Board Staff Interrogatories
Oakville Hydro Electricity Distribution Inc.
2014 Cost of Service Rates
EB-2013-0159

1-Foundation

Issue 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-Staff-1
Ref: Exhibit 2/Appendix A-Distribution System Plan/p. 11
Distribution System Plan

The reference states that Hydro One expects that the Regional Planning Process to develop a Regional Infrastructure Plan will be initiated in the fourth quarter of 2013 and that Oakville Hydro is unable to assess whether the regional planning consultation will affect its DS Plan. The reference also states that Oakville Hydro recently entered into a 10-year connection agreement with Milton Hydro to provide two feeder positions at Glenorchy Municipal Transformer Station located in Milton to serve a portion of Milton Hydro's service area.

a) Please provide an update on the status of the Regional Infrastructure Plan including the expected completion date.

b) Please comment on the potential impact that the Regional Infrastructure Plan may have on Oakville Hydro's DS Plan, focussing on portions of the DS plan where infrastructure needs may be impacted by the Regional Infrastructure Plan.

c) Please describe if/how regional issues and requirements were considered in Oakville Hydro's DS Plan.

d) Please explain if/how Oakville Hydro considers impact of regional issues on:
   - reliability of supply; and
   - distribution rates.

e) Please file a copy of the connection agreement between Milton Hydro and Oakville Hydro which relates to Milton Hydro's status as an embedded distributor.

1.1-Staff-2
Ref: Exhibit 2/Appendix A-Distribution System Plan/p. 30
Distribution System Plan

On this page of the Distribution System Plan, Oakville Hydro displays a pie chart that shows the Strategic Weights of each of the 7 objectives. Please provide background

information as to how these weights were determined. Eg. How was it determined that Environmental was given a weight of 20%?

1.1-Staff-3
Ref: Exhibit 2/Appendix A-Distribution System Plan/pp. 26 – 28
Distribution System Plan

Under "Asset Capacity Utilization", it is stated that Oakville Hydro reviews capacity utilization at the transformer station connection points and at the 27.6 kV feeder level, on an individual feeder basis annually.

Under "Asset Maintenance Strategy", it is stated that decisions to replace assets versus proceeding with ongoing maintenance to extend the life of the asset are determined based on a business case assessment.

Under "Asset Life Cycle Risk Management Policies and Practices" it is stated that Oakville Hydro considers the impact on SAIFI and SAIDI through completion of the proposed projects.

Please describe the methods and criteria used by Oakville Hydro to determine adequate capacity utilization of its feeders including load levels at which additional capacity is determined to be required.

a) Please provide the rationale for the methods and criteria described in (a) above.
b) Please explain if/how distribution rate impacts are considered in b).
c) Please describe the business case assessment used by Oakville Hydro to make replacement vs ongoing maintenance decisions including the criteria used, with examples.
d) Please describe the methods with examples of how Oakville Hydro determines the impact of a project/program on:

- SAIFI and SAIDI; and
- Oakville Hydro's rates

1.1-Staff-4
Ref: Exhibit 2/Appendix A- Distribution System Plan/pp. 31 – 33
System Access Investments

Page 31 of the reference provides a Table of year by year capital expenditures for the period 2014-2018 for the cost categories of System Access, System Renewal, System Service and General Plant.

Under "System Access", it is stated that investments in this category are considered

mandatory and allocation of the associated capital expenditure is non-discretionary.

a) For projects in the category of System Access which are considered mandatory, please describe methods used by Oakville Hydro to minimize costs. For example, did Oakville Hydro consider alternative solutions in order to arrive at a preferred solution? If so, please describe the methodology by which the alternatives are compared and a preferred solution is selected.

b) Please explain if/how distribution rate impacts are considered in a).

1.1-Staff-5
Ref: Exhibit 2/Appendix A- Asset Management Objectives/pp. 33 – 55
Asset Evaluation

In this section of Oakville Hydro's DSP, the descriptions under the Asset Evaluation heading for various asset categories indicate that Oakville Hydro has chosen a 'run-to-failure' strategy when considering asset replacement.

Please provide a rationale for using the 'run-to-failure' strategy for the various asset categories so identified, such as Overhead Transformers, Padmount Transformers, Submersible Transformers, Overhead Primary Wires, Overhead Secondary Wires, Underground Secondary Cable, and Primary Meters, with specific reference to reliability performance considerations as well as customer preferences regarding cost-vs-service tradeoffs.

1.1-Staff-6
Ref: Exhibit 2/Appendix A- Distribution System Plan/pp. 33 – 34, 63
System Renewal Investments

Page 63 of the reference states that system renewal investments involve replacing and/or refurbishing system assets to extend the original service life of the assets and thereby maintain the ability of the distributor's distribution system to provide customers with electricity services.

On Page 34 Oakville Hydro states that investments in this category are considered non-mandatory.

Please explain why system renewal investments that extend the original service life of the assets and thereby maintain the ability of the distributor's distribution system to provide customers with electricity services are considered non-mandatory.

1.1-Staff-7
Ref: Exhibit 2/Appendix A- Distribution System Plan/pp. 49–51
Capital Expenditure Summary

At Page 50 of the reference Oakville Hydro states that it does not have historical capital planning detail broken into the Board's investment categories: System Access, System Renewal, System Service and General Plant. Yet Table 2 on page 51 shows historical year by year expenditures from 2009-2013 for those same categories. Please explain.

1.1-Staff-8
Ref: Exhibit 1/Tab 1/Schedule 1
2013 Ice Storm

In late December 2013, many parts of southern Ontario experienced a significant ice storm.

a) Please identify any impacts that Oakville Hydro estimates that the December 2013 ice storm has had or will have on the test year capital and OM&A budget levels (e.g., in terms of infrastructure replacement or maintenance and vegetation management).

b) Will Oakville Hydro be updating its Application in light of this event? If so, by when does it intend to file any updated evidence?

1.1-Staff-9
Ref: Exhibit 2/Tab 5/Schedule 1
Update of 2013 and 2014 Capital Expenditures

Since October 1, 2013 when the current application was filed, and considering that the 2013 year is now complete, please file an update of 2013 capital expenditures, noting significant changes from the 2013 Bridge Year as filed and if any components of the Capital Expenditure plan for the test year will be updated.

1.1-Staff-10
Ref: Exhibit 2/Appendix A- Distribution System Plan/Appendix 1 Asset Management Process
Asset Condition Assessment

a) Please prepare a table showing: (I) Number of Failures; and (II) Total cost of Repair or Replacements, for each of the five Asset Categories (Pole Mounted Transformers; Overhead Line Switches; Pad Mounted Transformers; Pad Mounted Switchgear; Underground Cables), for each of the five years 2009 to 2013.

b) Please provide the same forecasted information for the bridge year and test year and explain any variance from historical data.

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

1.2-Staff-11
Ref: Exhibit 1/Tab2/Schedule 1
Evolution of Customer Engagement

Chapter 2 of the Filing Requirements states, "The RRFE Report contemplates **enhanced** engagement between distributors and their customers to provide better alignment between distributor operational plans and customer needs and expectations." (Emphasis added)

Please describe the differences between customer engagement conducted in preparation for the current application and previous customer engagement. Please explain how customer engagement has been enhanced.

1.2-Staff-12
Ref: Exhibit 1/Tab1/Schedule 1
Reflecting Customer Needs in the Application

Chapter 2 of the Filing Requirements states, "Distributors should specifically discuss in the application how their customers were engaged in order to determine their needs. This **could** include references to any communications sent to customers about the application such as bill inserts, town hall meetings held, or other forms of outreach undertaken to engage customers and explain to them how the application serves their needs and expectations and the feedback heard from customers through these engagement activities." (Emphasis added)

What forms of outreach were employed to explain how the current application serves the needs and expectations of customers? If none were employed, please explain why.

2-Performance Measures

Issue 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-Staff-13
Ref: 1) Exhibit 2/Appendix A- Asset Management Process Overview/p. 14
2) Exhibit 2/Tab5/Schedule 7

Reliability

The graph on this page of the Asset Management Process Review shows Oakville Hydro's record for historical reliability performance from 2006 to 2013. Considering that Oakville Hydro's performance has been good compared to province wide levels in this time period, how did Oakville Hydro consider this factor when budgeting to increase capital spending in future years?

2.1-Staff-14
Ref: Exhibit 4/Tab 1/Schedule 2/p. 2 and Appendix A – Appendix 3
Customer Satisfaction Survey

Oakville Hydro indicates that its customer service has consistently met or exceeded minimum standards and this is also shown in the results of the Customer Satisfaction Survey, where Oakville Hydro consistently scores higher than the Ontario composite in many areas. How do these consistently high scores inform Oakville Hydro's planning to increase OM&A budgets for the test year?

2.1-Staff-15
Ref: Exhibit 4/Tab3/Schedule 4
Headcount/Compensation Benchmarking

It appears that Oakville Hydro did not undertake any relevant studies of its proposed increases in compensation/headcount on the basis of compensation benchmarking, or any other external comparators, and appears to have justified its proposed increases solely on the basis of its anticipated needs without any specific reference to any external comparators.

Please confirm whether or not Oakville Hydro took into account any external comparators when determining these increases. If yes, please state what they were and how they impacted on what is proposed in the application. If not, please state why not.

3-Customer Focus

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

3.1-Staff-16
Ref: Exhibit 4/Tab2/Schedule 4/p. 1
OM&A per customer Costs

For 2014, Oakville Hydro's OM&A/customer is forecast to be $293.69, an increase of 6.1% from 2013 levels (on a New GAAP basis). For 2013, the OM&A/customer shows a similar 6.1% increase ($231.75/218.50) (on an Old GAAP basis). In 2012, the increase was 5.8%.

a) Please discuss the drivers for these increases, with specific reference and contrast to the Board's inflation factor of 1.7% and its labour/capital composition.

b) Please outline the outcomes and higher level of services that customers will receive for the relatively higher rates they are paying as a result of these increases.

c) Please identify any customer engagement that supports the further increases proposed in this application.

d) Please provide the analysis that was performed to assess whether this applicant's planning decisions reflect best practices of Ontario distributors.

e) Has Oakville Hydro conducted an analysis comparing its OM&A costs per customer with other Ontario distributors? If so please provide details of that analysis.

f) Please identify any initiatives considered and/or undertaken by the applicant, including any analysis conducted, to optimize plans and activities from a cost perspective, for example, balancing cost levels of OM&A versus capital.

g) The Board's letter of November 28, 2012, established the stretch factor assignments for 2013 rates. The applicant was assigned to Stretch Factor Group 2 out of three groups. On November 21, 2013, the Board established the stretch factor assignments for 2014 rates in the *Report of the Board: Rate Setting Parameters and Benchmarking under the renewed Regulatory Framework for Ontario's Electricity Distributors.* Oakville Hydro was assigned to Group IV out of five groups. Please provide details on any initiatives undertaken to improve Oakville Hydro's assignment in future years.

3.1-Staff-17
Ref: Exhibit 4/Tab2/Schedule 2
Benefits from OM&A Increases

Oakville Hydro has provided OM&A costs on a 'normalized' basis, adjusting for such factors as Smart Meters, the Glenorchy Transformer Station, capitalization changes and the monthly billing initiative. When including all OM&A costs, except for the

capitalization changes, Oakville Hydro shows a 19.2% increase in 2011, a 6.7% increase in 2012, a 6.8% increase in 2013 and a 8.2% increase in 2014.

a) Please identify what improvements in services and outcomes the applicant's customers will experience in 2014 and during the subsequent IRM term as a result of increasing the provision for OM&A in 2014.

b) How has the applicant communicated these benefits to its customers, and how did customers respond? Please provide some examples, including any customer feedback. If no communications took place, please explain why not.

4-Operational Effectiveness

Issue 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 level of associated revenue requirement requested by the applicant?*

4.1-Staff-18

Ref: 1) Exhibit 1/Tab1/Schedule 1/p. 15, and
2) Exhibit 2/Appendix A- Distribution System Plan/pp. 34–36, 70-75

System Service Investments

At Reference (1) Oakville Hydro states that in 2014 it plans to acquire an on-site emergency back-up transformer for Oakville Hydro's Glenorchy Municipal Transformer Station at a cost of $5.0 M and that "The on-site emergency back-up transformer will ensure long term system reliability for both Oakville and Milton customers if one of the existing transformers were to fail."

Reference (2) (page 35) states that investments in the System Service category are considered discretionary.

Reference (2) (page70) states that the proposed emergency back-up transformer could be made available to other transmitters or distributors in the same geographical area.

a) Please describe how the acquisition of the on-site emergency back-up transformer is expected affect the reliability performance of the Oakville Hydro distribution system in terms of impact on SAIDI, SAIFI and CAIDI.

b) Please describe and provide the results of any additional analysis Oakville Hydro has carried out to determine the cost effectiveness of acquiring the on-site emergency back-up transformer.

c) Oakville Hydro indicates that Hydro One often calls upon Oakville Hydro to perform short-term load transfers among its distribution stations to alleviate capacity constraints within the region. How often does this occur and is there a significant cost incurred by Oakville Hydro to perform these transfers? How is/could this arrangement inform the regional planning exercise?

d) Please advise whether Oakville Hydro has entered into any agreements with other transmitters or distributors in the same geographical area to share the proposed emergency back-up transformer and describe any agreements reached.

e) Has Oakville Hydro developed a plan or strategy to establish a stand-by fee and a monthly lease fee for Oakville's back-up transformer as was done by Powerstream as described on page 73? If so, please file this plan and any rationale for the fees established.

f) Please explain why information technology expenditures for 2014 are split into two categories of System Renewal and General Plant.

4.1-Staff-19
Ref: Exhibit 2/Appendix A- Distribution System Plan/pp. 34–36, 70-75
System Service Investments

The table on page 36 indicates a 2014 expenditure of $452,000 for information technology. An additional expenditure of $1,897,210 for information technology is shown in General Plant for a total information technology expenditure of $2,349,210 in 2014.

Please explain why a 2014 expenditure of $2,349,210 is required to support Oakville Hydro's stated objective to optimize the performance of its assets at a reasonable cost with due regard for customer service expectations, system reliability, technology innovation and public and employee safety.

4.1-Staff-20
Ref: Exhibit 2/Appendix A- Distribution System Plan/Appendix 1 Asset Management Process
Road Widening Projects

Project Numbers: 15-E and 15-I are both road widening projects ($403,115) which both face the risk of delay due to municipal design planning. In Oakville Hydro's experience, how likely is it that these capital projects will be delayed due to municipal planning constraints? What has been the past experience in these cases?

4.1-Staff-21
Ref: 1) Exhibit 2/Appendix A- Distribution System Plan/Appendix 1 Asset Management Process
2) Exhibit 2/Tab5/Schedule 2/p. 6
2014 Fleet Replacements

Project Number: 14-62 indicates that Oakville Hydro plans to replace 6 existing vehicles with hybrid vehicles, as part of a $384,762 vehicle replacement program.

a) Why were hybrid vehicles chosen?
b) What is the difference in life cycle costs between hybrid and conventionally powered vehicles? Please explain with specific reference to fuel, maintenance, capital and other cost differences.
c) Did any marketing or branding considerations factor into the proposal to adopt hybrid vehicles? If so, on what basis should this corporate value be recovered through rates?
d) What actions did Oakville Hydro take to establish whether its customers support the purchase of hybrid vehicles?
e) At Reference 2), Appendix 2-AA shown on this page does not include any fleet replacement investments in 2014. Please explain.

Issue 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-Staff-22
Ref: Exhibit 4/Tab 1/Schedule 1
Update of 2013 and 2014 Operating Costs

Since October 1, 2013 when the current application was filed, and considering that the 2013 year is now complete, please file an update of 2013 OM&A costs, noting significant changes from the 2013 Bridge Year as filed and if any components of the OM&A costs for the test year will be updated.

4.2-Staff-23
Ref: Exhibit 4/Tab 1/Schedule 2/p.1
Operational Effectiveness

At this reference Oakville Hydro indicates that it "…is continuously striving to improve its processes to achieve sustainable efficiencies."

As mentioned above, for 2014, Oakville Hydro's OM&A/customer is forecast to be $293.69, an increase of 6.1% from 2013 levels (on a New GAAP basis). For 2013, the OM&A/customer shows a similar 6.1% increase ($231.75/$218.50) (on an Old GAAP basis). In 2012, the increase was 5.8%.

Please reconcile the increases in OM&A cost per customer to continuously improving processes to achieve sustainable efficiencies.

4.2-Staff-24
Ref: Exhibit 4/Tab2/Schedule 2/pp. 7-8
Impact of Customer Preferences: Community Relations

Oakville Hydro shows that community relations expenses have grown significantly from 2010 to the test year: 18.1% in 2011, 83.3% in 2012, -2.6% in 2013 and 28.7% in the 2014 test year, for a total increase of 171% over that time period.

Please explain how this increase reflects customer preferences or needs which were identified through customer engagement.

4.2-Staff-25
Ref: Exhibit 4/Tab2/Schedule 2/p. 9
Increase in Administration and General Costs

Oakville Hydro shows that Administration and General costs have increased by 36% from 2010 to the test year, with specific increases of 7.5% and 9.8% respectively for the bridge and test years. How do these increases reflect a focus on customer needs and operational effectiveness?

4.2-Staff-26
Ref: Exhibit 4/Tab2/Schedule 2/p. 5
Increase in Operations and Maintenance Costs

Oakville Hydro shows that non-normalized Operations and Maintenance costs have increased by 93% from 2010 to the test year. One of the reasons cited for this increase is the three-year effort to establish baseline information for the Asset Management Work plan. Now that this work is complete, why do costs continue to rise into the test year?

4.2-Staff-27
Ref: Exhibit 4/Tab3/Schedule 3/p. 2
Increase in 24/7 Control Room Operations and Load Dispatching Services

Oakville Hydro shows that costs in this area are forecast to increase by $293,755 due to the hiring of additional control room staff, but offset by an expected retirement and revenues from Halton Hills Hydro to provide control room services.

a) How much revenue is to be received from Halton Hills Hydro for control room services and what is the duration of this revenue?

b) Please explain Oakville Hydro's training and skills continuity plan as it relates to retirement and replacement of staff in the control room, including discussion of costs, benefits and staffing risk. Has the expected retirement taken place?

4.2-Staff-28
Ref: Exhibit 4/Appendix A
Impacts of Change to Monthly Billing

Oakville Hydro has indicated that it intends to change the billing frequency for Residential and General Service <50kW customers from bimonthly to monthly in 2014. Oakville Hydro has estimated that the cost of this change to be $380,000 and that this represents an incremental cost per bill of $0.53/bill.

a) Please provide the details behind the $380,000 calculation and the $0.53/bill calculation.

b) What is Oakville Hydro's current (2013) cost per bill? Please provide the detailed cost components.

c) What is the status of the discussions with the Region of Halton (as referred to on page 7) to move to monthly billing for water and waste-water? Will the Region of Halton also face additional costs due to the move to monthly billing?

d) Please identify the percentage of Oakville Hydro customers on e-billing as of December 31, 2013.

e) Please describe Oakville Hydro's efforts to promote e-billing to its customers and how the move to monthly billing may contribute to the success of those efforts.

f) Please describe other initiatives that the Applicant has undertaken, or intends to undertake, to manage the costs of monthly billing for all customers.

g) As part of the decision making process, has the applicant determined the impact of the change to monthly billing on its working capital? If so, how is the working capital impacted by this change? If not, why not?

4.2-Staff-29
Ref: Exhibit 4/Tab3/Schedule4/p.1
Compensation Strategy/Benchmarking

Oakville Hydro provides a summary of its Human Resources and Compensation strategy and how this contributes to the positions it has created. It also indicates that it has used various benchmarking sources but has not filed any studies with the application. Please provide an analysis of how Oakville Hydro has used compensation benchmarking, with a listing of the studies used, copies of the studies and how salaries and benefits were established for the purposes of the application.

4.2-Staff-30
Ref: Exhibit 4/Tab3/Schedule4/pp. 18-19
Total Compensation

Oakville Hydro states that it sets compensation to attract, retain and incent current and future talent and that it feels that salary ranges and benefits appear to fall within market rates. Oakville Hydro also stated that it had negotiated a union agreement that raised unionised pay by 2.5% each year until 2017.

a) What facts led Oakville Hydro to think that its compensation fell within market rates?

b) With inflation expected to be 2% or less in the coming few years, please explain why annual 2.5% increases over 4 years is an appropriate wage increase? What inflation forecasts were available to Oakville Hydro at the time the new agreement was entered into?

4.2-Staff-31
Ref: Exhibit 4/Tab3/Schedule4/p.25
Headcount and Compensation

Oakville Hydro has proposed a material 9.0% increase in headcount and 10.3% increase in employee compensation for the Test year relative to the 2012 actual levels.

Please provide specific information on why the proposed cost and headcount increases are necessary for Oakville Hydro to achieve the objectives that it has targeted in the capital and operating expenditure sections of its application, and the alternative methods for achieving these objectives that were considered and rejected in favour of the proposed headcount and compensation increases.

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

4.3-Staff-32
Ref: Exhibit 2/Tab 5/Schedule 2/p. 6 Appendix 2-AA
Miscellaneous Capital

The Appendix 2-AA Capital Projects shows Miscellaneous Capital for the 2014 Test Year to be $2,289,049. This is more than double the levels of previous years. Please provide a breakdown of the capital expenditures included in this total for 2014 and discuss their relative priority to other elements in the miscellaneous category as well as to other projects in the plan.

4.3-Staff-33
Ref: Exhibit 2/Appendix A- Distribution System Plan/Appendix 1 Asset Management Process
Distribution Meters

Under Project Number 14-61, Distribution Meters, Oakville Hydro intends to spend $481,706 in 2014 on meter replacements. In addition, Oakville Hydro also indicates that the meters will be equipped with 'zigbee' to facilitate 'real-time' data access and 'behind the meter' services.

a) Considering that Oakville Hydro has just replaced the bulk of distribution meters with new TOU metering, why is such an extensive meter replacement program needed in 2014?

b) What is the incremental cost of including 'zigbee' capabilities in these meters?

4.3-Staff-34
Ref: Exhibit 2/Tab5/Schedule 2/p.3 Table 2-31
Pacing and Distribution Rate Impacts

When considering Table 2-31, it appears that the applicant's annual capital spending since the last COS year (2010) has generally been higher (even when normalized) than the approved amount for 2010 and on a non-normalized basis, much higher in specific years.

a) In its annual capital planning and implementation for the years 2011 to 2014 did Oakville Hydro take into account the cumulative impact of its capital expenditures on rates in 2014?

b) Did any changes ensue from these considerations?

5-Public Policy Responsiveness

Issue 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-Staff-35

Ref: 1) Exhibit 2/Appendix A- Appendix 5/pp. 16–19
2) Exhibit 2/Appendix A- Appendix 5/p. 42
3) Exhibit 2/Tab 5/Schedule 2/p. 71

Smart Grid

Appendix 5 provides a description of Oakville Hydro's Smart Grid Strategy, including key drivers, benefits and capabilities assessments (present and future) for each of five categories. Page 19 of Appendix 5 shows a high level 10-year roadmap for grid transformation and smart grid leading to initiatives for electric vehicles, system-wide self-healing grid and community energy storage.

At Page 3 of Appendix 5 Oakville Hydro states that the timing of smart grid investments will be somewhat dependent on upgrades to Oakville Hydro's distribution system facilities through expansion or renewal as well as the rate of customers' adoption of renewable generation and consumer technologies.

a) As noted in the Board's Supplementary Report on Smart Grid, February 11, 2013 (EB-2011-0004), did Oakville Hydro communicate with other distributors in Ontario regarding any Pilot projects in progress that may be similar to what it plans to launch, so duplications can be averted? If so, please provide description of such projects.

b) If Oakville Hydro did not communicate with other distributors in Ontario as outlined in a) above, please indicate what steps would Oakville Hydro take to address potential duplication of Pilot projects.

c) It appears that besides dTech Meter Suite program, that Oakville Hydro is not planning any Smart Grid investments in the test year. When does Oakville Hydro expect that initial material Smart Grid investments will be made and what are the expected initiatives and expenditures in the first several years?

d) At Reference 2) Oakville Hydro discusses the Smart Grid pilot project involving the dTech Meter Suite and mentions that 225 units were to be deployed in 2013 to cover 25% of the Oakville Hydro customer base. Were these meters deployed? Please

clarify the 25% of the customer base reference and provide more information on this pilot in terms of costs, results and prospect of future implementation.

6-Financial Performance

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

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

7- Revenue Requirement

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

7.1-Staff-36

Ref: 1) Exhibit 4/Tab6/Schedule 1
2) 2014 Filing Requirements For Electricity Distribution Rate Applications, Chapter 2, Cost of Service (COS) dated July 17, 2013, S. 2.3.2.2
3) Board letter to All Licenced Electricity Distributors, dated February 24, 2010: "Accounting for Overhead Costs Associated with Capital Work"
4) International Accounting Standards 16, S. 19

Capitalization of Overhead

The 2014 COS filing requirements indicated that electricity distributors electing to remain on CGAAP must implement regulatory accounting changes for depreciation expense and capitalization policies by January 1, 2013. These changes are mandatory in 2013 for all distributors that have not yet made these changes, and therefore all applications for 2014 rates should reflect that these changes were made in 2012 or 2013.

The Board letter and IAS 16 explicitly prohibits the capitalization of administrative and general overhead under IFRS.

Oakville Hydro indicated that 50% of its administration burden related to General and Administrative (G & A) costs of Engineering and Operations that are directly attributable to PP&E should be capitalized.

a) Please explain why Oakville Hydro is capitalizing 50% of its administration burden related to G & A costs of Engineering and Operations when this is inconsistent with IAS 16 and Ontario Energy Board policy.

b) Please quantify the 50% capitalized portion of G & A costs and make any adjustments needed to expense these capitalized G & A costs.

Issue 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?*

Issue 7.3 *Are the proposed levels of taxes appropriate?*

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

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

7.5-Staff-37
Ref: Exhibit 5/Tab 1/Schedule 2
Long-term Debt

Please update Table 5-3 reflecting the 2014 Cost of Capital parameters as documented in the letter issued by the Board on November 25, 2013, available at

http://www.ontarioenergyboard.ca/OEB/_Documents/2014EDR/OEB_Ltr_Cost_of_Capital_update_2014Jan01_20131125.pdf

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

7.6-Staff-38
Ref: Exhibit 3/Tab3/Schedule 1/p. 6/ Appendix 2-H
Other Operating Revenue
Please explain why forecasted revenues under Other Income or Deductions fall from $994,892 in 2012 to $583,097 in 2013 Bridge and then to $564,820 in 2014.

Issue 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-Staff-39
Ref: Exhibit 6/Appendix A
RRWF

Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF in working Microsoft Excel format with any corrections or adjustments that the Applicant wishes to make to the amounts in the previous version of the RRWF included in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

7.7-Staff-40
Ref: Exhibit 8/Appendix C
Appendix 2-W

Upon completing all interrogatories from Board staff and intervenors, please provide an updated Appendix 2-W for all classes at the typical consumption / demand levels (e.g. 800 kWh for residential, 2,000 kWh for GS<50kW, etc.).

8-Load Forecast, Cost Allocation and Rate Design

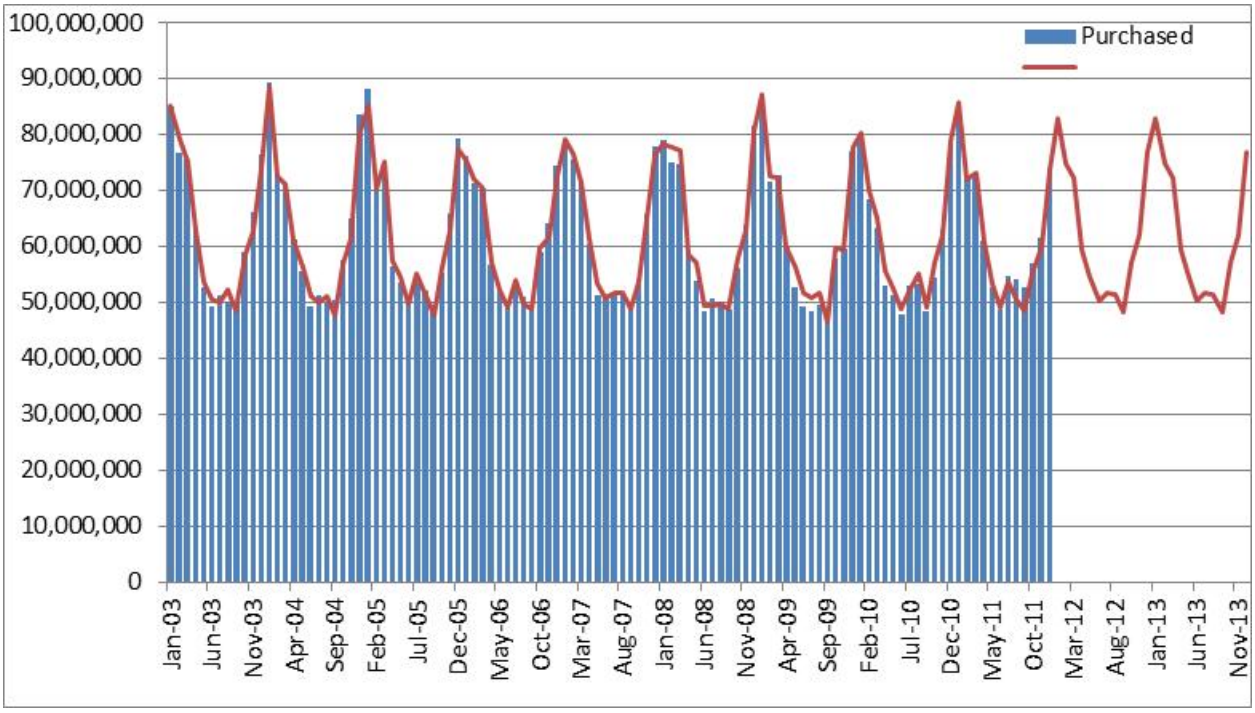
Issue 8.1: Is the proposed load forecast, including billing determinants an appropriate reflection of the energy and demand requirements of the applicant?

8.1-Staff-41
Ref: Exhibit 3/Tab 1/Schedule 3 & Appendix A
Addition of Embedded Distributor – Milton Hydro

Oakville Hydro indicates that Milton Hydro became an Oakville Hydro customer in August 2013 and provided Milton Hydro's load forecast for the 2014 test year (which is filed at Appendix A). Did Oakville Hydro take steps to verify or confirm the load forecast provided by Milton Hydro? Please explain how this forecast was verified by Oakville Hydro.

8.1-Staff-42
Ref: Exhibit 3/Tab 1/Schedule 2
Load Forecast Regression Equation

Please provide a variation on the predicted and residual graph shown on page 6 of this Exhibit showing the actual and predicted kWh values based on the monthly values, in a format similar to the following:



a) Please provide the Mean Absolute Percentage Error of the regression model based on the monthly data.

8.1-Staff-43
Ref: Exhibit 3/Tab1/Schedule 2
Billed Forecast Before CDM Adjustment

On pages 7-8 of this Exhibit, Oakville Hydro states:

> "To determine the total weather normalized energy billed forecast, the total system weather normalized purchases forecast, excluding the impact of CDM activities, is adjusted by a historical loss factor. This adjustment has been made by Oakville Hydro using the average loss factor from 2002 to 2012 of 1.040 applied to each year. With this average loss factor the total weather normalized billed energy will be 1,577 GWh for 2013 and 1,567 GWh for 2014 before the adjustment for CDM discussed below."

In Table 3-13 on page 12 of this exhibit, Oakville Hydro documents 1,557,192,865 kWh (= 1,557 GWh) for the 2013 Bridge Year and 1,566,604,928 kWh (= 1,567 GWh) for the 2014 Test Year, before CDM adjustments. The 2014 Test Year matches, but there is a 20 GWh difference for the 2013 Bridge Year. Please reconcile the difference and identify which 2013 Bridge Year forecast is correct.

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

8.2-Staff-44
Ref: Exhibit 7/Tab 1/Schedule 3/p. 3 Appendix 2-P
Revenue to Cost Ratio Changes

On Page 1 of this schedule, Oakville Hydro indicates that it is re-aligning its revenue-to-cost ratios for those Rate Classes that are outside of the Board's Policy range. The Tables on page 3 show the new proposed ratios for the various classes with minor adjustments. However, in the General Service <50 kW class, the previously approved ratio of 112% is proposed to change to 87%.

Please provide a rationale for this significant change to the revenue-to-cost ratio for the GS<50kW class and include discussion of the resulting impacts on other customer classes.

8.2-Staff-45
Ref: Exhibit 7/Tab1/Schedule 2
Embedded Distributor Rate Class

In the Kitchener-Wilmot Distribution rates case (EB-2013-0147) a variation on direct cost allocation was proposed and adopted in the settlement by the distributor. The correction is documented in Undertaking JT1.7 of that proceeding and involves adjusting the proportion of the Net Book Value and Gross Book Value found in Worksheet I-9 in the model, at cell C148 (change the formula from =I4 C59 to I4 K58). Please apply the Kitchener-Wilmot correction to the Oakville Hydro Cost Allocation Model and provide the results.

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

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

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

8.5-Staff-46
Ref: Exhibit 1/Tab3/Schedule 3/page 50
Conditions of Service

Oakville Hydro states that its Conditions of Service include charges for work done in response to customer requests for services that are not part of the standard services, damages to Oakville Hydro's equipment and theft of power on a cost recovery basis and that Oakville Hydro believes that this practice is consistent with the Board's principle of cost causality.

a) Please identify the rates and/or charges that are included in the Applicant's Conditions of Service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered through these rates and charges.

b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2009 to 2012 inclusive, and the revenue forecasted for the 2013 bridge and 2014 test years.

c) Please explain whether, in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet of approved rates and charges.

8.5-Staff-47
Ref: Exhibit 8/Appendix A
RTSR Work Form Updates

On January 9, 2014, the Board issued a Rate Order for the 2014 Uniform Transmission Rates and on December 19, 2013, the Board issued a Rate Order for Hydro One Distribution's Sub-transmission rates.

Please provide an updated RTSR Adjustment Work Form in working Microsoft Excel format reflecting the new UTR and Sub-Transmission Rates, as applicable, including any other corrections or adjustments that the Applicant wishes to make to the previous version of the Work Form. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

Issue 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

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

9.1-Staff-48

Ref: 1) Exhibit 9/Tab8/Schedule 1/p. 2, Table 9-13
2) Exhibit 9/Tab8/Schedule 1/p. 1, Table 9-14
3) 2014 Filing Requirements For Electricity Distribution Rate Applications, Chapter 2, Cost of Service (COS) dated July 17, 2013, S. 2.12.3

Account 1508, Other Regulatory Assets - Sub-Account Deferred IFRS Transition

In Table 9-13, Oakville Hydro is requesting disposition of the Deferred IFRS Transition Costs sub-account balance of $662,943.

However, as Oakville Hydro has documented elsewhere in its Application, OHEDI has not fully adopted IFRS for financial reporting purposes, and has not completed all changes necessary to adopt IFRS.

The Board's general policy and practice is not to dispose of the Account 1508 sub account Deferred IFRS Transition Costs until the distributor has completed its adoption of IFRS for financial and regulatory purposes and so has a complete record of such costs to review.

Board staff notes that S.2.12.3 of the 2014 Filing Requirements refer to Accounting Procedures Handbook – FAQ #1 and FAQ #2, dated October 2009 and states the following with respect to the disposition of Account 1508 Other Regulatory Assets, Subaccount Deferred IFRS Transition:

> "As per the October 2009 APH FAQ #1 and FAQ #2, an applicant must file a request for review and disposition of the balance in Account 1508 Other Regulatory Assets, Sub-account Deferred IFRS Transition Costs or Account 1508 Other Regulatory Assets, Sub-account IFRS Transition Costs Variance, in its next cost of service rate application immediately after the IFRS transition period."

a) Given that Oakville Hydro's IFRS adoption occur on January 1, 2015 and given S.2.12.3 of the 2014 filing requirements, please explain why Oakville Hydro is seeking disposition of the $662,943 (Other Regulatory Assets - Sub-Account - Deferred IFRS Transition) balance in this current rate application instead of requesting disposition in the next rate proceeding when the IFRS transition period is complete.

b) Please recalculate Table 9-13 without the balance of $662,943 and the related rate riders in Table 9-14 for Account 1508, Other Regulatory Assets, Sub-Account Deferred IFRS Transition Costs.

c) What proportion of the transition to IFRS is complete? What proportion of total expected IFRS transition project expenditures does the $662,943 represent? Does Oakville Hydro have any material on-going costs related to IFRS transition in addition to the $662,943 being requested for disposition?

d) If the Board decides to approve the disposition of this sub account 1508, please confirm that Oakville Hydro will not record any future transaction under this sub account 1508.

9.1-Staff-49

Ref: Exhibit 9/Appendix A/DVA Work Form for 2014 Filers, 2013 Continuity Schedule Tab

DVA Work Form

In the "Adjustment During 2011-Other" column in the DVA Work Form, Oakville Hydro provided various adjustments for various Group 1 DVA accounts.

In addition, Board staff notes that various adjustments for Accounts 1550, 1580, 1584, 1588, 1589 and 1595 (2011 sub account) were entered in the "Adjustments During 2010-Other" column.

The filing requirements footnote requires that an explanation should be provided for the listed adjustments in these columns.

a) Please explain the nature of each adjustment in the two columns (2010 and 2011adjustments) referred above and the rationale for these amounts.

b) Are the amounts under ""Adjustments During 2010-Other" column and the amounts in the "Adjustment During 2011-Other" column properly reflected in the right columns? If not, please make any adjustments required and update the 2014 DVA WF.

9.1-Staff-50

Ref: 1) Exhibit 9/Tab8/Schedule 1/p. 2, Table 9-11
2) DVA Work Form for 2014 Filers, 2013 Continuity Schedule Tab
3) Ontario Energy Board Decision, EB-2012-0154

Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2011)

Oakville Hydro is requesting for disposition of the balance in Account 1595, Disposition and Recovery of Regulatory Assets (sub account 2011) in the amount of $1,005,250 refundable to customers.

- In Board Decision EB-2012-0154, the Board approved the disposition of the balance of $3,359,974 in principal and the balance of $609,261(refund to customers) in interest for a total of $2,750,713 for Account 1595, sub account 2011.

In the DVA WF, Board staff notes that in the "Principal Disposition During 2013-Instructed by the Board" column, Oakville Hydro did not reflect the Board disposition of the approved principal of $3,359,974. Neither did Oakville Hydro reflect the Board approved interest of $609,261 refund to customers in the "Interest Disposition During 2013-Instructed by the Board" column.

a) Please make all the adjustments required in Account 1595 (2011 sub account) to show the Board approved amounts (principal: $3,359,974 and interest: $609,261, refund to customers) in the Board Decision EB 2012-0154 in the 2014 DVA WF.

b) Please confirm if the balance requested for disposition in Account 1595, sub account 2011 in Table 9-11 has changed and if it has, please update Tables 9-11 and any other required evidence including Table 9-14.

Issue 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?

9.2-Staff-51

Ref: 1) Exhibit 2/Tab6/Schedule 4/pp. 1-2
2) Exhibit 2/Tab6/Schedule 1/p. 6 Table 9-9
3) Appendix 2-EE and 2013 Appendices 2-BA, including WIP.

<u>Account 1576, Accounting Changes Under CGAAP</u>

In the calculation of Account 1576 Accounting Changes under CGAAP on PP&E balance, Oakville Hydro included work-in-progress (WIP).

a) Please state the CWIP amounts for both 2012 and 2013 which Oakville Hydro included in the rate base for the purpose of Account 1576?

b) Please recalculate the balance of Account 1576 in Appendix 2-EE reflecting the exclusion of CWIP, provide the supporting documentation, and recalculate the related rate riders in Table 9-9.

Please explain why the Board should approve Oakville Hydro's request for including the CWIP amount in Account 1576.

9.2-Staff-52
Ref: Exhibit 9/Tab9/Schedule 1
CDM Savings Summary

Please provide a table that lists all the appropriate OPA CDM Initiatives that produced net CDM savings which were used in the LRAMVA calculations. For each rate class, please list all relevant CDM initiatives in the applicable year and provide the subsequent net CDM savings for each, in table format as shown below.

Residential	**Net kWh**	**Net kW**
Initiative 1		
Initiative 2		
Initiative 3		
Total		
GS<50	**Net kWh**	**Net kW**
Initiative 1		
Initiative 2		
Initiative 3		
Total		
GS>50	**Net kWh**	**Net kW**
Initiative 1		
Initiative 2		
Initiative 3		
Total		

9.2-Staff-53
Ref: Exhibit 2/Tab4/Schedule 1
Stranded Meters

On page 2 of this Exhibit, Oakville Hydro states that in 2006, developers were being charged for the costs of meters installed beyond the transformer in residential subdivisions. These meters were removed and replaced by Smart Meters. Therefore, Oakville Hydro has subtracted the depreciated value of the contributed capital from the net book value of the stranded meters.

a) By this, is Oakville Hydro stating that 100% of the costs of meters for new customers in new residential subdivision were funded through contributed capital?

b) How long has Oakville Hydro had this practice? Please explain Oakville Hydro's practice with reference to applicable sections of the Distribution System Code and how this complies with the DSC requirement to recover the cost of a basic service to residential customers as part of the revenue requirement.

c) Is this practice still ongoing? If not, when did Oakville Hydro cease this practice?

d) How did Oakville Hydro treat the meter costs, including the portion funded through contributed capital in sheet I7.1 in its cost allocation model in previous applications?

e) In the current Application, assuming that no smart meters have been funded through contributed capital, the gross capital costs per meter should be reflected on sheet I7.1 and there should be no further impact on cost allocation with respect to meter capital costs. Please confirm that there are no contributed capital costs factored into the costs in sheet I7.1. In the alternative, please explain.

9.2-Staff-54
Ref: Exhibit 2/Tab4/Schedule 1
Stranded Meters

Oakville Hydro states that it has deducted depreciation recovered in rates to April 30, 2014. This would correspond with the 4 month "regulatory lag" of Oakville Hydro's rate year compared to the calendar Test (and fiscal) year on which the revenue requirement is set. Why is depreciation not stopped as of December 31, 2013 when the stranded conventional meters are effectively removed from rate base for regulatory rate-making purposes?

9.2-Staff-55
Ref: Exhibit 2/Tab6/Schedule 2/p. 2 Table 2-53
Smart Meter Model filed June 15, 2012 in Oakville Hydro's Smart Meter Cost Recovery Application EB-2012-0193

In its Smart Meter Cost Recovery application filed in 2012 and dealt with by the Board in EB-2012-0193, Oakville Hydro used a Typical Useful Life ("TUL") for smart meters of 15 years, as shown from the portion of Sheet 3 – Cost of Service Parameters from the Smart Meter Model Version 2.17 filed in that application:

Depreciation Rates *(expressed as expected useful life in years)*							
Smart Meters - years	15	15	15	15	15	15	15
- rate (%)	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%
Computer Hardware - years	5	5	5	5	5	5	5
- rate (%)	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Computer Software - years	3	3	3	3	3	3	3
- rate (%)	33.33%	33.33%	33.33%	33.33%	33.33%	33.33%	33.33%
Tools & Equipment - years	10	10	10	10	10	10	10
- rate (%)	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Other Equipment - years	10	10	10	10	10	10	10
- rate (%)	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Oakville Hydro states that it is now using a TUL of 10 years under the “New” (modified) CGAAP, as shown in Table 2-53.

a) Please provide further explanation for Oakville Hydro’s change of the useful life of the smart meters from 15 to 10 years.

b) Why does Oakville Hydro state that the TUL of Smart Meters under “Old” CGAAP was 25 years, when the utility used 15 years in its Smart Meter application for all years from 2006 to 2012?

-end-