

Ontario Energy Board

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

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

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

February 10, 2014

**HALDIMAND COUNTY HYDRO INC.
2014 RATES REBASING CASE
EB-2013-0134**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES**

1. Foundation

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

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

2. Performance Measures

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

2.1-Energy Probe-1

Ref: Most Recent Cost of Service Decision

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

2.1-Energy Probe-2

Ref: Exhibit 4, Tab 1, Schedule 2

Table 1 shows that maintenance costs were more than \$500,000 less in 2010 than the Board approved figure and that administrative and general were more than \$80,000 lower in 2010 than Board approved. For each of these areas, please explain why the actual costs incurred were significantly lower in 2010 than approved by the Board. In particular, what functions that were forecast to be done were not done in 2010.

3. Customer Focus

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

3.1-Energy Probe-3

Ref: Exhibit 1, Tab 2, Schedule 1

- a) What customer feedback and/or preferences has BHI received through its customer engagement process?
- b) Please provide a list of the questions asked of customers with respect to the proposed capital expenditures and operating expenses.

4. Operational Effectiveness

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

4.1-Energy Probe-4

Ref: Exhibit 1, Tab 1, Schedule 1

- a) What was the stretch factor applicable to HCHI in each of 2011, 2012 and 2013?
- b) What stretch factor has been assigned to HCHI for 2014 based on the final PEG report?

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

4.2-Energy Probe-5

Ref: Exhibit 4, Tab 1, Schedule 2

Please update Tables 1, 2 & 3 to reflect actual data for 2013. If actual data for all of 2013 is not yet available, please provide the most recent year-to-date actual figures that are available for 2013 in the same level of detail as shown in Table 3, along with the figures for the corresponding period in 2012. In doing so, please only include in 2012 the smart meter disposition costs actual incurred in 2012.

4.2-Energy Probe-6

Ref: Exhibit 4, Tab 1, Schedule 2

- a) Please provide the actual level of embedded distributor costs included in OM&A expenses for each of 2010 through 2013. If actual 2013 costs are not available, please provide the forecast for 2013.**
- b) Please provide the level of embedded distributor costs included in the 2014 OM&A forecast.**
- c) Please confirm that there were no embedded distributor costs included in the 2010 Board approved level of OM&A. If this cannot be confirmed, please provide the amount included.**
- d) Please explain how the portion of the cost of servicing the embedded distributor that is allocated to an OM&A account is calculated.**
- e) Please explain why the sub-transmission rates charged to HCHI by HONI are allocated to an OM&A account rather than tracked through a cost of power/transmission account.**

4.2-Energy Probe-7

Ref: Exhibit 4, Tab 1, Schedule 2

- a) Please provide the level of the costs included in the OM&A costs for the 2010 Board approved figure, and the amounts included for each of 2010 through 2014 for Christmas light work and banners.**
- b) Please explain what is included in the costs associated with Christmas light work and banners.**

4.2-Energy Probe-8

Ref: Exhibit 4, Tab 2, Schedule 8

Please explain why the intervenor costs associated with the cost of service application have not been spread out over 5 years, similar to the legal and consulting costs.

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?

5. Public Policy Responsiveness

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

5.1-Energy Probe-9

Ref: Current Application

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

6. Financial Performance

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

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

6.2-Energy Probe-10

Ref: Exhibits 1, 2 & 4

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

7. Revenue Requirement

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

7.1-Energy Probe-11

Ref: Exhibit 2, Tab 2, Schedule 1

- a) Please explain why there is a disposal from accumulated depreciation shown in Table 10 for 2010 in account 1611, but there is no associated disposal shown from costs.**
- b) Please explain why there is a disposal from costs shown in Table 10 for 2010 in account 1930, but there is no associated disposal shown from accumulated depreciation.**
- c) Please reconcile the smart meter additions to costs and accumulated depreciation shown for 2012 in Table 12, with the figures noted on page 4 of Exhibit 2, Tab 1, Schedule 2. Is the difference all related to the addition of smart meters in 2012 after the smart meter decision?**

7.1-Energy Probe-12

**Ref: Exhibit 2, Tab 2, Schedule 1 &
Exhibit 9, Tab 4, Schedule 1**

- a) Please provide an updated version of Tables 13 and 14 that reflect actual data for 2013. If actual data is not yet available for all of 2013, please provide revised tables that reflect the most recent year-to-date information available, along with an estimate/forecast for the remainder of 2013.**
- b) Please provide an updated version of Table 15 for the 2014 test year to reflect the new opening balances brought forward from Table 14.**
- c) Please provide an updated version of Table 18 in Exhibit 9, Tab 4, Schedule 1 based on the revised Tables 13 and 14 requested in part (a) above, along with the change in the cost of capital parameters as requested in 7.5-Energy Probe-22 and 7.4-Energy Probe-23.**

7.1-Energy Probe-13

Ref: Exhibit 2, Tab 2, Schedule 1

Please explain the following reductions in the contributions and grants between 2013 (Table 14) and 2014 (Table 15) despite cost additions being higher in 2014 than in 2013:

- i) wood poles - \$50,000;**
- ii) u/g conduit - \$100,000;**
- iii) u/g conduction (in duct) - \$143,249; and**
- iv) padmount transformers - \$34,490.**

7.1-Energy Probe-14

Ref: Exhibit 2, Tab 2, Schedule 1

Please confirm that HCHI does not have any fully allocated depreciation expense (such as for transportation equipment) that it allocates to capital projects and OM&A expenses. If this cannot be confirmed, please show where this amount is shown in Table 15 and indicate the amount capitalized and the amount expensed.

7.1-Energy Probe-15

Ref: Exhibit 2, Tab 2, Schedule 1

The depreciation expense for 2014 shown in Table 15 has been reduced by \$3,969 for CDM-OPA allocated costs.

Please show the calculation of each of the four amounts in a table similar to Table 15 that shows the opening balances (cost and accumulated depreciation), additions, disposals, the resulting closing balances and net book value of the portion of the assets that give rise to the depreciation expenses allocated to CDM-OPA.

7.1-Energy Probe-16

Ref: Exhibit 2, Tab 2, Schedule 1

When did/will the asset for which HCHI is paying HONI a capital contribution (account 1609 in Tables 14 and 15) go into service?

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

7.3 Are the proposed levels of taxes appropriate?

7.3-Energy Probe-17

Ref: Exhibit 4, Tab 4, Schedule 1

- a) Please confirm that computer software has been placed in CCA class 50 in both 2013 and 2014 in Table 23.
- b) Please provide a version of Table 23 for 2013 and 2014 that places computer software in CCA class 12, with rate of 100% rather than in class 50 with a rate of 55%.
- c) Based on the response to part (b) above, what is the impact on the 2014 CCA?

7.3-Energy Probe-18

Ref: Exhibit 4, Tab 4, Schedule 1, PILS Workform

Please show the calculation of the apprenticeship tax credits of \$26,000 shown in the PILS workform, including the number of positions eligible for and the amount associated with each position for the Ontario apprenticeship tax credit, the Ontario co-op education tax credit and the federal job creation tax credit.

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

7.4-Energy Probe-19

Ref: Exhibit 1, Tab 5, Schedule 10

- a) Does the test year revenue requirement for 2014 include any costs associated with the Board of Directors for any of the affiliates shown in the corporate structure chart? If yes, please provide the amount included in the revenue requirement associated with each affiliate and explain how the amount has been calculated and allocated.

- b) Do the historical OM&A costs shown in the application for 2010 through 2013 (forecast) include any costs associated with the Board of Directors for any of the affiliates shown in the corporate structure chart? If yes, please provide the amount included in the OM&A associated with each affiliate for each of the years.**

7.4-Energy Probe-20

**Ref: Exhibit 4, Tab 2, Schedule 5 &
Exhibit 3, Tab 3, Schedule 1**

- a) Please show where the HCHI charges to its affiliates shown in Table 8 in Exhibit 4, Tab 2, Schedule 4 are included in Table 37 in Exhibit 3, Tab 3, Schedule 1.**
- b) The costs allocated to the affiliates related to trucks are based on a unit rate. Does this unit rate include depreciation expenses associated with the trucks? If not, why not?**
- c) Please show the costs associated with the revenues received from affiliates shown in Table 8 for the 2014 test year.**
- d) Are the 2014 test year costs requested in part (c) above included in the 2014 OM&A expenses? If not, where are these costs shown in the application?**
- e) Where in Table 37 in Exhibit 3, Tab 3, Schedule 1 is the \$6,000 management fee charged by HCHI to HCUI noted on page 4 of Exhibit 4, Tab 2, Schedule 5 included?**

7.4-Energy Probe-21

Ref: Exhibit 4, Tab 2, Schedule 5

At lines 14-15 on page 1 it is stated that there are no Board of Director related costs for HCUI included in HCHI's costs. At lines 6-9 on page 4 it states that there is a \$54,000 management fee charged to HCHI by HCUI for services provided by the parent company HCUI's Board of Directors for governance and oversight services on behalf of HCHI.

- a) Please reconcile these two statements.**
- b) Why are these governance and oversight services not provided to HCHI by its own Board of Directors?**

- c) Please provide the 2010 through 2014 costs associated with HCHI/s Board of Directors.

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

7.5-Energy Probe-22

Ref: Exhibit 5, Tab 1, Schedule 2

Please update the 2014 portion of Table 1 to reflect the update cost of capital parameters applicable to 2014 cost of service applications, as issued by the Board on November 25, 2013.

7.5-Energy Probe-23

Ref: Exhibit 5, Tab 1, Schedule 2 &
Exhibit 5, Tab 1, Schedule 3

- a) What is the status of the Infrastructure Ontario financing that was expected to be in place by late 2013? If financing is now in place, please provide the details of this financing, including the amount and the applicable rate.
- b) When does HCHI expect to convert this loan into a long-term debenture?
- c) What is the current Infrastructure Ontario interest rate on a 25 year loan?
- d) Please update the 2014 portion of Table 2 in Exhibit 5, Tab 1, Schedule 3 to reflect the responses in parts (a), (b) and (c) above.

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

7.6-Energy Probe-24

Ref: Exhibit 3, Tab 3, Schedule 1

Please update Table 37 to reflect actual data for 2013, excluding the PPE adjustment. If actual data is not yet available for all of 2013, please provide the most recent year-to-date figures available for 2013 in the same level of detail as shown in Table 37 and also provide the figures for the corresponding period in 2012.

7.6-Energy Probe-25

Ref: Exhibit 3, Tab 3, Schedule 1

- a) Please confirm that Account 4375 includes revenues associated with water and sewer billing fees.**
- b) Are there any other revenue sources in Account 4375 other than water and sewer billing fees?**
- c) There are no costs shown in Account 4380 related to the revenues in Account 4375. Please explain how the costs associated with the revenues in Account 4375 are accounted for. For example, are these costs included in the OM&A figures for the historical, bridge and test years?**
- d) Please provide the associated costs incurred in providing the services for which revenue is shown in Account 4375 for each of 2010 through 2014.**

7.6-Energy Probe-26

Ref: Exhibit 3, Tab 3, Schedule 2

- a) Please explain why HCEI only pays HCHI 85% of what it charges to Haldimand County for the water and sewer billing services.**
- b) What does HCEI add to the billing process that HCHI does not do?**

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

7.7-Energy Probe-27

Ref: Exhibit 6, Tab 1, Appendix A

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

8. Load Forecast, Cost Allocation and Rate Design

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

8.1-Energy Probe-28

Ref: Exhibit 3, Tab 1, Schedule 2

Please update Table 3 to reflect actual data for 2013.

8.1-Energy Probe-29

Ref: Exhibit 3, Tab 2, Schedule 2

Please update Tables 13 through 15 to reflect actual data for 2013.

8.1-Energy Probe-30

Ref: Exhibit 3, Tab 2, Schedule 2

Please update Table 35 to reflect actual data for 2013.

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

8.2-Energy Probe-31

Ref: Exhibit 7, Tab 1, Schedule 4

Please consider the following scenario with respect to the 2014 proposed revenue to cost ratios. First, move the GS > 50 class down to 120%, the sentinel class up to 80% and the embedded distributor class up to 80%.

- a) With no changes to the other rate classes, what is the resulting revenue shortfall of the changes noted above?

- b) In order to recover the revenue shortfall identified in part (a) above, please increase the rate classes with the lowest revenue to cost ratios up to the next highest and so on, until the revenue shortfall has been collected. As an example, with the embedded distributor and sentinel lighting starting at 80%, increase those two classes to the next highest of 80.63% for unmetered loads, and then increase these three classes until they reach the next highest, being 86.31% for street lighting, and so on, until the revenue requirement is recovered in full.

Based on the above process, please provide the 2014 proposed ratios.

- c) Please repeat the exercise in part (b), but with a change in the revenue to cost ratio for the embedded distributor class from 80% as noted in the pre-amble to 100%.

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

8.3-Energy Probe-32

Ref: Exhibit 8, Tab 1, Schedule 2

- a) Based on the response to 8.2-Energy Probe-31 to each of parts (b) and (c), please provide a version of each of Table 5 and Table 6 that shows the proposed monthly service charges.
- b) Based on the response to 8.2-Energy Probe-31 to each of parts (b) and (c) and to part (a) above, please provide the rate and bill impacts shown in Exhibit 8, Tab 4, Schedule 1 (Appendix 2-W).

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

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

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

9. Accounting

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

9.1-Energy Probe-33

Ref: Exhibit 9, Tab 5, Schedule 4

- a) Please confirm that the revenue requirements shown for 2015 through 2018 in Table 22 do not include any revenue requirement associated with the 2014 REG investments, as these costs will already be built into base rates. If this cannot be confirmed, please explain why the rate adder in 2015 through 2018 should include the recovery of costs already built into base rates in 2014.
- b) Please explain why the rate adder shown in Table 23 is shown as being in place for 5 years rather than for 2015 through 2018.

9.1-Energy Probe-34

**Ref: Exhibit 9, Tab 5, Schedule 4 &
Exhibit 1, Tab 5, Schedule 2 &
Exhibit 2, Tab 6, Schedule 1**

The evidence in the first reference shows the calculation of a rate adder in Table 23 for the years 2015 through 2018. The evidence in paragraph 10 in the second reference requests that the funding adder be effective May 1, 2014. In the third reference, HCHI indicates that it is proposing direct benefit recovery from its own customers for the years 2015 through to and including 2018 as a funding adder. Please reconcile.

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?