Board Staff Interrogatories
2014 Electricity Distribution Rates
Cambridge and North Dumfries Hydro Inc. ("CND")
EB-2013-0116
January 24, 2014

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 2-8A – Asset Management Plan

a) On page 1 of its DSP, CND states that:

> *"CND's Distribution System Plan (DSP) is designed to present CND's fully integrated approach to capital expenditures planning. This includes a comprehensive documentation of its asset management process that supports its future 5 year capital expenditure plan while detailing the history of its past 5 years' activities."*

Please identify the comprehensive documentation of CND's asset management process mentioned above and provide the most recent Asset Condition Assessment report that was done for the Asset Management Plan.

b) On page 4 of the DSP, CND states that:

> *"Optimal life extension of assets, including:*
> - *Intensify condition monitoring to minimize uncertainty regarding decisions relating to equipment maintenance, renewal and replacement.*
> - *Where economically viable, refurbish distribution equipment in-situ to extend their reliable working lives."*

Please describe the "intensify condition monitoring" process.

c) On page 31 of the DSP, CND provides the details of its prioritization process.

i. Please explain how the priority is actually determined, perhaps providing a decision flowchart or algorithm.
ii. Please clarify what is the definition of "Project Priority" and indicate if and how it plays a role in setting the budget and the schedule.

iii. What is the significance of a Priority 10 project in 2014 (as indicated on page 99-100 of the DSP) vs. a priority 1 project in 2015 (as indicated in appendix K of the DSP)?

d) As an example of the application of priorities, please explain how the priority was determined for the 2014 System Renewal Projects (as follows) on page 99 of the DSP.
   i. Northview Acres Area Underground Rebuild which has priority 7 vs. Townline;
   ii. that of Welsh Dr./Trussler Rd. Underground Rebuild which has a priority of 13, compared with pole replacement both listed on DSP p99 (Adobe p178).
   iii. Greenfield Road from West of Dumfries Rd. to East of Sprague Rd etc. which has priority 5 (an underground project) vs. Welsh Dr./Trussler Rd.

e) Referring to page 82 of the DSP, CND states that it is replacing porcelain insulated units with polymer-insulted units with a replacement rate of 113 failure prone insulators per year since 2009. At this pace, it will take years to replace all 3759 units. Given this and with due regard to outage hours for insulator failure, please explain why the current replacement rate is adequate.

1.1-Staff-2

Ref: Exhibit 2/Tab 2/Schedule 1 – December 2013 Ice Storm Impacts

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

a) Please identify any impacts that CND 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 the Applicant be updating its Application in light of this event? If so, by when does it intend to file any updated evidence?

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

1.2-Staff-3

Ref: Exhibit 1/Tab 5 – Customer Engagement

Chapter 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.”

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

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-4

Ref: Exhibit 2/ Tab 2/ Schedule 1/ Page 3 – Reliability Performance
Exhibit 2/ Appendix 2-8A (DSP)

Board staff is seeking clarification of the prioritization process and of some specific projects.

a) Does CND acknowledge that the figures in Table 1 of page 2 of the DSP represent declining reliability, and that Table 2 of page 2 of the DSP in 2012 also does not meet the reliability target which CND has set?
b) On page 3 – 4 of its DSP, CND provides its guiding principles that are used to determine CND's capital expenditures. Please explain how these guiding principles would improve CND's reliability performance.
c) Please provide the record of reliability statistics (similar to that provided for the years 2009-2012) for the previous five years i.e. 2004-2008 and comment on whether it reflects improving, constant or declining reliability over that period and why.
d) Please provide information which shows
    i. that CND has identified its problem areas and what these are;
    ii. how CND is approaching prioritization for dealing with these areas in an expeditious way;
    iii. Prioritization and timeline for dealing with unreliability issues; and
    iv. Actions which CND has initiated in response to its analyses.
e) Please provide an explanation of how the analysis of the problems led to prioritization and how that analysis has influenced the expenditures that are planned to be made.

2.1-Staff-5

Ref: Exhibit 1/Tab 4/Schedule 1/Table 1-1 – CND Scorecard

Table 1-1 presents CND's Scorecard based on the draft Board staff recommended scorecard contained in the *Staff Report to the Board on Performance Measurement and Continuous Improvement for Electricity Distributors* ("Board Staff 3 Report"), issued July 4, 2013. In Table 1-1, entries for the achieved regulatory return on equity for 2008 to 2010 inclusive are blacked out.

a) Does this indicate that CND is claiming that these are confidential? If so, please provide CND's claim for confidentiality in compliance with the Board's *Practice Direction on Confidentiality*.
b) In the alternative, please update Table 1-1 with the achieved regulatory return for all years back to 2008.

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-6

Ref: Exhibit 1/Tab 5/ Schedule 1 – Customer Engagement

On page 3 of the above reference, CND states:

> *"CND has gathered many customer responses from the above customer engagement activities. The feedback is as diverse as its customer base. One of the most frequent requests from customers is for paperless billing. The paperless billing "Bill Connect" initiative is currently in development, and a launch is scheduled for the end of 2013, with promotion starting in 2014……*
>
> *….In 2014, CND will implement an Outage Management System and Interactive Voice Response Solution. Improvements to the corporate website, including a user-friendly search function, links for paying a bill online, and additional information with respect to available programs, have been implemented as part of the new website that was launched in 2013."*

a) Please identify the costs of the initiatives mentioned above and explain how the costs of the above initiatives have been reflected in this application. (i.e. capital expenditures or OM&A).

b) Please identify any other expenditure that has been incorporated in this application as a result of CND's customer engagement activities and their costs.
c) Please identify any initiatives identified as a result of the surveys conducted with customers but which CND has not proposed to act on in the DSP or in 2014 OM&A. Please identify whether these were considered and, if so, why CND is not acting on these.

3.1-Staff-7

Ref: Exhibit 1/Appendix 1-1A – UtilityPulse Customer Satisfaction Survey

a) What are the Ontario and National samples that CND's results are compared to?
b) What is the number of surveyed respondents for: i) CND; ii) Ontario; and iii) National?
c) What is the margin of error of the results presented based on a 95% confidence interval?

3.1-Staff-8

Ref: Exhibit 4/Tab 1/ Schedule 1 – Strategic Imperative

On Page 1 of the above reference CND provides its strategic imperatives. One of the imperatives states that "Customers – Anticipate and exceed customer expectations regarding efficiency and reliable delivery of electricity."

a) Please identify what improvements in services and outcomes the CND'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 CND 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-9

Ref: Exhibit 2/Appendix 2-8A/ Page 10 – DSP - Information Technologies

In the above reference, CND states that "As part of its Strategic Planning process undertaken by CND in the fall of 2012, CND identified three areas of risk within the Information Technology Services …"

Please expand on the description provided, and indicate, for the initiatives undertaken and described in the last bulleted paragraph on the page, what progress has been made in dealing with each of the three areas mentioned:

a) Inadequate Resources – critical gaps in IT;
b) Lack of integrated IT systems; and
c) Low capacity for innovation.

4.1-Staff-10

Ref: Exhibit 2/Appendix 2-8A/ Page 11 – DSP – Remote Switchers

The third last paragraph of the above reference states that "CND has a target to install 3.5 switches per feeder for the 29 feeders that supply the service area and has steadily been progressing toward this goal. CND plans to install 5 switches per year, for each year of the 5 year plan, in order to reach this level. …."
This implies approximately 102 remote controlled switches will be required.

a) Please describe the physical system of radio controllers including a description of the controlling and controlled facilities, their location and capabilities, the number and nature of controlled facilities.
b) CND also has a SCADA system. What facilities are controlled from SCADA and what from radio control, or are these one and the same? How do the two systems relate?
c) Please clarify the term "radio controllers" in the second last paragraph on page 11. Is this a device to remotely control a 27.6kV switch?
d) Are the radio controllers to be replaced with new radio controllers, or other means of control such as SCADA? Please indicate if development of a SCADA or Smart Grid type project has been considered for monitoring and control of facilities, and describe.
e) Please identify the inventory and age of all 27.6kV switches in service at the end of 2013.
f) What is the basis for the target of 3.5 remote operated switches per feeder?
g) What are the criteria for installing a remote operated switch?

h) Are the remote operated switches replacing manually operated switches in all cases?
i) Are remote controlled switches being located where there was a manual switch before? Or is it an additional switch, where there was none before?
j) Are all of the remote operated switches 27.6kV?
k) Are the loads on a given feeder being regrouped or aggregated differently when a decision is made to install remote controlled switches?

4.1-Staff-11

Ref: Exhibit 2/Appendix 2-8A – DSP – Renewal Projects

On page 9 of the DSP, it shows that the increase in System Renewal capital projects for the 2014 Test Year is driven principally by …Rebuild of approximately $2.7MM in underground distribution system plan, of which the majority of the projects involve direct buried cable…" and that "CND has been experiencing an increasing number of failures in the areas identified for rebuild.".

a) In the Appendix L of the DSP, CND provides a report titled "Outage Information Supporting the Underground Rebuild", please identify those failure incidents which are caused by cable failures.
b) In the Appendix F of the DSP, it suggests that cable failure is <u>not</u> among the causes of the Top Ten Unplanned Outages in any of the years 2008 through 2012.
    i. Please provide a table showing the trend of cable failures for each of the eight Underground Rebuild Areas as described in Appendix L of the DSP, for each year 2008 through 2012.
    ii. Please explain how, for cables, the data is consistent with the statement in page 9 of the DSP that "CND has been experiencing an increasing number of failures in the areas identified for rebuild" and why replacement of the cable is recommended.
c) Please identify the priority level for the projects in response to (b) and explain the implication of the priority for the budget. Does this imply that lower priority projects could be eliminated in order to reduce the budgeted expenditure?

4.1-Staff-12

Ref: Exhibit 2/Appendix 2-8A/ Page 86 - 89 – DSP – System Access

a) Please confirm that the "Projected" amounts in the table listed on page 87 of the DSP are projections for the full year and not for 8 months
b) On page 88 of the above reference, CND indicates the engineering work for Boxwood/Maple Grove underground feeder was complete. Please confirm

whether CND received compensation for that work, and where that compensation is reflected in the Application.

c) On page 89 of the above reference, the Two New 27.6kV feeders in North West Industrial Area Preston Feeders (Work Order C12-038-1) appears to be 60% over budget, and the increase appears to be explained as resulting from the delay in approvals.
   i. Given that material purchase increases occurred in 2012, and the delay in approvals which occurred prior to 2013, please clarify what resulted in the higher projected capital expenditure amount in 2013.
   ii. Please provide an explanation of how the load growth forecast in the spring of 2012 was so altered by the time that construction began in January 2013 that the design was altered from 2 to 4 circuits.
   iii. Please describe any consultations with customers and regional entities that occurred as part of this project, including the updated forecasts and implementation.

4.1-Staff-13

Ref: Exhibit 2/Appendix 2-8A/page 87-91 – DSP – 2013 Projects

a) On page 90 of the DSP, CND identifies the needs of the project related to the rebuild of Sheffield F2 Feeder and Branchton Rabbits. The needs include voltage upgrade and poles replacements, which have reached end of life. What is a “trigger” driver for this project?
b) With regard to the Preston Parkway Area Underground Rebuild project listed on page 90-91 of the DSP.
   i. Please describe the injection process that is mentioned in the above project.
   ii. Please provide any discussion with other utilities and/or references which indicate the success of this type of cable injection project.
   iii. Has there been any test of the technology or a pilot project prior to committing to this $1,000,000 project, or is this in fact the test?
   iv. Please provide the history of forced outages on these sections, including dates, causes and corrections made.
c) In regards to the Galt Core Area Underground Upgrades project listed on page 91 of the DSP.
   i. Please clarify whether any of the cables are being injected as in the case of the Preston Parkway project?
   ii. Please provide the history of forced outages on these sections, including dates, causes and corrections made. Clarify if the faults are at an underground connection point.
   iii. Please clarify the program for “eliminating as many underground connections as possible”. Does this mean cable in conduit or direct-buried?

iv. Please clarify the program for repairing concrete vaults. Explain the physical arrangement, and the number of vaults affected.

d) In regards to the Riverbank Drive Overhead project listed on page 90 of the DSP, please explain the statement that "the job scope was reduced by about 25% from what was budgeted. Does this mean that less new poles were required? Or that a lesser length of line was relocated?

4.1-Staff-14

Ref: Exhibit 2/Appendix 2-8A/ Page 99-105, Appendix O – DSP – 2014 Projects

a) On page 102-103 of the above reference, Northview Acres Area, Galt Core Area, and Avonlea Rd./Earlwood Dr. Underground Rebuild projects all include replacement of underground cable, but cable failures are not listed as among the top ten causes of degraded reliability. Please provide the record of failures of underground primary cable failures for reference a) project which necessitates replacement.
b) The Galt Core Area project seems to suggest that replacement is occurring on a pre-emptive basis, and that failures have not been in the cables. Please clarify if there have been cable failures in this area and provide the record of these. If the reason for replacement of the cable is not failures, please explain why they are being replaced.
c) CND indicates that the project value for Galt Core Area is $470,520, please indicate the amount that cable makes up of the full value of the project.
d) For the Avonlea Rd./Earlwood Dr. project, please confirm whether the planned rebuild includes replacement of cables.
e) CND assigns a priority 12 for the Avonlea Rd./Earlwood Dr. project. Please explain why this project is given a higher priority (12) than provision of sectionalizer Single Phase reclosers project,which is assigned priority 14.
f) Appendix O of the DSP refers to the Boxwood Industrial Subdivision supply. Page 2 of this appendix indicates that "Engineering Work was completed by Stantec due to insufficient CND engineering resources". Please clarify if this work was subcontracted out on the basis of a competitive contract, or the basis on which this work was or is being done.

4.1-Staff-15

Ref: Exhibit 2/Tab 1/Schedule 2 – Distribution Assets

On page 1 of this exhibit, CND states at lines 14-18:

> Distribution assets include assets such as overhead and underground infrastructure, wires, poles, and transformers
> .

> General Plant Assets include assets such as Smart Meters, buildings, computer hardware and 16 software, office furniture and equipment, transportation equipment, communications technology, and tools and general equipment.

Table 1- Investment Categories of Section 5.1.1 of Chapter 5 – Distribution System Plans of the *Filing Requirements for Transmission and Distribution Applications*, updated July 17, 2013 has a Note 1 which states that General Plant consists solely of Account 19XX assets.

a) Why are Smart Meters considered General Plant Assets?
b) Are other (e.g. demand and wholesale) meters considered distribution assets or general plant?

- ***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-16

Ref: Exhibit 4/ Tab 2/ Schedule 1 – Employee Compensation

a) How many of the new hires stated in Table 4-5 would be hired in 2013 and 2014 respectively?

On page 5 of the above reference, CND indicates that three additional employees are the new hires for Billable – CDM program.

b) For Table 4-6 of the above reference, CND did not include these employees. Given that CDM costs are not recoverable through distribution rates, please confirm whether the cost of these employees have been included in the proposed revenue requirement, and if so where the costs are recorded and CND's rationale for including these costs. Further in the above reference, CND indicates that four additional employees are the new hires for Capital. Please describe why these employees are required to achieve the objectives set out in the DSP. .

4.2-Staff-17

Ref: Exhibit 4/ Tab 1/ Schedule 2 – Monthly Billing Impacts

a) Please identify any impacts that the implementation of monthly billing has had on billing and collection expenses or any other OM&A category.

b) Please identify the percentage of customers on e-billing as of December 31, 2013.
c) Please describe the Applicant's efforts to promote e-billing to its customers.
d) Please describe other initiatives that CND has undertaken, or intends to undertake, to manage the costs of monthly billing for all customers and, by extension on the rate impacts to recover billing and collecting expenses.

- ***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-18

Ref: Exhibit 2/ Tab 2/ Schedule 1 – Capital Expenditure Summary

CND's 2014 capital spending has been about 54.7% or $6.2M greater than the amount the Board approved in its 2010 decision.

a) In its annual capital planning and implementation for the years 2010 to 2014 did CND take into account the cumulative impact its capital expenditures would have on rates in 2014?
b) What changes ensured from these considerations?

5 – PUBLIC POLICY RESPONSIVENESS

6 – FINANCIAL PERFORMANCE

7 – REVENUE REQUIREMENT

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

7.5-Staff-19

Ref: Exhibit 5/Tab 2/Schedule 2 and Exhibit 5/Appendix 5-1 – Long-term Debt

CND states that the Promissory Note with the Sun Life Assurance Company of Canada for $35 million attracts an interest rate of 4.962%. CND has included a copy of the note in Appendix 5-1.

a) The copy of the Promissory Note in Appendix 5-1 appears to be incomplete. Please file a complete copy.

b) Please provide documentation that the rate for the Promissory Note with the Sun Life Assurance Company is 4.962%, as the rate does not appear to be documented in the terms and conditions of the Promissory Note.

7.5-Staff-20

Ref: Exhibit 5/Tab 2/Schedule 2 and Exhibit 5/Appendix 5-1 – Long-term Debt

CND is proposing that the Promissory Note with the Corporation of the Township of North Dumfries for a principal amount of $3,019,708.38 should attract the actual rate of 4.993% stated in the note. In Appendix 2-OB, CND documents that this is affiliated debt. Board staff observes that the Corporation of the Township of North Dumfries is a minority shareholder of CND, indirectly through CND's parent company, Cambridge and North Dumfries Energy Plus Inc.

The copy of the Promissory Note specifies no maturity date, and the Promissory Note is payable only when called by the lender.

a) Please indicate what avenues CND has to re-negotiate the terms of this Promissory Note.
b) Please indicate what efforts CND has undertaken to re-negotiate or to monetize this Promissory Note.
c) Please confirm that given that the Promissory Note does not have a maturity date.If there are no provisions for repaying or renegotiating the note except at the discretion of the lender, please discuss why the Board's deemed long-term debt rate of 4.88% should not apply for rate-setting instead of the higher actual rate of 4.993%.

7.5-Staff-21

Ref: Exhibit 5/Tab 2/Schedule 2 Exhibit 5/Appendix 5-3 and the Revenue Requirement Work Form – Long-term Debt

CND is proposing that the weighted average cost of debt be calculated based on three components:

- $35,000,000 Promissory Note due to the Sun Life Assurance Company of Canada at a rate of 4.962%;
- $3,019,708.38 Promissory Note due to the Corporation of the Municipality of North Dumfries at a rate of 4.993%; and
- The residual long-term debt component (i.e. the difference between the deemed long-term debt thickness and the $38,019,708.38 actual long-term debt represented by the Promissory Notes to the Sun Life Assurance

Company of Canada and the Corporation of the Municipality of North Dumfries) should attract the Board's deemed long-term debt rate.

CND states that it is requesting a weighted average cost of long-term debt of 4.77% based on the above, subject to the updating of the deemed long-term debt rate by the Board for 2014 rates.

Board staff observes that Appendix 2-OB in Appendix 5-3 and the RRWF both document a weighted average long-term debt rate of 4.96%.
With respect to CND's proposal, the Board's policy and practice has been that the weighted average cost of actual (and forecasted new) debt should be applied to the deemed long-term debt capitalization. The Board's policy does not make allowance for a virtual (notional) long-term debt component that attracts the deemed long-term debt rate.

a) Please confirm the weighted average long-term debt rate that CND is proposing in this application.
b) In light of the Board's policy and practice on the treatment of notional debt, please explain further CND's proposal for the treatment of virtual or notional debt.

- ***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-22

Ref: Exhibit 6/ Appendix 6-1 – Revenue Requirement Work Form

a) Based on the responses to the interrogatories from all parties, please submit a Microsoft Excel file containing an updated RRWF (version 4.00) that represents any changes the applicant wishes to make to the amounts in the previous version of the RRWF. Column E of Sheet 3 should remain unchanged. Adjustments or changed numbers should be input into the applicable cells on columns I or M.
b) Please provide a list of all changes made to CND's original application (by exhibit), including an updated derivation of its revenue requirement, PILs calculation, base rates, rate adders/riders, and bill impacts.

7.7-Staff-23

Ref: Exhibit 8/ Appendix 8-5 – Bill Impacts

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<50, 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-24

Ref: Exhibit 3/ Tab 3/ Schedule 1/ Page 2 – Load Forecast - KWhs

In Table 3-2, CND provides a summary of Load and Customer/Connection Forecast. Please provide Table 3-2 again but exclude 2013 and 2014 CDM adjustments from the Billed (GWh) column and recalculate the Growth (kWh) and Percent Change for 2013 and 2014.

8.1-Staff-25

Ref: Exhibit 3/ Tab 3/ Schedule 2 – CDM Variable

CND has included a CDM variable in its regression equation, with the estimated coefficient of the CDM variable being -4.6. CND describes the construction of the CDM variable on page 3 of the above reference, and the data are contained in tab “CDM Activity” of the load forecast excel spreadsheet.

CND describes that a linear interpolation was used to interpolate the monthly values to sum to the reported annual OPA savings in each year. As a starting example, the 2006 CDM savings per the OPA reports are 3,653,792 kWh in 2006. Board staff notes that, as documented in the OPA reports, the reported annualized savings for the year are estimated as if all programs were in effect the full year from January 1 to December 31.Assuming that CDM results are achieved throughout the year, the actual impact of 2006 CDM programs is reasonably estimated as half of the annualize savings (3,653,792/2 = 1,826,896 kWh).
This “half-year” approach would apply to the first year for all CDM program results. .

a) Please prepare a CDM activity variable that reflects the half-year rule impact of CDM programs in the first year.
b) Please re-run the regression model with this variable. Provide all regression statistics in the standard Microsoft Excel regression output format, and provide the regression model, including the construction of the CDM variable in this format.
c) Please provide CND's views as to why the estimated coefficient from the regression model is 4.6 and why the estimated CDM coefficient is greater than unity in value.
d) Please provide CND's views of the reasonableness of multiplying the persistence of 2011 and 2012 CDM programs on the 2013 and 2014 forecast by the CDM coefficient.

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

8.2-Staff-26

Ref: Exhibit 7/ Appendix 7-1/ worksheet I-3 – Cost Allocation Model

a) CND has not made use of the sub-account 4235-1, Account Set-up, which was earmarked by the Board for allocation separately from other Miscellaneous Revenue in account 4235. In the Report of the Board: Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219, p. 18) states:

   "The Board therefore expects distributors to allocate the major components of miscellaneous revenues to customer classes in the same proportion as the corresponding cost drivers are allocated to customer classes, to the extent that the distributor has the relevant information.

   Those major components are, as identified from 2006 information and confirmed by Elenchus, namely: late payment charges, account set-up & charges, collection charges, and access to poles."

   Please provide information on the amount of Account Set-up revenue within the account, and an analysis of how it should be allocated (credited) to the classes in comparison to the allocation in Appendix 7-1.

b) CND has included USoA account 5695 OM&A Contra Account in worksheet I-3, and has allocated the negative balance in proportion to O&M. Please explain what is recorded in this account, and describe the rationale for the allocator which is applied to the account.

8.2-Staff-27

Ref: Appendix 2-P, Tables A and C; CND 2010 EDR Settlement Agreement (EB-2009-0260), p.17 – Status Quo Revenue-to-Cost Ratios

CND's settlement agreement in EB-2009-0260 included revenue to cost ratios that would be moved half-way to the boundary of the Board's policy range in 2010, and at the applicable boundary in 2011. The boundary for the Large User class was 85% and for Street Lighting was 70%. The settlement agreement also included leaving the USL ratio at its then-existing level of 110%.

a) Please confirm that the ratios shown in the first column of Table C for Large Users and Street Lighting are for 2010, and not 2011, and confirm that the 2011 rates were adjusted to reach the boundaries per the settlement agreement.

b) Please explain why the ratio shown in the first column of Table C for the USL class, which is 91.9%, does not conform with the settlement agreement.

c) Please confirm that the status quo ratio for USL, 152%, is the result of allocating a smaller proportion of some cost elements to USL than in the previous cost allocation (that resulted in a ratio of 92% or 110% as the case may be). If so, please identify the cost elements that are now being allocated differently and are the main reason for the large difference between the previous approval and the status quo.

8.2-Staff-28

Ref: Exhibit 7/ Tab 1/ Schedule 2 / Table 7-5 – Cost Allocation to Embedded Distributors

In the cost allocation study, the embedded distributors are shown to have very low revenue to cost ratios. CND has not filed Appendix 2-Q for either of its embedded distributors, which would identify more specifically which of CND's assets are required to serve the embedded distributors. A narrower definition of the assets actually used might show a lower revenue requirement and hence a higher ratio for either or both of the embedded distributors.

Please provide a completed version of the spreadsheet Appendix 2-Q for each of the embedded distributors, wtih CND's comments on any significant differences that appear between the revenue requirements in the cost allocation model reported in Table 7-5 and the revenue requirements produced in Appendix 2-Q.

8.2-Staff-29

Ref: Exhibit 7/ Tab 1/ Schedule 3 / Table 7 – Revenue Re-balancing

As a result of CND's proposal to increase the revenue to cost ratio of the Street Lighting class, it becomes possible to decrease the ratio for some other class(es).

Please explain why CND is proposing to decrease the ratio for the Residential class, which is already less than 100%, rather than the ratio of a class such as USL or General Service 50-999 kW, which CND is proposing at 120% and 114% respectively.

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

8.4-Staff-30

Ref: Exhibit 8/ Tab 1/ Schedule 9/ Table 8-22 –Total Loss Factor

In Table 8-22, it would be more usual to propose different Total Loss Factors for customers above 5000 kW that are secondary metered versus primary metered.

Please provide an explanation of CND's proposal or a revised TLF for one or the other of these meter configurations.

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

8.5-Staff-31

Ref: Exhibit 2/ Tab 1/ Schedule 3/ page 2; Exhibit 8/ Tab 1/ Schedule 8 –Low Voltage Charges

a) CND has provided information on 2013 Low Voltage Charges of $101,361 in Exhibit 2 and $180,160 in Exhibit 8 (Table 8-17). Please confirm which number is correct. Further, please explain why the test year forecast of $170,622 differs so much from the previous year.

b) The charge for service through a High-Voltage Distribution Station comprises more than half of CND's LV cost, as shown in Table 8-18. Please confirm that these charges for HVDS will continue throughout the IRM period following the test year?

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-32

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 1 - Account 1508

CND requests to recover $41,723 in Account 1508 sub-account OEB Cost Assessments. CND states that

> *"The principle balance in this sub-account is $39,254 and has remained unchanged since CND's 2010 Cost of Service Rate Application. It appears that the balance in this account was inadvertently neglected and was not cleared."*

Although the balance is not material, Board staff notes that CND had the opportunity in its previous COS rates application to request for the disposition of the this sub-account of Account 1508 noted above but did not follow the December 2005 APH FAQ # 13, which states that cost assessments were authorized for inclusion in Account 1508 to April 30, 2006. Effective on May 1, 2006 cost assessments amounts are included in the distribution rates of LDCs for the 2006/07 rate year.

Board staff notes the Board findings in the EB 2011-0293 Board Decision, denying Atikokan Hydro's request for recovery of OMERS contributions for the period 2006 to 2011 and OEB cost assessments for the period 2006 to 2009 as being out of period.

Please explain why the Board should approve CND's request for disposition of the balances in Account 1508, Sub Account OEB Cost Assessments in this rate proceeding.

9.1-Staff-33

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 16-18; Appendix 2-TB - Account 1592

Board staff notes that no variance from capital items is included in Account 1592 sub-account HST/OVAT Input Tax Credit in Appendix 2-TB. CND explained that

> *"FAQ Q4 also recognized that any savings on capital purchases on or after July 1, 2010 will be reflected in the cost when these assets are included in rate base at the next rebasing/cost of service application. Any*

> *savings in cost due to the elimination of PST will flow to rate payers at the time and there is no savings to be recorded in 1592. As such, CND has not recorded any savings related to capital purchases*."

In CND's Decision EB-2009-0260 April 20, 2010, the Board stated that the following and expected the utility to record the savings for both OM&A and Capital expenditures:

> *"In the absence of agreement on the forecasted adjustments, the Board will not direct reductions to 2010 OM&A and **capital expenditures**, but will establish a deferral account to record incremental savings due to the implementation of the HST. CND will use deferral account 1592 PILS and Tax Variances, "Sub-account HST/OVAT Input Tax Credits" for recording this information. [emphasis added]"*

The 2014 Cost of Service filling requirement states that "The distributor must provide an analysis that supports the distributor's conformity with the December 2010 APH FAQs, in particular the example shown in FAQ # 4."

In addition, Board staff notes that the APH-FAQ December 2010 Q4 does not indicate the savings related to capital purchases should not be recorded. In fact, Board staff notes that APH FAQs December 2010 Q4 suggested an alternative method which requires a distributor to complete a detailed one-time analysis of its most recent historic year (prior to implementation of HST). It states that

> "*The analysis is necessary as the PST was embedded in the costs of purchases of OM&A and capital items, and was not separately identified in the distributor's accounting records or annual operating budget. [emphasis added]"*

The example in the APH FAQs December 2010 Q4 includes a calculation for PST savings on capital items (Table 1PST Savings on Capital Purchases).

Please perform an analysis, according to the example provided in the APH FAQs December 2010 Q4, for PST savings on capital items from July 1, 2010 to April 30, 2014, and update Appendix 2-TB accordingly.

9.1-Staff-34

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 10 & Page 18-20; Appendix 9-8
Exhibit 3/ Tab 4/ Schedule 1/ Page 8 & 9 - Account 2425

In its last Cost of Service Decision EB-2009-0260, the Board authorized a variance account (Account2425) for CIS billing system costs. Page 35 of the Decision stated that:

> *"As part of the Partial Settlement Agreement approved by the Board, the capital costs for the new CIS/billing system to be reflected in 2010 distribution rates is $1.85 million, subject to an asymmetrical variance account. Should capital costs be below the $1.85 million, the shortfall will be credited back to customers when application for disposition is made; if the capital costs exceed $1.85 million, the overrun is borne by CND's shareholders.*
>
> *CND is directed to record the variance between the actual capital costs for the new CIS/billing system in Account 2425, Other Deferred Credits, Sub-account: Over-Recovery of Capital Expenditure. CDN shall record in this account the difference between its forecasted 2010 capital expenditure of $1.85 million and the actual incurred expenditure for the CIS, if the incurred amount is less than $1.85 million. No amount shall be recorded if the incurred expenditures are greater than the forecasted $1.85 million amount. CND shall also record in this account the revenue requirement impact associated with any-over-recovery of the expenditure amount".*

The Board also directed CND to file quarterly reports on the implementation of the new CIS/billing system, and CND complied with this direction.

In the current rate application, CND has requested a $404,140 recovery from customers in Account 2425. CND provided a breakdown of the balance in Table 9-13, which is reproduced below:

Loss on disposition of abandonded CIS		$247,772
Difference in Revenue Requirement		
	Prior to Completion of Project (12 months X $7,214)	$86,568
	(May 1, 2010 to April 30, 2011)	
	Following Completion of Project (20 months X $1,400)	$28,000
	(May 1, 2011 to December 31, 2012)	
Carrying Charges January 1, 2010 to December 31, 2012		$12,112
Balance at December 31, 2012		$374,452
Difference in Revenue Requirement		
	16 months X $1,400	$22,400
	(January 1, 2013 to April 30, 2014)	
Carrying Charges January 31, 2013 to April 30, 2014		$7,308
Balance at April 30, 2014		$404,160

With respect to the loss on disposition of the abandoned CIS software for $247,772, CND explained that it abandoned the SAP CIS solution in early 2010 and selected Harris Northstar which went alive in May 2011. The loss on disposal of SAP software is included in account 2425 as these losses were incurred as a direct consequence of the process of installing the new CIS/billing system.

With respect to the calculation for the difference in revenue requirement shown in the above table, CND attached one of the quarterly reports filed with the Board in Appendix 9-8. The relevant calculation is reproduced below:

2010 Service Revenue Requirement for the Forecasted CIS Expenditures

	A AS FILED With CIS/Billing System	B Without CIS/Billing System	B-A=C Difference
OM&A Expenses	10,032,108	10,032,108	-
Amortization Expenses	6,384,985	6,199,985	(185,000)
Total Distribution Expenses	16,417,093	16,232,093	(185,000)
Regulated Return On Capital	7,167,215	7,110,448	(56,767)
Capital Taxes	67,581	66,957	(624)
PILs	1,039,587	1,368,546	328,959
Service Revenue Requirement	**24,691,476**	**24,778,044**	**86,568**

Brackets indicate a decrease in revenue requirement, no brackets an increase. The amount to be added to customers revenue for 2010 is $86,568 from May 01, 2010 to April 30, 2011, or $7,214 per month.

2010 Service Revenue Requirement for the Forecasted CIS Expenditures

	A AS FILED With CIS/Billing System	D With $1,016,037 actual costs	D-A=E Difference
OM&A Expenses	10,032,108	10,032,108	-
Amortization Expenses	6,384,985	6,301,589	(83,396)
Total Distribution Expenses	16,417,093	16,333,697	(83,396)
Regulated Return On Capital	7,167,215	7,141,625	(25,590)
Capital Taxes	67,581	67,300	(281)
PILs	1,039,587	1,165,649	126,062
Service Revenue Requirement	**24,691,476**	**24,708,271**	**16,795**

Brackets indicate a decrease in revenue requirement, no brackets an increase. The amount to be added to customers revenue beginning May 1, 2011 and beyond is $16,795, or $1,400 per month.

a) Please provide CND's understanding from its 2010 CoS Decision of the approved asymmetric variance Account 2425 and the purpose of this asymmetric variance account.
b) Please indicate if this amount of $247,772 for the SAP software was reported in any of the quarterly reports on the new CIS and billing system filed with Board pursuant to the Board's Decision EB-2009-0260. Further, if it was reported, did CND communicate in any subsequent report that this software investment was abandoned?

c) If the $247,772 was included in Account 2425, what would be the total amount of the capital investment for the CIS/billing system?
d) With respect to the difference in revenue requirement of $86,568 prior to the completion of the project (May 2010 to April 2011):
    i. Please confirm that column A was 2010 revenue requirement approved by the Board in 2010 CoS Decision.
    ii. Please confirm that $86,568 represents the difference in revenue requirements with and without the forecast software cost of $1.85 million in the 2010 rate year.
    iii. Please explain if there were any actual incurred costs in the period of May 2010 to April 2011 for Harris Northstar. If so, why was the revenue requirement excluding the CIS billing system (i.e. without the $1.85 million) compared to the 2010 approved revenue requirement (i.e. with the $1.85 million)?
    iv. Please explain why the revenue requirement impact with and without the $1.85 million software resulted in a collection of $86,568 from customers.
    v. Please provide the supporting calculation for the line of PILs for $1,039,587 and $1,368,546.
e) With respect to the difference in revenue requirement of $28,000 following the completion of the project (May 1, 2011 to December 31, 2012):
    i. Please confirm that $28,000 was calculated as $16,795 (i.e. the revenue requirement impact of $1.85 million included in rates and the actual cost incurred of $1,016,037) divided by 12 months and multiplied by 20 months within the period.
    ii. Please confirm that the actual capital cost incurred for the software implemented was $1,016,037 and provide a breakdown of the costs with the time they were incurred.
    iii. Please confirm that non-capital costs such as OM&A or any operating costs were not recorded in the account.
    iv. Please provide the supporting calculation for the line of PILs for $1,165,649.

9.1-Staff-35

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 4 - Account 1534
G-2009-0087, Guidelines" Deemed Conditions of Licence: Distribution System Planning, page 12, section b) Smart Grid Development

CND is requesting recovery of the balance at December 31, 2012 plus interest to April 30, 2014 in the amount of $35,886 of the above account.

In accordance with reference b [G-2009-0087, Guidelines" Deemed Conditions of Licence: Distribution System Planning, page 12, section b) Smart Grid Development], the Board explicitly, in the first paragraph states that it "expects

Distributors to avoid unnecessary duplication with work being done by other distributors in Ontario and in other jurisdictions, and does not expect distributors to be engaging in smart grid research and development activities at this time."

a) This project is titled "Volt Research Pilot Project". Why does CND consider that this amount should be recoverable?
b) Did CND determine whether any other utility was conducting similar research so that duplication would be avoided?
c) Has CND partnered with any other utility in this endeavour?
d) Did CND provide any information as part of earlier submissions which apprised the Board of this research project, and the information that was required to be provided according to reference b)?
e) When is the report of the results of the one year Research Project to be expected?

9.1-Staff-36

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 5 - Account 1535
G-2009-0087, Guidelines" Deemed Conditions of Licence: Distribution System Planning, page 12, section b) Smart Grid Development

CND is requesting recovery of the balance at December 31, 2012 plus interest to April 30, 2014 in the amount of $12,504 of the above account.

a) Membership of Sustainable Waterloo Region was acquired at a cost of $10,000. Please clarify why CND considers that this should be an allowable recovery within this account.
b) Please indicate the nature of the education and training and the employees who attended them.

9.1-Staff-37

Ref: Exhibit 9/ Tab 2/ Schedule 1 – Stranded Meters

In this exhibit, CND documents its determination of the residual net book value of stranded conventional meters replaced by smart meters. CND notes that it transferred the balances from Account 1860 – Meters to Account 1555 sub-account Stranded Meter Costs as of December 31, 2010, and accounted for the stranded meter as a regulatory receivable as part of its long term Regulatory Assets.

On page 7 of the exhibit, CND also documents the depreciation expense recorded for stranded meters, relating to the fact that return of capital (i.e. depreciation expense) and return on capital were still being recovered in current distribution rates as the conventional meters were included in rate base in CND's last cost of service rebasing application EB-2009-0260. The following amounts are shown:

2011: $332,604.01
2012: $326,187.01
2013: $311,074.01

Board staff notes that conventional meters previously had a useful life of 25 years and were typically treated as pooled assets. Based on a 25-year life and the gross book value of $8,286,380 documented in Table 9-5, the annual straight line depreciation expense would be $8,286,380/25 = $331,455.20. This estimate assumes that no assets reached end of life (i.e. become fully depreciated) during the year

a) Please state how CND treats meters for purposes of calculating depreciation expense and remaining useful lives.
b) Please provide the derivation of the annual depreciation expense calculated for each of 2011, 2012 and 2013.

9.1-Staff-38

Ref: Exhibit 9/ Tab 2/ Schedule 1/ Page 11-13 - LRAMVA

CND has requested approval to dispose of its LRAMVA amount which has a total balance of $108,262, including carrying charges.

It appears to Board staff that CND has calculated its LRAMVA amount using its CDM savings in 2011 from 2011 CDM programs and persisting CDM savings in 2012 from 2011 CDM programs.

a) Please confirm CND has calculated its LRAMVA as described by staff.
b) Please confirm that CND does not have a CDM component included in its load forecast in relation to its 2011-2014 CDM Targets.
c) If CND does have a CDM component in its load forecast related to its 2011-2014 CDM Targets, please adjust its LRAMVA amount according to Section 13.2 of the Board's 2012 CDM Guidelines (EB-2012-0003).
d) CND noted that it has calculated its LRAMVA amount by using the exact same CDM savings amount from 2011 in 2012 since it did not have its 2012 Final Results from the OPA. Please update CND's LRAMVA request using the OPA's 2012 Final Results.

e) When completing (d), please provide a breakdown of CND's LRAMVA amount in a table similar to the example below. Please show the CDM initiatives CND has included under each rate class, their respective 2011net savings and persisting 2011 savings in 2012, and the subsequent lost revenues. Please use the OPA's 2012 Final Results when preparing this table.

	CDM Savings in 2011		Persisting CDM Savings in 2012		CDM Component in load forecast	CDM Variance for LRAMVA	Rates	LRAMVA ($)	Carrying Charges	TOTAL
Residential	kWh	kW	kWh	kW						
Appliance Retirement										
Appliance Exchange										
HVAC Incentive										
Conservation Instant Coupon Booklet										
Bi-Annual Retailer Event										
GS<50										
Retrofit										
Direct Install Lighting										
GS>50-999 kW										
Retrofit										
GS>1MW										
Retrofit										
Large										
DR3										
High Performance New Construction										

- ***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-39

Ref: Exhibit 9/Tab 2/Schedule 1/ Pages 13 – 16; Appendix 2-ED; Appendix 2-CO; Appendix 2-CP;
Exhibit 2/ Tab 2/ Schedule 3/ Page 1;
Exhibit 4/ Tab 2/ Schedule 1/ Page 15 – Account 1576

CND explained that this rate application is filed based on CGAAP incorporating changes to its accounting policies related to capital assets effective January 1, 2012. As such, CND recorded a credit balance of $3,241,779 in Account 1576 as at December 31, 2013.

CND provided a breakdown of the balances arsing from 2012 and 2013 into the balance arising from the differences from depreciation and the balance arising from the difference from costs no longer eligible to be capitalized in Table 9-9 and Table 9-10. Board staff has reproduced the tables below:

Table 9-9 Calculation of Account 1576 for 2012

1. Depreciation: IFRS vs. CGAAP				
2012 Depreciation under IFRS			$4,922,357	
2012 Depreciation under CGAAP			$6,850,557	
		Difference	($1,928,200)	($1,928,200)
2. Costs No Longer Eligible for Capitalized				
	Burden - Safety and Health Department			$226,413
	Burden - Building Expense Reallocation			$131,135
	Burden - Municipal Taxes			$70,581
	Removal Costs			$333,253

Balance in Account 1576 at December 31, 2012				($1,166,818)

Table 9-10 Calculation of Account 1576 for 2013

1. Depreciation: IFRS vs. CGAAP				
2013 Depreciation under IFRS			$4,181,269	
2013 Depreciation under CGAAP			$7,361,335	
		Difference	($3,180,066)	($3,180,066)
2. Costs No Longer Eligible for Capitalization				
	Burden - Safety and Health Department			$258,705
	Burden - Building Expense Reallocation			$172,913
	Burden - Municipal Taxes			$72,652
	Removal Costs			$600,835
Balance for 2013				($2,074,961)
Add balance from 2012				($1,166,818)
Balance in Account 1576 at December 31, 2013				($3,241,779)

CND indicated that removal costs in the above two Tables were recorded as part of the capital costs of constructing a new asset under the former CGAAP accounting policy. Such costs are now recorded by CND as an operating expense under its revised capitalization policy, which aligns more closely with the capitalization criteria under International Financial Reporting Standards ("IFRS").

Board staff notes that CND explained the nature of removal costs in its evidence filed for rate base in Exhibit 2 below:

> *“Prior to January 1, 2012, such costs incurred to remove an existing asset from service, including labour, vehicles and materials, were included in the capital costs to construct an asset as part of the overall capital project.”*

a) Have 2013 forecast numbers been updated by CND? If so, please update Appendix 2-ED and relevant tables in the evidence.

b) Please clarify that the references to IFRS in Table 9-9 and Table 9-10 were meant to be “Revised CGAAP”.

c) Please reconcile 2012 depreciation expense under Revised CGAAP in the Table 9-9 with the depreciation expense in Appendix 2-CO and provide an explanation for the difference in the Table below.

	2012 Depreciation Expense under Revised CGAAP
Per Table 9-9	$4,922,357
Per Appendix 2-CO	$4,774,056 (Note 1)
Difference	**$148,301**

Note 1: Board staff notes that 2012 net depreciation expense of $4,774,056 agrees with the depreciation expense on CND’s 2012 AFS.

d) Please reconcile the 2013 depreciation expense under Revised CGAAP in the Table 9-9 with the depreciation expense in Appendix 2-CP and provide an explanation for the difference in the Table below.

	2013 Depreciation Expense under Revised CGAAP
Per Table 9-9	$4,181,269
Per Appendix 2-CP	$3,998,623
Difference	**$182,646**

9.2-Staff-40

Ref: Exhibit 9/Tab 2/Schedule 1/ Page 9 - 10 and Page 13 – 16; Appendix 2-ED; – Account 1576

Board staff notes that removal costs were included by CND in Account 1576 in 2012 for $333,253 and in 2013 for $600,835, due to the change of capitalization policy effective January 1, 2012. In addition, the removal costs included in 2014 OM&A expense is $806,208.

Board staff notes that IAS 16 PP&E states:

> *The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.*

With respect to removal costs that were capitalized before and are not capitalized now:

a) Please confirm that removal costs refer to the costs of disposal referenced in the section of IAS16 cited above.
   i. If so, please explain if the accounting treatments of the removal costs after 2012 were aligning with IAS16 PP&E. If not, why not.
   ii. If not, please clarify the nature of removal costs and provide the reference in IFRS to support CND's treatment (i.e. charge to OM&A expense).

b) Please provide the references in CGAAP for the treatment of including removal costs in the capital costs to construct an asset as part of the overall capital project.

c) Please confirm that 2012 removal costs of $333,253 were included in 2012 AFS as part of OM&A expense.

d) Please provide the reasons for the increase of estimated removal costs of $600,835 in 2013 and of $806,208 in 2014.