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BY EMAIL

December 13, 2013

Ontario Energy Board
P.O. Box 2319
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2300 Yonge Street
Toronto ON M4P 1E4
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Wellington North Power Inc. ("WNP")
2014 IRM Distribution Rate Application
Board Staff Submission
Board File No. EB-2013-0178

In accordance with Procedural Order No.1, please find attached the Board staff Submission in the above proceeding. The applicant and intervenors have been copied on this filing.

WNP's reply Submission, if it intends to file one, is due by January 17, 2014.

Yours truly,

Original Signed By

Stephen Vetsis
Analyst, Applications & Regulatory Audit

Encl.

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Ontario

ONTARIO ENERGY BOARD

STAFF SUBMISSION

2014 ELECTRICITY DISTRIBUTION RATES

Wellington North Power Inc.

EB-2013-0178

December 13, 2013

Board Staff Submission
Wellington North Power Inc.
2014 IRM Distribution Rate Application
EB-2013-0178

Introduction

Wellington North Power Inc. ("WNP") filed an application (the "Application") with the Ontario Energy Board (the "Board") on September 26, 2013, seeking approval for changes to the rates that WNP charges for electricity distribution, to be effective May 1, 2014. The Application is based on the 2014 Incentive Regulation Mechanism ("IRM").

The purpose of this document is to provide the Board with the submissions of Board staff based on its review of the evidence submitted by WNP.

The Application

In the interrogatory phase, Board staff identified certain discrepancies in the data filed by WNP. In response to Board staff interrogatories, WNP confirmed that it had input certain erroneous data into the ICM workform and provided an updated model in its response. Specifically, WNP noted that it inputted an incorrect number of customers for the GS 50 to 499 kW and GS 1,000 to 4,999 kW classes. WNP noted that the updated customer numbers have resulted in a change to the growth parameter used in the threshold CAPEX calculation, discussed below, and the resulting ICM rate riders. Upon review of WNP's responses, Board staff submits that the updated model proposed by WNP is appropriate.

In response to Board staff interrogatory #5, WNP confirmed the rebased billed kW values provided in the 2014 Rate Generator Model, and noted that the values included adjustments for CDM. Board staff submits that WNP has provided the correct billed kW values and confirms that no changes are required.

Board staff also has no concerns with the RTSR Workform provided with the Application. Pursuant to the Board's Guideline *Electricity Distribution Retail Transmission Rates* G-2008-0001, Board staff notes that the Board will update the applicable data at the time of the Board's Decision on the Application based on the Uniform Transmission Rates in place at that time.

WNP filed a Shared Tax Savings Model indicating no changes in taxes from WNP's last cost of service application. Board staff has reviewed WNP's Shared Tax Savings Model and submits that WNP's calculation of zero shared tax savings is correct as WNP last rebased for 2012 rates.

Group 1 Deferral and Variance Account Disposition

WNP's total Group 1 Deferral and Variance Account ("DVA") balances amount to a credit of $253,989. The balance in Account 1589 – Global Adjustment is a credit of $274,009, and is applicable only to Non-RPP customers. Therefore, the balance for Group 1 DVA accounts, excluding the Global Adjustment is a debit of $20,020. These balances also include interest calculated to April 30, 2014. Based on the preset disposition threshold calculation, the Group 1 DVA balances equate to a credit of $0.0026 per kWh which exceeds the threshold. WNP has requested disposition of these accounts over a two-year period noting concerns about its current cash-flow as a consequence of the disposition of credit balances in prior Board Decision and Orders.

In Board staff Interrogatory #1, Board staff noted that WNP's current credit rate riders are set to expire on April 30, 2014. Board staff asked WNP how a 1-year disposition period would materially affect its cash flow. In response, WNP stated:

> WNP has been carefully monitoring its cash flow and, from May 1st 2014 believes that cash-flow will improve as a consequence of:
>
> i) The existing Deferral and Variance Account Rate Riders from previous Decisions and Orders are credit rate riders and expire as at April 30, 2014; and
>
> ii) The proposed Deferral and Variance Account Rate Riders for 2014 will result in collections from customers, as calculated in the LDC's 2014 IRM application.

Board staff has reviewed WNPs Group 1 DVA balances and notes that the principal balances as of December 31, 2012 reconcile with the balances reported by WNP pursuant to the *Reporting and Record-Keeping Requirements*. As the preset disposition threshold has been exceeded, Board staff has no issue with WNP's proposal to dispose of its Group 1 Account balances.

Board staff notes that, as per the *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, the default disposition period for Group 1 DVA balances is one year. Based on WNP's answer to Board staff Interrogatory #1, Board staff does not see a compelling reason to deviate from the Board's standard practice, in this case, as the existing credit rate riders are set to expire on April 30, 2014. For RPP customers these existing credit rate riders would be replaced by small debit rate riders, and for non-RPP customers by new, but smaller, credit rate riders. Board staff also notes that the Board approved a 19-month disposition period in WNP's 2012 cost of service application (EB-2011-0249) for an overall credit balance of $851,153, which was significantly higher than the overall credit in this application. Given that WNP's current credit rate riders are expiring and that the overall balance to be disposed at this time is significantly less, Board staff submits that a one-year disposition period is appropriate to minimize the impacts of intergenerational inequity while still allowing the distributor to maintain its cash flows.

Incremental Capital Module

WNP has applied for Incremental Capital Module ("ICM") funding to rebuild its MS2 Substation, expected to be in service by the end of 2014. WNP states that its total non-discretionary capital budget for 2014 is $1,996,000 which includes $1,596,000 in estimated costs for the MS2 substation rebuild. The Application indicated a threshold CAPEX of $609,572 which resulted in $1,382,427 of incremental eligible CAPEX for ICM funding and an incremental revenue requirement of $105,665 to be recovered from customers through an ICM rate rider. As WNP is not in the last year of its IRM term, WNP did not apply the half-year rule. WNP has proposed to recover the incremental revenue requirement using combined fixed and variable rate riders that would be in effect until its next cost of service application. WNP is schedule to file its next cost of service application for 2016 rates.

In the Application, WNP stated that it retained the services of Costello Associates Inc. to provide supporting technical information and budgetary estimates for an asset condition assessment of six of its distribution substations. WNP noted that the Costello Associates report ("the Costello report") highlighted concerns regarding the age of the substations and recommended a strategy for replacement.

WNP stated that given the condition and age of its substations it needs to replace the MS-2 substation as a priority. WNP stated that it considered three options: i) do nothing, ii) complete replacement of the substation (~ $1.6M) and iii) replacing the substation and re-using the existing transformer (~$1.39M). WNP proposed the complete replacement option as it resolved all of the issues highlighted in the Costello report and the current transformer (aged 41 years) does not have a significant remaining useful life.

In the Application, WNP filed the 2014 Incremental Capital Project Summary model showing only one asset component with a 50 year depreciation period. In response to Board staff Interrogatory #2, WNP filed updated evidence that applied the mid-range typical useful life depreciation rate from the Kinectrics report for each of the asset types of the proposed MS-2 substation rebuild. WNP proposed to use the amortization and Capital Cost Allowance (“CCA”) amounts reflected in the updated evidence. The amortization expense was updated to $32,558 from $32,000. The CCA amount was updated to $112,688 from $128,000.

In response to Energy Probe Interrogatory #1, WNP confirmed that its threshold CAPEX calculation should be updated to reflect the final values published in Appendix D of the *Report of the Board: Rate setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* ("the Report of the Board"), published on November 21, 2013.

In response to Board staff Interrogatory #6, WNP updated the customer numbers for the GS 50 to 999 kW and GS 1,000 to 4,999 kW classes. As a result, the calculated growth parameter for the threshold CAPEX calculation was updated to 1.15% from 1.44%.

Materiality

WNP has indicated a total non-discretionary capital budget of $1,996,000 for 2014 which includes a forecast $1,596,000 for the rebuild of the MS-2 Substation. In response to Energy Probe Interrogatory #3, WNP indicated that its annual non-discretionary capital budget included an annual provision of $240,000 for substation asset equipment replacement. As such, it was only seeking ICM funding for the incremental $1,356,000 through the ICM. WNP's updated evidence, filed in response to interrogatories and incorporating the changes noted above, shows a threshold CAPEX of $583,551.

Board staff submits that WNP's proposed ICM is material as the amounts are significant (i.e. 80% of the total non-discretionary budget for 2014) and are clearly above the materiality threshold. Board staff submits that WNP's proposed changes to the amortization, CCA and growth calculations, as well as WNP's proposal to update the price cap index calculation to match the Report of the Board, reflect the correct methodology for the calculation of the materiality threshold.

Need and Prudence

The Costello report highlighted concerns regarding the age (40 years), safety of the perimeter fence, reliability of the main switchgear and accessibility risks to high voltage equipment, among others, for the MS-2 substation. The Costello report concluded that “the MS-2 substation has be assigned a rating of "Red," which will improve to "Yellow" once the safety issues are resolved and switchgear deficiencies are corrected.”

The Costello report also highlighted concerns over the age (49 years), safety and accessibility risk of the MS-4 substation but also noted a “much more serious issue.” The Costello report observed that the system neutral was attached only to the station ground grid “which is extremely dangerous.” Additionally, the Costello report noted that the transformer secondary cables were improperly installed and were putting pressure on the transformer radiator. The Costello report concluded that “the MS-4 substation is classified as "Red" due to the age of the transformer, the system neutral connection, and diagnostic test results” and stated that this station was a candidate for replacement.

Given the conclusions of the Costello report, Board staff and intervenors asked why WNP had decided to prioritize the replacement of the MS-2 substation over the MS-4 substation. In response to VECC Interrogatory #3, WNP stated:

> The 3rd party assessment report assessed each of the LDC's substation independently based upon their condition, as per the objective of the report.

> This report did not consider the substations interaction with the LDC's distribution system, i.e. how much load each substation manages and how each substation provided its supply to WNP's distribution infrastructure.

In response to VECC Interrogatory #1, WNP stated:

> The impact of major equipment failure at MS2 is significant when compared with the impact of a major equipment failure at MS-4. In its current configuration, a complete failure of MS-4 results in only one feeder having to be backed-up by MS-2. If MS-2 was to fail, the four feeders leaving MS-2 would have to be backed-up by MS-1, MS-3 and MS-4. That said, the impact of a MS-2 failure affects the entire distribution system in Mount Forest whereas a failure of MS-4 only impacts MS-2.

In response to VECC Interrogatory #2, WNP stated:

> the [MS-4] station was out of service from May 8, 2013 to November 19, 2013 for repair work. During this period, there were no reliability or system issues whilst the load was transferred to another substation. This work at MS4 substation was to repair the neutral and address many of the other items identified in Costello's report as in need.

Given the concerns with safety and age of assets identified in the Costello report, Board submits that the need and prudence criteria have been met for the proposed MS-2 substation rebuild. In considering the size of the affected loads and complexities of the two respective projects, Board staff accepts WNP's proposal to prioritize the MS-2 substation rebuild over the MS-4 substation. Board staff notes that the forecasted costs for WNP's MS-2 substation replacement are comparable to similar projects approved by the Board for ICM recovery in prior applications[1].

Subject to the changes agreed to by WNP, Board staff has no issue with WNP’s incremental revenue requirement calculation.

[1] Centre Wellington Hydro Ltd.'s 2012 IRM Application, EB-2011-0160.

Additionally, Board staff notes that a distributor is required to account for any differences between forecast and actual capital spending for an ICM in their next cost of service application, as per Chapter 3 of the *Filing Requirements for Electricity Distribution Rate Applications*.

All of which is respectfully submitted