

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Niagara-on-
the-Lake Hydro Inc. for an order approving just and reasonable
rates and other charges for electricity distribution to be
effective May 1, 2014.

**INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

January 8, 2014

**NIAGARA-ON-THE LAKE HYDRO INC.
2014 RATES REBASING CASE
EB-2013-0155**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES**

1. Foundation

1.1 Does the planning (regional, infrastructure investment, asset management etc.) undertaken by the applicant and outlined in the application support the appropriate management of the applicant's assets?

1.1-Energy Probe-1

Ref: Exhibit 2, Tab 3, Schedule 2

Please update Table 2.3.1 to reflect actual data for 2013. If actual 2013 data is not yet available, please update the table to reflect the most recent year-to-date information available for 2013, along with a forecast for the remainder of the year.

1.1-Energy Probe-2

Ref: Exhibit 2, Appendix 2A

Please confirm that other than the MTS#2 expenditure planned for 2015, NOTL Hydro does not have any significant out of the ordinary capital expenditures required in the 2015 through 2018 period. If this cannot be confirmed, please provide details of other significant projects over this period and indicate where in the distribution system plan they are identified.

1.2 Are the customer engagement activities undertaken by the applicant commensurate with the approvals requested in the application?

1.2-Energy Probe-3

Ref: Exhibit 1, Appendix 1B

- a) How many of the customers that responded to the survey were residential customers and how many were non-residential customers?**
- b) What feedback did the distributor receive from residential customers in terms of capital budgets, OM&A budgets, etc.?**

- c) What feedback did the distributor receive from non-residential customers in terms of capital budgets, OM&A budgets, etc.?

2. Performance Measures

2.1 Does the applicant's performance in the areas of: (1) delivering on Board-approved plans from its most recent cost of service decision; (2) reliability performance; (3) service quality, and (4) efficiency benchmarking, support the application?

2.1-Energy Probe-4

Ref: Most Recent Cost of Service Decision

- a) Please provide a list of all Board-approved plans from the most recent cost of service decision.
- b) Please provide the evidence references in the current application that illustrates that the distributor is delivering on these approved plans.

2.1-Energy Probe-5

Ref: All Exhibits

- a) Please provide the references to any performance efficiency benchmarking undertaken by the distributor.
- b) Has the distributor considered benchmarking in relation to other distributors and/or to its own past historical performance? Please indicate where in the evidence this information has been provided for capital expenditures and OM&A expenses.

3. Customer Focus

3.1 Are the applicant's proposed capital expenditures and operating expenses appropriately reflective of customer feedback and preferences?

3.1-Energy Probe-6

Ref: Exhibit 1, Appendix 1B

- a) Please provide all customer feedback and preferences received from residential customers with respect to capital expenditures in the bridge and test years.
- b) Please provide all customer feedback and preferences received from non-residential customers with respect to capital expenditures in the bridge and test years.
- c) Please provide all customer feedback and preferences received from residential customers with respect to OM&A expenses in the bridge and test years.
- d) Please provide all customer feedback and preferences received from non-residential customers with respect to OM&A expenses in the bridge and test years.
- e) Did the distributor ask customers (residential or non-residential) for feedback and preferences on employee compensation, including, but not limited to salary levels, salary increases, benefits and pensions? If yes, please provide the feedback received.

4. Operational Effectiveness

4.1 Does the applicant's distribution system plan appropriately support continuous improvement in productivity, the attainment of system reliability and quality objectives, and the associated level of revenue requirement requested by the applicant?

4.1-Energy Probe-7

Ref: Exhibit 2, Appendix 2A

- a) Does the distributor agree that system reliability has to be attained, or does it have to be maintained? Please explain fully.
- b) How has the distributor determined that its distribution system plan will result in continuous improvement in productivity? Please explain fully.
- c) Does the distributor believe that its current level of system reliability and quality objectives need to be improved or that they are already high and need to be maintained?
- d) What component or percentage of the associated revenue requirement does the distributor believe is directly related to the continuous improvement in productivity, the attainment of system reliability and quality objectives?

4.2 Are the applicant's proposed OM&A expenses clearly driven by appropriate objectives and do they show continuous improvement in cost performance?

4.2-Energy Probe-8

Ref: Exhibit 4, Tab 1, Schedule 2

Please explain how the changes shown in Table 4.1.5 for each of the following illustrates continuous improvement in cost performance between actual 2010 and forecast 2014:

- a) OM&A cost per customer;**
- b) customers per FTE; and**
- c) OM&A cost per FTE.**

4.2-EnergyProbe-9

**Ref: Exhibit 4, Tab 1, Schedule 1 &
Exhibit 1, Tab 1, Schedule 2**

Please reconcile the inflation rate of 1.9% noted on page 3 of Exhibit 4, Tab 1, Schedule 1 with the rate of 1.6% noted on page 7 of Exhibit 1, Tab 1, Schedule 2. Please explain which rate or rates were used and which items the rate or rates were applied to.

4.2-Energy Probe-10

Ref: Exhibit 4, Tab 1, Schedule 1

Please fully explain the addition of \$61,834 in "Extraordinary deductions" shown in Table 4.1.2 for 2012. In particular, what are these deductions and why have they been added back in to the OM&A expense?

4.2-Energy Probe-11

Ref: Exhibit 4, Tab 1, Schedule 2

- a) Please break out the \$184,671 shown as a cost driver related to the disposition of account 1556 in 2012 in Table 4.1.4 into the amounts incurred in each year for 2009 through 2012.**
- b) Because this adjustment is fully reversed in 2013, does this mean that any of the costs actually incurred in 2012 were onetime costs and do not continue in 2013, or do the incremental costs for smart meters shown in drivers 5, 6, & 7 in 2013 reflect the 2012 costs incurred?**
- c) Please provide a table that shows the actual and forecasted smart meter related costs for each of 2012, 2013 and 2014 that reconciles with related cost drivers shown in Table 4.1.4.**
- d) Why are there no cost drivers showing the decrease in meter reading, meter maintenance, etc. for the stranded meters as they were replaced by the smart meters over the period shown in the cost driver table?**
- e) Please confirm that the OM&A forecasts would have been \$4,000 higher, except for the change to capitalization in preparation for the movement to IFRS. If this cannot be confirmed, please provide the 2013 and 2014 OM&A forecasts assuming no changes were made in preparation for the movement to IFRS.**

4.2-Energy Probe-12

Ref: Exhibit 4, Tab 1, Schedule 2

Please provide the most recent actual year-to-date figures available for 2013 in the same level of detail as shown in Table 4.1.1, along with the figures for the corresponding period in 2012.

4.2-Energy Probe-13

Ref: Exhibit 4, Tab 2, Schedule 1

- a) Please explain the significant increase in billing costs shown in Table 4.2.1 between 2009 of \$156,272 to \$289,522 in 2011 and then from the 2011 amount to the forecasted amount of \$368,645 in 2014. In both cases, please separate out in the explanation all costs related to smart meters.**

- b) Does NOTL Hydro bill all rate classes on a monthly basis? If so, is this a change from the 2009 cost of service proceeding?
- c) Please provide the average number of customers (not connections) by rate class for each of 2012, 2013 and 2014, using the most recent information available for 2013. Please confirm that the distributor issues bills based on customers and not connections.

4.2-Energy Probe-14

Ref: Exhibit 4, Tab 2, Schedule 2

Are any of the costs for the FTEs shown in Table 4.2.3 covered by the OPA or any other source? If yes, please explain whether the costs included in Table 4.2.3 include or exclude these costs. If the former, please provide a version of Table 4.2.3 that only includes costs to be recovered through rates as recoverable OM&A expenses and capitalized amounts.

4.3 Are the applicant's proposed operating and capital expenditures appropriately paced and prioritized to result in reasonable rate increases for customers, or is any additional rate mitigation required?

5. Public Policy Responsiveness

5.1 Do the applicant's proposals meet the obligations mandated by government in areas such as renewable energy and smart meters and any other government mandated obligations?

5.1-Energy Probe-15

Ref: Current Application

- a) Please provide a list of the obligations mandated by government in 2010 through to the current time.
- b) For each of the obligations noted in (a) above, please explain how the distributor has met those obligations.

6. Financial Performance

6.1 Do the applicant's proposed rates allow it to meet its obligations to its customers while maintaining its financial viability?

6.2 Has the applicant adequately demonstrated that the savings resulting from its operational effectiveness initiatives are sustainable?

6.2-Energy Probe-16

Ref: Exhibits 1, 2 & 4

- a) Please describe, with references to the evidence, the operational effectiveness initiatives that the distributor has or is planning to undertake.**
- b) Please show how these initiatives have, or will result in savings to ratepayers.**
- c) Please explain how the savings identified in part (b) above are sustainable.**

7. Revenue Requirement

7.1 Is the proposed Test year rate base including the working capital allowance reasonable?

7.1-Energy Probe-17

Ref: Exhibit 1, Tab 5, Schedule 16

The last paragraph states that there are no transmission assets for which NOTL Hydro is seeking Board approval to be deemed as distribution assets in the present application. Please confirm that NOTL Hydro is not requesting any additional transmission assets to be deemed as distribution assets but is requesting the assets noted earlier in the evidence to continue to be deemed distribution assets.

7.1-Energy Probe-18

Ref: Exhibit 2, Tab 1, Schedule 1

Please confirm that the Taxes Other than Income Taxes shown in Table 2.1.1(b) are only property taxes and do not include any historical capital taxes. If this cannot be confirmed, please separate the property taxes from the capital taxes for the years shown.

7.1-Energy Probe-19

Ref: Exhibit 2, Tab 2, Schedule 1

- a) How many months of actual data are included in the 2013 forecast of capital additions shown in Table 2.2.5?**
- b) Please update Table 2.2.5 to reflect the most recent actual additions closed to rate base in 2013, along with the forecast for the remainder of the year.**
- c) Please update Table 2.2.6 to reflect any changes to 2014 additions closed to rate base as a result of any changes in 2013 reflected in part (b) above.**

7.1-Energy Probe-20

Ref: Exhibit 2, Tab 2, Schedule 1

Please explain the drop in contributions and grants from \$382,000 in 2012 to \$221,000 in 2013 and \$150,000 in 2014.

7.1-Energy Probe-21

Ref: Exhibit 2, Tab 2, Schedule 1

- a) Please confirm that all of the stranded meters have been removed from rate base as shown in Table 2.2.5 in 2013.**
- b) Please explain what is included in Meters - CP/PTs components and Meters - Other Component and why these amounts are not associated with the stranded meters.**

7.1-Energy Probe-22

Ref: Exhibit 2, Tab 2, Schedule 1

Both Tables 2.2.5 (2013) and 2.2.6 (2014) show additions for transportation equipment < 3 tons. However, there are no disposals of vehicles shown in either 2013 or 2014.

- a) Please confirm that the vehicles added in both 2013 and 2014 are net additions to the fleet.**

- b) If (a) is not confirmed, please explain why there are no disposals shown for the vehicles being replaced. Are any vehicles disposed of fully depreciated? If not, please provide the remaining NBV of the vehicles being replaced when they are disposed of.

7.1-Energy Probe-23

Ref: Exhibit 2, Tab 3, Schedule 2

Please provide a revised Table 2.3.2 for 2013 and 2014 to reflect the most recent actuals for 2013 along with a forecast for the remainder of 2013, including any carryover or other change to 2014. Please ensure the additions correspond to the response to 2-Energy Probe-4.

7.1-Energy Probe-24

Ref: Exhibit 2, Tab 4, Schedule 1

- a) **Please explain why NOTL Hydro has not included the Adjustment to Address Bias Towards Unfavourable Variance or the Adjustment to Clear Existing Variance in either the RPP or non-RPP prices used for 2014 shown in Table 2.4.4.**
- b) **Please update the 2014 cost of power calculations to reflect the OEB's Regulated Price Plan Price Report dated October 17, 2013.**

7.1-Energy Probe-25

Ref: Exhibit 2, Tab 4, Schedule 1

For each of the components of the cost of power shown in Table 2.4.2, please indicate when NOTL pays the corresponding invoices.

7.2 Are the proposed levels of depreciation/amortization expense appropriately reflective of the useful lives of the assets and the Board's accounting policies?

7.2-Energy Probe-26

**Ref: Exhibit 4, Tab 3, Schedule 1 &
Exhibit 6, Tab 1, Schedule 1**

- a) Please explain the difference in depreciation shown for 2014 of \$1,021,373 shown in Table 4.3.7 in Exhibit 4, Tab 3, Schedule 1 and the figure of \$929,588 shown in Table 6.1.1 in Exhibit 6, Tab 1, Schedule 1.**
- b) If the difference noted in part (a) is related to the expensing/capitalization of the transportation equipment and tools related depreciation, please show how much has been expensed and included in OM&A and how much has been capitalized in 2014.**

7.3 Are the proposed levels of taxes appropriate?

7.3-Energy Probe-27

Ref: Exhibit 4, Tab 4, Schedule 1

Please confirm that NOTL Hydro does not have any positions that qualify for the Ontario Co-Op Education Tax Credit.

7.4 Is the proposed allocation of shared services and corporate costs appropriate?

7.4-Energy Probe-28

Ref: Exhibit 1, Tab 5, Schedule 14

Are there any costs included in the test year revenue requirement of NOTL Hydro associated with costs incurred for services provided to NOTL Hydro from any of the corporate entities shown on page 2? If yes, please provide a breakdown of the costs for each of 2009 through 2014.

7.4-Energy Probe-29

**Ref: Exhibit 4, Tab 2, Schedule 3 &
Exhibit 4, Tab 1, Schedule 1**

Table 4.2.6 shows a 2014 amount of \$120,500 in costs incurred by NOTL Hydro on behalf of ESNI.

- a) Is this amount included in the recoverable OM&A expenses shown in Table 4.1.1?**
- b) If the response to part (a) is yes, is the revenue received from ESNI (excluding the markup) used to reduce the recoverable OM&A expense each year?**

7.5 Are the proposed capital structure, rate of return on equity and short and long term debt costs appropriate?

7.5-Energy Probe-30

Ref: Exhibit 5, Tab 1, Schedule 1

- a) What is the status of the 10-year loan referenced on page 2? In particular, please provide the amount, term, rate and provider of any such loan if an agreement has been reached with a party.**
- b) Has NOTL Hydro approached Infrastructure Ontario for the 10 year loan? If not, why not?**

7.5-Energy Probe-31

Ref: Exhibit 5, Tab 1, Schedule 2

Please update the 2014 table found in Table 5.1.1 to reflect the cost of capital parameters applicable to 2014 cost of service applications, as issued by the Board on November 25, 2013.

7.6 Is the proposed forecast of other revenues including those from specific service charges appropriate?

7.6-Energy Probe-32

Ref: Exhibit 3, Tab 3, Schedule 2

- a) Please provide the most recent year-to-date figures available for 2013 in the same level of detail as found in Table 3.3.11, along with the figures from the corresponding period in 2012 (note that account 4305 Regulatory Debits is not required for 2013).**
- b) The evidence (page 2) indicates that late payment charges have been estimated for 2013 and 2014 at levels similar to 2012. However, Table 3.3.11 shows a reduction of about \$6,500 between 2012 and 2013 and 2014. Please explain.**
- c) What was the loss on disposition (account 4360) of \$33,473 in 2012 related to?**
- d) The evidence indicates that a loan to an affiliate was repaid in full in 2012. How much was the principle repayment, and where has that money gone since it does not appear to have increased the bank balance upon which interest is earned?**

7.7 Has the proposed revenue requirement been accurately determined from the operating, depreciation and tax (PILs) expenses and return on capital, less other revenues?

7.7-Energy Probe-33

Ref: Exhibit 6

- a) Please update Table 6.1.1. and the RRWF found in Appendix 6A to reflect any changes or corrections resulting from the interrogatory responses, as well as the updated cost of capital parameters applicable to 2014 cost of service applications as issued by the Board on November 25, 2013.**
- b) Please provide a tracking sheet showing the changes and/or corrections made to the revenue deficiency/sufficiency calculation as noted in part (a) above. For each change, please provide a reference to the associated interrogatory response that results in the change.**

8. Load Forecast, Cost Allocation and Rate Design

8.1 Is the proposed load forecast, including billing determinants an appropriate reflection of the energy and demand requirements of the applicant?

8.1-Energy Probe-34

Ref: Exhibit 3, Tab 2, Schedule 1

Please explain why the loss factor used to convert power purchases to billed energy is the average from 2003 to 2012 rather than the average over the same period over which the power purchase equation was estimated.

8.2-Energy Probe-35

Ref: Exhibit 3, Tab 2, Schedule 1

- a) Please re-estimate the power purchase equation with the addition of a fall flag variable (1 in each of September, October and November, 0 otherwise) and a trend variable that starts with a value of 1.0 in January 1996 and increases by 1.0 in each subsequent month. Please provide the regression results as found on pages 7 and 10 for this equation. Please also provide the resulting forecast for 2014.**
- b) Please provide a table showing, to two decimal places, the Mean Absolute Percent Error, calculated on both a monthly and annual basis for the NOTL Hydro equation and the equation requested above in part (a).**
- c) Please show the impact on revenues at current 2013 rates on the change in the load forecast, by rate class, that results from the use of the equation requested in part (a) above.**

8.2 Is the proposed cost allocation methodology including the revenue-to-cost ratios appropriate?

8.3 Is the proposed rate design including the class-specific fixed and variable splits and any applicant-specific rate classes appropriate?

8.3-Energy Probe-36

Ref: Exhibit 8, Tab 1, Schedule 7 &
Exhibit 3, Tab 2, Schedule 1

Tables 8.1.10, 8.1.11 and 8.1.12 calculate the average number of customers to calculate revenues. However, in Exhibit 3, Tab 2, Schedule 1 (page 2) it is stated that the total customers and connections are on a mid-year basis. Please reconcile.

8.4 Are the proposed Total Loss Adjustment Factors appropriate for the distributor's system and a reasonable proxy for the expected losses?

8.5 Is the proposed forecast of other regulated rates and charges including the proposed Retail Transmission Service Rates appropriate?

8.6 Is the proposed Tariff of Rates and Charges an accurate representation of the application, subject to the Board's findings on the application?

9. Accounting

9.1 Are the proposed deferral accounts, both new and existing, account balances, allocation methodology, disposition periods and related rate riders appropriate?

9.1-Energy Probe-37

Ref: Exhibit 9, Tab 3, Schedule 5

- a) The evidence indicates that all of the materials utilized during this disaster were from existing inventory. Is this inventory included in rate base? If not, please explain why not.
- b) Were any of the materials and labour included in the costs associated with this disaster capitalized, or were all of the costs expensed? Please show the amount capitalized and the amount expensed.
- c) If none of the costs were capitalized, please explain why not.

9.2 Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified, and is the treatment of each of these impacts appropriate?