Please confirm that OPUCN has followed the December 2010 FAQs accounting guidance regarding Account 1592 sub-account HST/OVAT ITCs. If this is not the case, please explain.

b) Please confirm that entries have been made to record variances in the sub-account account of Account 1592 to cover the period from July 1, 2010 to December 31, 2011. If this is not the case, please explain.

c) Please confirm that zero amounts will be recorded in Account 1592, sub-account HST/OVAT ITCs for the Test Year and forward. If this is not the case, please explain.

d) Please provide an updated balance for Account 1592 “Sub-account HST / OVAT ITCs” and include in OPUCN’s request for disposition.

59 Reference: Exhibit 9 page 35 Smart Meters
Exhibit 9 page 34
Oshawa_Smart Meters Rev Requirements Workings_20110531.xls

Page 35 of Exhibit 9 is supported by the referenced Excel model which was filed with the Board as part of OPUCN’s application.

a) Board staff noticed that in the Excel model, in the tab labelled “Accounting”, the contractors and suppliers are only recorded for 2011 and 2012.
    i Please explain why there were no payments in 2009 and 2010?
    ii Please explain the payments in 2012?

b) Board staff notes that the calculation of revenue requirement applies the capital structure and related costs for January 1, 2011 for prior periods. Please change and update the exhibit so that the approved capital structure and respective rates for each of the years 2009 – 2011 are applied to the respective costs and that the May 1, 2011 costs of capital for 2011 cost of service rate applications are applied to the 2012 costs.

c) Board staff also noticed in the Excel model, in the tab labelled “Table 2”, that interest for all of 2011 is 1.477%. Please explain setting a constant rate of 1.477%.

d) Please recalculate the Smart Meter Disposition Rider found on page 34 based on any changes that arise from the questions a) – c).

60 Reference: Account 1562 Deferred Payment In Lieu of Taxes

The Board issued its decision and order in the combined proceeding on Account 1562 deferred PILs, EB-2008-0381, on June 24, 2011. In this decision and order the Board directed distributors subject to section 93 of the *Electricity Act, 1998* to apply for final disposition of the balance in account 1562 in its next general rates application (either IRM or cost of service).

The following questions are intended to place on the record of this application, the minimum evidence required for the review and disposition of account 1562.

The evidence filed must be consistent with the level of detail found in the combined proceeding, including the findings in the Board’s decision and the settled issues found in the settlement agreement.

a) Please provide the active, auditable Excel workbooks of the following models:
    i the rate applications,

- ii PILs proxies, SIMPIL models and
- iii PILs 1562 continuity schedule for the years 2001 - 2005.

b) Please provide the following:

- i Rate application filing models (final versions) that support the Board's decisions for 2001 to 2005 for rates and the PILs proxies. Please verify that the rate schedule attached to the Board decision is the same as the rate schedule in the application filing model; otherwise you do not have the final model to use in the SIMPIL reconciliation.
- ii Signed Board decisions for each year that an application was filed requesting PILs to be included in rates.
- iii Final tax returns, notices of assessment, reassessment and statements of adjustments for each tax period 2001-2005.
- iv Revised SIMPIL models for the tax years 2001-2005 that eliminate any errors that may have arisen. Halton Hills in the combined proceeding, and Hydro One Brampton in EB-2010-0132, filed revised SIMPIL models that can be used.
- v Account PILs 1562 continuity schedule for the period October 1, 2001 to April 30, 2006 that shows:
    - The PILs proxy amounts allowed for the number of months in each tax period. Please provide the supporting calculations and references to Board documents such as the Accounting Procedures Handbook and Frequently Asked Questions.
    - The amounts billed to customers during the same tax periods. Collections from customers have been defined as the amounts billed to customers. The PILs associated with unbilled revenue accruals must be included in collections. Please provide the supporting Excel workbooks used to calculate the amounts billed to customers.
    - The deferral account and true-up variances that are calculated in the SIMPIL workbook TAXCALC sheet for each tax period.
    - The proportion of the Large Corporation Tax (LCT) included in 2005 rates that relates to the period January 1, 2006 to April 30, 2006. LCT was repealed with effect from January 1, 2006.
    - Interest carrying charges for each tax period. Please provide the interest rate chosen for each tax period. Please explain how interest carrying charges were calculated and provide the supporting worksheets.

Please note the following:

- Application PILs proxy model details and final tax data should be input into SIMPIL models and balanced to the source documents for each tax period.
- Items that should not true up to ratepayers under the methodology should be isolated from those items that are included in the true-up.

- The income tax rate chosen for each tax year should be supported by reference to tax law and Board precedents. There are different income tax rates for calculating the tax affect and the true-up amounts under the methodology.
- The capital tax rates and thresholds or exemptions chosen should be supported by reference to tax law and Board precedents.

In addition Board staff would like to know the following:

c) In the years from 2001 to 2005 if OPUCN generated or utilized tax losses, and had no taxable income, how did it choose the income tax rates used in calculating the tax impact and the gross-up amounts in the SIMPIL reconciliations? Please explain why the applicant believes that it chose the correct income tax rates for determining the true-up amounts under the SIMPIL methodology.

d) Please explain why OPCUN correctly accounts for the declining income tax rates and other changes in tax rules and legislation during the period 2001-2005 in its SIMPIL model reconciliations. Specifically, there were errors in the 2001 and 2003 SIMPIL models that were released for reporting to the Board. Please explain how the applicant overcame the errors that would have arisen from following the formula logic in the original models.

e) Please confirm whether or not the applicant used data from its final tax returns, and any tax adjustments that appeared in notices of reassessment and statements of adjustments rendered by the Ontario Ministry of Revenue, for the tax years 2001 through 2005 in calculating the final balance in PILs account 1562.

f) Please confirm that the applicant excluded regulatory assets and liabilities, when they were created or collected, in the calculation of the final balance in its PILs account 1562 regardless of the actual tax treatment accorded those amounts. This includes accounting adjustments, provisions for impairment, changes in the impairment reserve, and any other transactions related to regulatory assets and liabilities.

g) Please confirm that the applicant treated the amortization of fees and charges related to borrowing debt as interest expense when it calculated the true-up variances charged to ratepayers. Under the PILs and SIMPIL methodology, interest expense does not true up except for excess interest above the maximum deemed interest approved by the Board in each application.

h) Please confirm that the applicant excluded variances associated with Ontario Capital Tax (OCT) in the income tax true-up reconciliation. Under the SIMPIL methodology, OCT does not true up for income tax purposes, only for OCT purposes in the appropriate section of SIMPIL sheet TAXCALC.

i) Please confirm that all tax years from 2001 through 2005 are statute-barred (i.e. no longer open for audit). If any year remains open for audit by the Ministry of Revenue, please identify the year and explain the reasons why the tax year is not statute-barred.

j) Are the proposed rate riders to dispose of the account balances appropriate?

61 Reference: Exhibit 9 page 34 Smart Meter Rate Rider

The calculation of the proposed rate rider to return an over collection from the customers results in a uniform rate for all customers. Please provide a detailed calculation that determines riders that would result if the costs of the smart meter, related capital costs and O&M costs were assigned/allocated to each customer class separately.

LRAM

Issue 10.1 Did Oshawa Follow the Guidelines for Electricity Distributors Conservation and Demand management issued on March 28, 2008?

62 Reference: Exhibit 8 Pages 12-16 LRAM

OPUCN is requesting recovery of lost revenues from CDM programs implemented up to the end of 2010. In the Board's Guideline's for Electricity Distributor Conservation and Demand Management, issued on March 28, 2008, it states the information that should be included and the manner in which lost revenues should be calculated in an application for recovery of lost revenues due to CDM programs.

a) Please provide all the program results and evaluation reports OPUCN has received from the OPA that supports this LRAM request.
b) Please discuss if OPUCN is planning on filing for recovery of 2010 OPA programs once final program results are released by the OPA.
c) Please confirm that the lost revenues OPUCN is seeking to recover are new amounts that were not recovered in past LRAM applications.
d) Please confirm the date OPUCN had its last load forecast approved by the Board.

MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Issue 11.1 Does Oshawa meet the Board's requirements for modified IFRS applications as set out in Report of the Board Transition to International Financial Reporting Standards, July 28, 2009 [EB-2008-0408], the Addendum to Report of the Board, June 13, 2011 [EB-2008-0408] and related documents?

63 Reference: Exhibit 1 page 145 MIFRS Filings
Exhibit 2 page 13
Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009, EB-2008-0408

The Board said:

> "The utility will file a copy of its capitalization policy, identifying any updates to the policy, as part of its first rate filing after IFRS adoption. Revenue requirement impacts of any change in capitalization policy must be specifically and separately quantified."[2]

OPUCN states that it has not made any changes to its accounting policies since its 2008 cost of service application, EB-2007-0710. However, OPUCN is proposing its test year based on modified International Financial Reporting Standards ("MIFRS").

a) Please detail all changes to accounting policies arising from the adoption of MIFRS (e.g. changes in capitalized overhead, depreciation rates, etc.).
b) Please state the impact on the revenue requirement of these changes.
c) Please detail all changes to the capitalization policies, including any changes to that policy since the last rebasing application filed with the Board.
d) Please state the impact on the revenue requirement of the changes due to:
    I. Changes to the accounting policy due to MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement,
    II. Changes to the capitalization policy due to MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement, and
    III. Other changes to the capitalization since 2008 that are not related to MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement.

<u>64 Reference:</u> Exhibit 1 page 14 Bridge and Test Year Updates

Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 29 EB-2008-0408

Letter of the Board Transition to IFRS – Amendment to Board Policy, November 8, 2010

In the November 2010 letter the Board stated:

> "9.1.2 Electricity distributors filing cost of service applications for rates in the year they choose to adopt IFRS for financial reporting must provide the required actual years, the bridge year and the forecasts for the test year(s) in CGAAP based format. An electricity distributor may choose to present modified IFRS based forecasts for the bridge and test years, if the distributor seeks to have rates set on the basis of modified IFRS. If the distributor is seeking rates based on modified IFRS accounting, the distributor must identify financial

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[2] *Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009, EB-2008-0408 page 15*

> differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting."[3]

The Board also has stated:

> "The Board agrees that regulated net book value should be used as the basis for setting opening rate base values upon the adoption of IFRS accounting, and that historical acquisition cost should be used as the basis for reporting PP&E for regulatory purposes going forward."[4]

For financial reporting purposes, on the date of transition to IFRS, the December 31, 2010 net book value becomes the January 1, 2011 gross value for PP&E (with accumulated depreciation set to zero). However, the Board has stated that the integrity of the December 31, 2010 gross value and accumulated depreciation values should be preserved for regulatory purposes and carried forward to January 1, 2011 values.

The continuity of historic cost should be established by OPUCN by using the December 31, 2010 regulatory gross capital cost and accumulated depreciation values as the opening January 1, 2011 regulatory gross capital cost and accumulated depreciation values.

OPUCN has filed for 2012 rates based on MIFRS. Board staff would like additional information to complete the record. Please provide the following:

a) The Bridge Year in MIFRS, maintaining asset continuity by using the December 31, 2010 regulatory gross capital and accumulated depreciation as the opening January 1, 2011 regulatory gross capital cost and accumulated depreciation values;
b) The Test Year with the opening balances based on the closing Bridge Year balances based on MIFRS from a) above;
c) The Test Year in CGAAP-based format;
d) Two RRWFs for the Test Year, one based on CGAAP, and one based on MIFRS;
e) Updated Appendix 2-B Fixed Asset Continuity Schedule of the chapter 2 filing requirements; and
f) A summary of the dollar impacts of MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement.

<u>65 Reference:</u> Exhibit 4 page 62 Depreciation

Report of the Board Transition to International Financial Reporting Standards ("IFRS") June 8, 2009 EB-2008-0408

Letter of the Board Depreciation Study for Use by Electricity Distributors, July 8, 2010

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[3] *Letter of the Board Transition to IFRS – Amendment to Board Policy, November 8, 2010*
[4] *Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 EB-2008-0408 page 14*

OPUCN state that it employs pooling of assets and depreciation rates based on the APH.

Useful lives for PP&E are to be reviewed at least at each financial year-end with MIFRS.

The Board's policy articulates that LDCs shall use the Board sponsored Kinectrics study or sponsor their own study to justify changes in useful lives. The typical useful lives (TUL) from the Kinectrics report is the recommended reference point. The Board will no longer prescribe service lives for PP&E.

Salient points for the references are:::

> "The Board will facilitate a joint depreciation study for electrical distribution utilities. The aim of the study will be to determine depreciation methodologies and rates that will be applied to all electrical distribution utilities for the purpose of setting rates and regulatory reporting. The study must give due weight to the IFRS requirements regarding depreciation, including componentization."[5]

> "The Kinectrics Report provides information that the Board expects distributors will consider as they develop asset service lives suitable in their particular circumstances. The Board expects distributors to reflect their consideration of the information contained in the Kinectrics Report when they present an IFRS-based rates application to the Board."[6]

OPUCN did not present the accounting policy change on treatment of Asset impairment.

a) What changes has OPUCN made to its Depreciation Policy due to MIFRS (e.g. pooling of assets is not permitted under IFRS).

b) Please provide a list of detailed asset service lives and identify all exceptions from the Typical Useful Lives ("TUL") in the Kinectrics Report and provide detailed justification for using service lives that are different from the TULs in the Kinectrics Report. If average age of assets are different from those underpinning the METSCO report are used, please explain why the ages for depreciation should be different from that of the Asset Condition Study.

c) For the bridge and test years, please provide a breakdown of the components of the underlying PP&E assets (i.e. pool assets is not permitted), including gross capital cost and accumulated depreciation values, revised useful lives, and the calculation of the depreciation expense based on revised service lives.

d) Please confirm that significant parts or components of each item of PP&E are being depreciated separately? Please explain.

66 Reference: Gains and Losses on Retirements and Impairments

OPUCN did not present the accounting policy change on treatment of asset impairment.

[5] *Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 EB-2008-0408, page 21*

[6] *Letter of the Board Depreciation Study for Use by Electricity Distributors, July 8, 2010*

Under IFRS asset retirement obligations include estimates of the cost of constructive obligations which was not required under CGAAP, and revaluation of those obligations during the lives of the assets

The Board has said:

> "Utilities shall identify separately in their rate applications the depreciation expense associated with amortizing asset retirement costs and the accretion expense associated with the amortization of the asset retirement obligations. The Board will assess these costs independently of other amortization costs to determine the portion, if any, of these costs that should be recovered in revenue requirement."[7]

> "Where a utility for financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the utility shall reclassify such gains and losses as depreciation expense and disclose the amount separately. Where a utility for financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate filings for review by the Board. "[8]

> "Where for financial reporting purposes under IFRS a utility has recorded an asset impairment loss, for rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates."[9]

a) Please confirm whether or not the applicant has any Asset Retirement Obligations ("ARO").
    i If yes, please identify and provide a detailed breakdown of the major asset components.
    ii If no, please provide a proposal for how the asset retirement obligations should be recovered in rates.

b) Has OPUCN identified the accounting change on asset retirement obligations?
    i If so, please provide the accounting policy change and quantify the changes due to the adoption of IFRS for the test year and bridge year.
    ii If not, please provide the reasons and the plan when this is to be addressed.

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[7] *Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 EB-2008-0408, page 40*
[8] *Ibid Page 19*
[9] *Ibid page 41*

c) For the AROs identified, please provide the depreciation expenses and accretion expenses and show how these expenses are currently included in the rate application.

d) Please confirm that the OPUCN has identified the gain or loss on the retirement of assets in a group of like assets. Please provide the treatment of the retirement for rate application purpose and disclose the amount. If the gains/losses are not charged to depreciation expense please state the reasons.

e) Please disclose any asset impairment loss recorded under IFRS which should be reclassified to PP&E. Please describe:

   i The nature of the losses;

   ii The amounts of the losses; and

   iii Whether and how such amounts are to be reflected in rates.

<u>67 Reference:</u> Exhibit 2 Capitalizing Assets
Report of the Board Transition to International Financial Reporting Standards (“IFRS”) July 28, 2009 EB-2008-0408

The Board has said:

> “The Board will require utilities to adhere to IFRS capitalization accounting requirements for rate making and regulatory reporting purposes after the date of adoption of IFRS.”[10]

IAS 16 Property, Plant and Equipment states that the cost of PP&E comprises of any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 23 states that directly attributable borrowing costs are capitalized upon qualifying assets only. It also indicated that a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Board also said:

> “The Board will continue to publish interest rates for CWIP as it does now. Where incurred debt is acquired on an arms length basis, the actual borrowing cost should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm’s length basis, the actual borrowing cost may be used for rate making, provided that the interest rate is no greater than the Board’s published rates. Otherwise, the distributor should use the Board’s published rates.”[11]

Board staff is interested in the impact of MIFRS on capital expenditures.

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[10] *Ibid, page 15*
[11] *Ibid, page 40*

a) Please confirm if the costs capitalized are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. If not, please explain.

b) Has the applicant consulted with its external auditors or professional advisors regarding the change in capitalization of overhead within IFRS requirements? If yes, please provide supporting documentation. If not, please identify if there is any plan in the near future for such a consultation.

c) Please identify all overhead related items (e.g. indirect costs, corporate centre costs) and identify the items that are ineligible and how much overhead in total has been removed from capitalization for ineligible costs.

d) Please identify the burden rates related to the capitalization of costs of self-constructed assets:

   i Prior to transition (from the last rebasing application to January 1, 2011), and

   ii After transition (on or after January 1, 2011).

e) Please provide the following information in detail for overhead costs on self-constructed assets for the bridge and test years.

		Dollar Impact		Ditrectly Attibutable	
	Nature of the overhead costs	**Bridge Year**	**Test Year**	**Yes/No**	**Reasons for Capitalization (MIFRS Principles)**
1					
2					
3					

f) Please identify the overall level of increase (decrease) in OM&A expense in the test year in relation to a decrease (increase) in capitalized overhead. Please provide a variance analysis for this increase in OM&A expense for the test year in respect to each of the bridge year and historical years.

g) Please confirm that all borrowing costs that are directly attributable to the acquisition, construction, or production of PP&E costs are capitalized to PP&E and not expensed. If this is not the case, please explain.

h) Where incurred debt is not acquired on an arm's length basis, are the actual borrowing costs used? Please explain.

i) Please confirm that if the interest rate is greater than the Board's most recently published CWIP interest rates, OPUCN has used the Board's published rates to calculate borrowing costs included in the construction costs. If this is not the case, please explain.

68 Reference: *June 13, 2011 Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment*

Differences may arise with Property, Plant, and Equipment balances due to implementing IFRS. OPUCN has not provided a calculation or balance in the Board-approved PP&E Deferral Account.

a) Please update the appropriate schedules and calculate a balance for the PP&E Deferral Account.
b) Please provide a breakdown of the amount that is to be recorded in the PP&E deferral account from the transition date to MIFRS that is, as of January 1, 2011. Please provide the supporting analysis of the amounts in this account. Please provide an analysis similar to Appendix A of the March 31, 2011 *Staff Discussion Paper – Transition to IFRS*.[12]
c) Please provide a proposal for the disposition of this deferral account and rationale. (Please refer to the June 13, 2011 Addendum to the Report of the Board on IFRS.)

69 Reference: Certain Intangible Assets

IFRS requires certain assets to be recorded as intangible assets (e.g. computer software and land rights) that were previously included in PP&E.

The Board has said"

> "Where IFRS requires certain assets to be recorded as intangible assets that were previously included in PP&E (e.g. computer software and land rights), utilities shall include such intangible assets in rate base and the amortization expense in depreciation expense for determining revenue requirement."[13]

OPUCN did not present the accounting policy change on asset reclassification from PP&E to intangible assets.

a) Has OPUCN identified the accounting policy change on asset reclassification from PP&E to intangible assets? If so, please provide the accounting policy change and quantify the changes due to the adoption of IFRS for the test year and bridge year. If not, please provide the reasons and the plan when this is to be addressed.
b) For the assets identified in i), please propose the regulatory treatment in accordance with the Board report.

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[12] March 31, 2011 Staff Discussion Paper, internet link reference: http://www.ontarioenergyboard.ca/OEB/_Documents/EB-2008-0408/Discussion_paper_Transition_to_IFRS_20110331.pdf
[13] *Report of the Board Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 EB-2008-0408 page 40*

70 Reference: Exhibit 4 Pension and Other Post-Employment Benefits

Board staff is interested in the treatment of Pension and Other Post-Employment Benefits in OPUCN's MIFRS proposal.

a) What is the accounting treatment of the unamortized actuarial gains and losses and past service costs at the date of transition (January 1, 2011)?
b) What is the proposed regulatory treatment of these amounts – are these amounts incorporated anywhere in the revenue requirement? Please explain.
c) Has OPUCN applied the optional early adoption to the IASB's June 2011 revisions to IAS 19, Employee Benefits?

The IAS revisions are effective January 1, 2013, but early adopted is permitted. These revisions include the elimination of the option to defer recognition of gains and losses, known as the "corridor method".

d) Please explain if OPUCN has "early adopted" this element of IAS 19 and state whether the impacts of this early adoption are incorporated anywhere in the revenue requirement.