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January 17, 2014

Attention: Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Wellington North Power Inc. – ED-2002-0511
2014 Distribution Rate Application
Response to Board Staff Submission
OEB File Number: EB-2013-0178

Enclosed are Wellington North Power Inc.'s reply submissions to Board Staff Submission relating to the LDC's Incentive Rate Mechanism Adjustment Application for 2014 Distribution rates (file number: EB-2013-0178).

An electronic copy of this Submission response has been filed on the RESS site and two hard copies have been sent by courier to the Board's office for the attention of the Board Secretary.

Should the Board have questions regarding this matter please contact myself at rbucknall@wellingtonnorthpower.com or call 519-323-1710.

Yours truly,

Richard Bucknall

Regulatory Compliance and Office Manager

cc: Board Secretary
cc: Stephen Vetsis – OEB Analyst, Applications & Regulatory Audit (by e-mail)
cc: Intervenors on Record (by e-mail)
cc: Mr. Randy Aiken, Consultant to Energy Probe (by e-mail)
cc: Ms. Shelley Grice, Consultant to VECC (by e-mail)

Wellington North Power Inc. (“WNP”)
2014 IRM Rate Application
Applicants Response to Board Staff Submission
EB-2013-0178

Purpose:

The purpose of this document is to provide the Board with the reply submissions of Wellington North Power Inc. (“WNP”) based on its review of Board Staff’s Submission document (dated December 13, 2013).

In its submission, WNP has inserted the comments from the Board Staff Submission and, where relevant, the Applicant has provided a response.

WNP respect the views expressed in Board Staff Submissions.

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.

Wellington North Power Inc. - Response:

WNP accepts the comments made by Board Staff under "The Application" on pages 1 and 2 of the Board Staff Submission document.

The applicant accepts that pursuant to the Board's "Guideline Electricity Distribution Retail Transmission Rates - G-2008-0001", 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.

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 WNP's 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.

Wellington North Power Inc. - Response:

As regards to Board Staff's comment concerning deferral / variance disposition, namely "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", WNP

acknowledges that overall balance to be disposed at this time is less than previous Decision and Orders approved by the Board for the LDC. However the Applicant is concerned with Board Staff's recommendation of a one-year disposition period for the Group 1 Deferral and Variance account balances, particularly Account 1589 - Global Adjustment credit of \$274,009 applicable to Non-RPP customers. The disposition over a one-year period will continue to result in cash-flow needing to be carefully monitored by the LDC. As the Applicant cited in its' response to Board Staff Interrogatory #1:

"However, as identified in the 3rd party Substation Condition Assessment report, WNP needs to invest in its' substations to comply with reliability as well as worker and public safety requirements and to replace aging infrastructure. (*A summary of the 3rd party Substation Condition Assessment Study was filed with WNP's 2014 IRM application in Appendix 5.*) WNP has re-financed existing assets and secured a loan for \$1.6m from Infrastructure Ontario (IO) commencing November 1, 2013 which has been procured to finance the replacement of MS2 Substation. The LDC is aware that the company will need to pay all costs in 2014 to enable the new substation to be energized and in-service for 2014. Therefore, WNP is planning to:

- 1) Use the funds secured from the IO loan to pay for the substation to be built, energized and in-service in 2014 and;
- 2) Utilise the revenue collected from Rate Riders from the Incremental Capital to pay the IO monthly loan installment amounts.

This approach will continue until the LDC's next Cost of Service application for review and approval of rates effective May 1, 2016. Upon this basis, WNP needs to continue to monitor its cash-flow closely and the LDC requests disposition of Group 1 balances identified in WNP's 2014 IRM application over a 2-year period."

As described above, WNP's strategy is to use the revenue collected from the Incremental Capital Rate Riders to contribute to the monthly Infrastructure Ontario's (IO) loan repayments. The IO loan secured by WNP for \$1.6m has been procured to fund the building of the new MS2 substation.

WNP wishes to assure Board and Board Staff that it is moving forward with its plan to replace the MS2 substation and build a new station. As per the Applicant's response to Energy Probe

Interrogatory #4b, WNP plans to issue a tender document in January / February 2014 for a contractor to design, build and construct the new substation (MS2) with an in-service date of quarter 4 2014.

The Applicant is very apprehensive of the following scenario occurring:

- Accepting a one-year disposition period; and
- The Board not approving the ICM funding.

The above scenario would mean that the LDC would be crediting non-RPP customers \$274,009 over 12 months as well as making IO loan payments of \$15,074 per month to fund the building of the new substation. Furthermore, as per WNP's response to VECC Interrogatory #2d, the LDC has short-term and long-term work plans to address the deficiencies that were highlighted in the 3rd party Substation Assessment report (a copy of this report was filed with the LDC's IRM Application). These work plans require investment by the LDC and WNP are working with Costello (the 3rd party) to address the issues identified within the Substation Assessment report.

WNP would be acceptable to have a one-year disposition period of the Group 1 Deferral and Variance account balances on the condition that the Board approves the Incremental Capital Module funding that has been filed with the LDC's application. As stated above, WNP would use the revenue collected from the Incremental Capital Rate Riders to contribute to the monthly Infrastructure Ontario's (IO) loan repayments.

WNP has amended the Rate Generator model to show a one-year disposition period for disposition/recovery of Deferral/Variance accounts. The Applicant has filed this updated model on the RESS site together with a revised proposed Tariff of Rates and Charges schedule.

Submitted Files: [WellingtonNorth_EB-2013-0178_2014_IRM Rate Generator_V2.3_FinalSub](#)
[WellingtonNorth_EB-2013-0178_2014_Proposed_Tariff_FinalSub](#)

Based upon the amendment as described above the tables on the following pages illustrate:

- The Deferral/Variance Rate Riders applying a one-year disposition/recovery period;
- The bill impact for Residential rate class; and
- The bill impact General Service <50kW rate class.

Deferral / Variance Recovery / Disposition Rate Riders:

Amended proposed Deferral / Variance recovery / disposition Rate Riders as calculated in the Rate Generator model based upon a one-year disposition/recovery period;



**Incentive Regulation Model
for 2014 Filers
Wellington North Power Inc.**


Input required at cell C15 only. This worksheet calculates rate riders related to the Deferral/Variance Account Disposition (if applicable) and associated rate riders for the global adjustment sub-account. Rate Riders will not be generated for the MicroFit class

Please indicate the Rate Rider Recovery Period (in years)

Rate Class	Unit	Billed kWh	Billed kW	Balance of Accounts Allocated by kWh/kW (RPP) or Distribution	Deferral/Variance Account Rate Rider	Allocation of Balance in Account 1588	Billed kWh or Estimated kW for Non-RPP	Global Adjustment Rate Rider
RESIDENTIAL	\$/kWh	24,876,519		5,082	0.0002	(14,882)	3,625,931	(0.0041)
GENERAL SERVICE LESS THAN 50 KW	\$/kWh	10,703,832		2,184	0.0002	(5,888)	1,434,587	(0.0041)
GENERAL SERVICE 50 TO 999 KW	\$/kW	19,816,501	50,517	4,005	0.0793	(74,652)	46,367	(1.6100)
GENERAL SERVICE 1,000 TO 4,999 KW	\$/kW	42,789,242	97,039	8,595	0.0886	(175,542)	97,039	(1.8090)
UNMETERED SCATTERED LOAD	\$/kWh	3,969		1	0.0003	(3)	663	(0.0041)
SENTINEL LIGHTING	\$/kW	29,261	80	11	0.1406	(120)	80	(1.5065)
STREET LIGHTING	\$/kW	711,946	1,907	143	0.0748	(2,922)	1,907	(1.5320)
microFIT								
Total		98,911,269	149,544	20,020		(274,009)	5,206,574	


Bill Impact: Residential Customer - 800 kWh:

The Rates and Charges in the table below are based upon the output from the [WellingtonNorth_EB_2013-0178_2014_IRM Rate Generator_v2.3_FinalSub workfom](#) worksheet 14 "Bill Impacts" and refer to a Residential customer with a typical monthly consumption of 800 kWh:

									
Rate Class RESIDENTIAL									
Loss Factor	1.0716								
Consumption	kWh	800							
If Billed on a kW basis:									
Demand	kW								
Load Factor				Update Bill Impacts					
	Current Board-Approved			Proposed			Impact		
	Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change	
Monthly Service Charge	\$ 18.05	1	\$ 18.05	\$ 18.14	1	\$ 18.14	\$ 0.09	0.50%	
Distribution Volumetric Rate	\$ 0.0181	800	\$ 14.48	\$ 0.0182	800	\$ 14.56	\$ 0.08	0.55%	
Fixed Rate Riders	\$ 2.82	1	\$ 2.82	\$ 0.88	1	\$ 0.88	-\$ 1.94	-68.65%	
Volumetric Rate Riders	0.0004	800	\$ 0.32	0.0009	800	\$ 0.71	\$ 0.39	121.75%	
Sub-Total A (excluding pass through)			\$ 35.67			\$ 34.29	-\$ 1.38	-3.86%	
Line Losses on Cost of Power	\$ 0.0839	57	\$ 4.81	\$ 0.0839	57	\$ 4.81	\$ -	0.00%	
Total Deferral/Variance	-0.0085	800	-\$ 6.80	0.0002	800	\$ 0.16	\$ 6.96	-102.35%	
Account Rate Riders									
Low Voltage Service Charge	\$ 0.0018	800	\$ 1.44	\$ 0.0018	800	\$ 1.44	\$ -	0.00%	
Smart Meter Entity Charge	\$ 0.7900	1	\$ 0.79	\$ 0.7900	1	\$ 0.79	\$ -	0.00%	
Sub-Total B - Distribution (Includes Sub-Total A)			\$ 35.81			\$ 41.49	\$ 5.68	15.55%	
RTSR - Network	\$ 0.0069	857	\$ 5.92	\$ 0.0065	857	\$ 5.58	-\$ 0.34	-5.73%	
RTSR - Connection and/or Line and Transformation Connection	\$ 0.0045	857	\$ 3.86	\$ 0.0041	857	\$ 3.55	-\$ 0.30	-7.90%	
Sub-Total C - Delivery (Including Sub-Total B)			\$ 45.68			\$ 50.62	\$ 4.94	10.82%	
Wholesale Market Service Charge (WMSC)	\$ 0.0044	857	\$ 3.77	\$ 0.0044	857	\$ 3.77	\$ -	0.00%	
Rural and Remote Rate Protection (RRRP)	\$ 0.0012	857	\$ 1.03	\$ 0.0012	857	\$ 1.03	\$ -	0.00%	
Standard Supply Service Charge	\$ 0.2500	1	\$ 0.25	\$ 0.2500	1	\$ 0.25	\$ -	0.00%	
Debt Retirement Charge (DRC)	\$ 0.0070	800	\$ 5.60	\$ 0.0070	800	\$ 5.60	\$ -	0.00%	
TOU - Off Peak	\$ 0.0670	512	\$ 34.30	\$ 0.0670	512	\$ 34.30	\$ -	0.00%	
TOU - Mid Peak	\$ 0.1040	144	\$ 14.98	\$ 0.1040	144	\$ 14.98	\$ -	0.00%	
TOU - On Peak	\$ 0.1240	144	\$ 17.86	\$ 0.1240	144	\$ 17.86	\$ -	0.00%	
Total Bill on TOU (before Taxes)			\$ 123.47			\$ 128.41	\$ 4.94	4.00%	
HST	13%		\$ 16.05	13%		\$ 16.69	\$ 0.64	4.00%	
Total Bill (including HST)			\$ 139.52			\$ 145.10	\$ 5.58	4.00%	
<i>Ontario Clean Energy Benefit ¹</i>			-\$ 13.95			-\$ 14.51	-\$ 0.56	4.01%	
Total Bill on TOU (Including OCEB)			\$ 125.57			\$ 130.59	\$ 5.02	4.00%	

Bill Impact: General Service <50kW Customer - 2000 kWh:

The Rates and Charges in the table below are based upon the output from the [WellingtonNorth_EB_2013-0178_2014_IRM Rate Generator_v2.3_FinalSub workform](#) worksheet 14 "Bill Impacts" and refer to a General Service <50kW customer with a typical monthly consumption of 2,000 kWh:

									
Rate Class GENERAL SERVICE LESS THAN 50 KW									
Loss Factor	1.0716								
Consumption	kWh	2,000							
If Billed on a kW basis:				Update Bill Impacts					
Demand	kW								
Load Factor									
	Current Board Approved			Proposed			Impact		
	Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change	
Monthly Service Charge	\$ 38.32	1	\$ 38.32	\$ 38.50	1	\$ 38.50	\$ 0.18	0.47%	
Distribution Volumetric Rate	\$ 0.0164	2,000	\$ 32.80	\$ 0.0165	2,000	\$ 33.00	\$ 0.20	0.61%	
Fixed Rate Riders	\$ 19.15	1	\$ 19.15	\$ 1.88	1	\$ 1.88	-\$ 17.27	-90.20%	
Volumetric Rate Riders	0.0022	2,000	\$ 4.40	0.0008	2,000	\$ 1.61	-\$ 2.79	-63.50%	
Sub-Total A (excluding pass through)			\$ 94.67			\$ 74.98	-\$ 19.69	-20.80%	
Line Losses on Cost of Power	\$ 0.0839	143	\$ 12.02	\$ 0.0839	143	\$ 12.02	\$ -	0.00%	
Total Deferral/Variance	-0.0093	2,000	-\$ 18.60	0.0002	2,000	\$ 0.40	\$ 19.00	-102.15%	
Account Rate Riders									
Low Voltage Service Charge	\$ 0.0015	2,000	\$ 3.00	\$ 0.0015	2,000	\$ 3.00	\$ -	0.00%	
Smart Meter Entity Charge	\$ 0.7900	1	\$ 0.79	\$ 0.7900	1	\$ 0.79	\$ -	0.00%	
Sub-Total B - Distribution (includes Sub-Total A)			\$ 91.88			\$ 91.19	-\$ 0.69	-0.75%	
RTSR - Network	\$ 0.0064	2,143	\$ 13.72	\$ 0.0060	2,143	\$ 12.93	-\$ 0.79	-5.73%	
RTSR - Connection and/or Line and Transformation Connection	\$ 0.0038	2,143	\$ 8.14	\$ 0.0035	2,143	\$ 7.50	-\$ 0.64	-7.90%	
Sub-Total C - Delivery (including Sub-Total B)			\$ 113.74			\$ 111.62	-\$ 2.12	-1.86%	
Wholesale Market Service Charge (WMSC)	\$ 0.0044	2,143	\$ 9.43	\$ 0.0044	2,143	\$ 9.43	\$ -	0.00%	
Rural and Remote Rate Protection (RRRP)	\$ 0.0012	2,143	\$ 2.57	\$ 0.0012	2,143	\$ 2.57	\$ -	0.00%	
Standard Supply Service Charge	\$ 0.2500	1	\$ 0.25	\$ 0.2500	1	\$ 0.25	\$ -	0.00%	
Debt Retirement Charge (DRC)	\$ 0.0070	2,000	\$ 14.00	\$ 0.0070	2,000	\$ 14.00	\$ -	0.00%	
TOU - Off Peak	\$ 0.0670	1,280	\$ 85.76	\$ 0.0670	1,280	\$ 85.76	\$ -	0.00%	
TOU - Mid Peak	\$ 0.1040	360	\$ 37.44	\$ 0.1040	360	\$ 37.44	\$ -	0.00%	
TOU - On Peak	\$ 0.1240	360	\$ 44.64	\$ 0.1240	360	\$ 44.64	\$ -	0.00%	
Total Bill on TOU (before Taxes)			\$ 307.83			\$ 305.71	-\$ 2.12	-0.69%	
HST	13%		\$ 40.02	13%		\$ 39.74	-\$ 0.28	-0.69%	
Total Bill (including HST)			\$ 347.85			\$ 345.46	-\$ 2.39	-0.69%	
Ontario Clean Energy Benefit ¹			-\$ 34.78			-\$ 34.55	\$ 0.23	-0.66%	
Total Bill on TOU (including OCEB)			\$ 313.07			\$ 310.91	-\$ 2.16	-0.69%	

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 nondiscretionary 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%.

Wellington North Power Inc. - Response:

WNP accepts the comments made by Board Staff. The Applicant wishes to make the following comments for clarity to the Board:

- a) The Application threshold CapEx of \$609,572 which resulted in \$1,386,427 of incremental eligible CapEx for ICM funding, not \$1,382,427 as stated in Board Staff Submission.

b) In response to Board Staff's Interrogatory #2 and Interrogatory #6, the effect of these changes resulted in:

- The calculated Threshold CapEx changed to \$583,551 (from \$609,572);
- The Eligible Incremental Capital Amount changed to \$1,412,449 (from \$1,386,427);
- The Incremental Revenue Requirement to be recovered from customers through an ICM rate rider changed to \$108,827 (from \$105,665).

In responding to Board Staff Interrogatories and Energy Probe Interrogatory #3, WNP filed an amended Incremental Capital Project Workform that reflected the revisions that were made.

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.

Wellington North Power Inc. - Response:

WNP accepts the comments made by Board Staff.

The Applicant wishes to re-confirm the following comments:

- 1) In its' filed IRM application, WNP included the methodology that the LDC applied to prioritize and categorize its planned 2014 CapEx projects into Discretionary and Non-Discretionary categories (Exhibit 5 – incremental Capital Module, pages 76 to 79). This was a challenging exercise yet demonstrated the LDC's pragmatic and realistic approach in balancing what capital projects that need to be undertaken in 2014 versus the cost-benefit to customers and stakeholders.
- 2) In WNP's most recent cost of service application (EB-2011-0249 - Exhibit 2, Tab 5, Schedule 7 pages 254-257 contain tables, tables 2-60 to 2-65), the LDC included capital expenditure plans for the period of 2013 to 2018. These plans demonstrate that LDC is forward-looking and provisioned for approximately \$240,000 per year from 2014 onwards to replace major components of the substations.

- 3) In its ICM calculations, WNP included the 2014 CapEx provision of \$240,000 meaning that the Applicant is not requesting the full eligible capital amount (i.e. \$1,412,448) as calculated in the Incremental Capital Workform model. Instead, WNP are requesting an Incremental Capital Amount of \$1,356,100 that has been used for the ICM Rate Rider calculation (as per the amended Incremental Capital Workform model that was filed with the Applicant's responses to Interrogatories.

WNP provided a detailed explanation for why it is not requesting the full eligible capital amount in its response to Energy Probe Interrogatory #3.

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 been 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.

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

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*.

Wellington North Power Inc. - Response:

WNP accepts the comments made by Board Staff and is grateful for their assistance with completing the incremental revenue requirement calculation.

The Applicant wishes to re-confirm the following comments:

- 1) WNP has prioritised MS2 substation over MS4. The Applicant wishes to clarify that, as per IRM application, Exhibit 5: Incremental Capital Module page 58, the LDC is looking to replace this substation in the near future (2016) and will most likely be included in the Distributor's next cost of service application (2015 for 2016 rates);
- 2) The main reasons why WNP has prioritised MS2 substation replacement above MS4 substation include:
 - a) The replacement MS2 station transformer is more heavily utilized than MS4. MS2 station currently supplies four 4,160V circuits with capacity to supply 5MVA; whereas MS4 station currently supplies one 4,160V circuit with a capacity to supply 2MW (*reference: WNP's response to Board Staff Interrogatory #3a and VECC Interrogatory #3a*);
 - b) The integration of latest technology at MS2 will impact a larger population of WNP customers than would MS4. It would also provide increased service and reliability over the existing technology in service at the substation. This includes but is not limited to recloser equipment, advanced protection schemes and scada and communication technology (*reference: WNP's response to Board Staff Interrogatory #3a and VECC Interrogatory #3a*);
 - c) MS2 exists in the critical industrial area in the north part of Mount Forest, i.e. location is close to important load with the majority of WNP's industrial customers being fed from

MS2 (reference: WNP's response to Board Staff Interrogatory #3a and VECC Interrogatory #3a).

- 3) In WNP's most recent cost of service application (EB-2011-0249 - Exhibit 2, Tab 5, Schedule 7 pages 254-257 contain tables, tables 2-60 to 2-65), the LDC included capital expenditure plans for the period of 2013 to 2018. These plans demonstrate that LDC has provisioned for approximately \$240,000 per year from 2014 onwards to replace major components of the substations. The LDC is aware that asset investment is required in its substations and the 3rd party Substation Assessment report has further justified the need;
- 4) WNP acknowledge that the LDC is required to account for any difference between forecast and actual capital spending for an ICM in its next of cost of service application for 2016 rates.