Haldimand County Hydro

1 Greendale Drive, Caledonia, ON, N3W 2J3 Tel: (905) 765-5344 Fax: (905) 765-5316

March 11, 2014

Delivered By Courier and RESS

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

Attention: Kirsten Walli
Board Secretary

**Re: Haldimand County Hydro Inc. (EB-2013-0134)
2014 Cost of Service Electricity Distribution Rate Application
Responses to Supplemental Interrogatories**

Dear Ms. Walli:

Haldimand County Hydro Inc. ("HCHI") filed an application with the Ontario Energy Board (the "Board") on November 15, 2013 seeking approval for changes to rates that it may charge for electricity distribution to be effective May 1, 2014.

HCHI filed its interrogatory responses with the Board on March 4, 2014 in accordance with Procedural Order No. 2 which also provided for a Technical Conference to be held on March 11, 2014 in order to permit further discovery on the interrogatory responses. HCHI was notified by the Board, in its letter dated March 10, 2014 that a Technical Conference would not be held.

Board Staff and Intervenors provided HCHI with supplemental interrogatories which HCHI has now provided complete responses filed electronically in PDF format through the Board's *Regulatory Electronic Submission System* ("RESS"). Hard copies will be provided to all parties the morning of March 13, 2014 at the Settlement Conference.

All of which is respectfully submitted for the Board's consideration.

Yours truly,
HALDIMAND COUNTY HYDRO INC.

Original signed by

Jacqueline A. Scott
Finance Manager

cc: Intervenors on Record (by email):

- Energy Probe Research Foundation – c/o Randy Aiken
- Energy Probe Research Foundation – c/o David MacIntosh
- Vulnerable Energy Consumers Coalition – c/o Michael Janigan
- Vulnerable Energy Consumers Coalition – c/o Mark Garner
- Vulnerable Energy Consumers Coalition – c/o Bill Harper

Haldimand County Hydro Inc. (“HCHI”)
EB-2013-0134
SUPPLEMENTAL INTERROGATORY RESPONSES

4 Operational Effectiveness

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 EP 35s.

Reference: 4.2 EP 5.

The response shows that the actual OM&A expenses incurred in 2013 were $7,464,099 as compared to the forecast of $8,713,488, a reduction of about $1.25 million or more than 14%. Please explain what drove this reduction.

HCHI Response

Based on responses to interrogatories, HCHI updated its 2014 Test Year OM&A expenses to $8,617,075 and, when compared to the 2013 actual OM&A expenses of $7,464,099, this represents an increase in 2014 of about $1.15 million or 15%. The reasons for this reduction are explained as follows:

- HCHI’s labour and truck related expense accounts were positively impacted by a unique situation during 2013, creating a variance in the order of $485,000. Significant recoverable jobs, on account of connecting large distribution and transmission connected renewable energy generation projects, the costs for which had been accumulating in Accounts Receivable during 2010 to 2013, were invoiced and paid during 2013. The invoicing and payment is the trigger for when HCHI’s customary 16% materials and 10% administrative burdens are charged to the recoverable jobs. The offsetting credits, which exceeded HCHI’s typical annual payroll and truck burden credits (i.e. typically the credits are sufficient only to offset the payroll and truck burden expense charges), were allocated across all capital and OM&A labour accounts. The total credit on account of almost 4 years of the accumulation of this significant recoverable work was in the order of $485,000. This was an anomaly (due to the timing of completion and invoicing of the projects) in 2013, and one that is not expected to continue and therefore not forecast by HCHI in the 2014 Test Year.

- Other recoverable work including street light maintenance in 2013 is creating a variance in the order of $146,000. The labour and truck related OM&A accounts are budgeted based on an average of historical actual costs to exclude a certain level of this type of work since these amounts will be billed to third parties (and not recovered in rates). In 2013, this recoverable work experienced a higher than estimated volume, which is not forecast to continue in 2014.
- The 2014 Test Year includes a new Lineperson position, creating a variance in the order of $100,000.
- During 2013 there were multiple staff vacancies as a result of unfilled existing positions and a WSIB lost time incident, creating a variance in the order of $91,000. Similar vacancies have not been forecast for 2014.
- When staff is hired into their position, it is not typically at the job rate, and it may take up to 2 to 4 years to progress to that rate, depending upon the position. The result of new staff hired in 2012 and 2013 at starting rates and/or continuing at progression rates, respectively, is creating a variance in the order of $132,000 when compared to the forecast for 2014 which includes all positions at the full job rate.
- As described in response to Staff IR # 12 and included in Exhibit 4 / Tab 2 / Schedule 3 on pages 1 and 2, the methodology adopted for tree trimming cost levelization in the cost of service 2014 Test Year is creating a variance in the order of $50,000 as compared to the actual annual expense in 2013.
- For the 2014 Test Year, the Operating Distribution Transformers expense has been based on the historic actual expenses incurred in 2010 and 2011. In 2012, the amount was unusually higher due to PCB transformer removals as described in Exhibit 4 / Tab 2 / Schedule 3 / Page 3.

Conversely, in 2013, the amount was unusually lower since HCHI experienced less overloaded step-down transformer failures and fewer storm-related impacts to transformers, creating a variance in the order of $114,000 in the 2014 Test Year.

- During 2013, HCHI received credits on account of its Advanced Metering Infrastructure ("AMI") contract with its vendor due to their not meeting service performance levels, creating a variance in the order of $32,000. Since the issues were resolved in 2013, this is not forecast to continue in 2014.

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 Staff 42s. System Service/REG Plan

Reference: 5.1 Staff 23.
4.3 Staff 21.

Board staff would like further clarification of why SCADA is classified 100% renewable enabling improvement. Generally speaking, SCADA can control devices that are unrelated to REG facilities at stations as well as facilities related to the renewable generators. SCADA can also be linked to AMR data to assist in operating the system and this is not necessarily exclusively Renewable Energy Generator related. To classify the costs of SCADA as 100% REG implies that the SCADA will work only to control devices related to the renewable generator and not be used for other distribution purposes.

a. Are the four large DG projects identified in 5.1 Staff 21 REG?

HCHI Response

Yes, three projects are REG and the fourth one is a combined REG and natural gas combined heat and power generation facility.

b. Are the three electronic transfer trips dedicated to the DG projects or do they serve the system?

HCHI Response

The reclosers that are equipped with remote transfer trip capabilities are mid-feeder reclosers. The transfer trip signals generated by the mid-feeder reclosers are specific to a dedicated REG project.

c. **Please confirm that the SCADA will be dedicated to devices for the REG facilities in 2014 and thereafter.**

<u>HCHI Response</u>

For clarification purposes, HCHI is not intending to recover 100% of the SCADA costs. As indicated in HCHI's response to Board Staff IR # 23, HCHI plans to recover 94 % of the costs as a renewable enabling improvement, and 6 % recovered from HCHI's capital expenditures that are considered a direct benefit.

HCHI recognizes that there may be opportunities to include the use of SCADA for other distribution purposes; however, the main driver for proposing the SCADA system is because of REG projects and to monitor/control the impact that the aggregate affect that multiple FIT/microFIT projects have/will have on the distribution system.

d. **If this cannot be confirmed, please propose an allocation between REG and non-REG investments. Please provide your rationale for the allocation.**

<u>HCHI Response</u>

At this time HCHI does not have a detailed plan for the connectivity of devices for the proposed SCADA system in addition to the already connected REG projects. HCHI expects to further develop this SCADA plan in 2014.

7 Revenue Requirement

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

7.1 EP 36s.

Reference: 7.1 EP 12. and 4.3 VECC 19.

a. Please confirm that the increase in capital additions closed to rate base in the 2014 test year shown in 7.1 EP 12 reflect the carryover amounts from 2013 shown in 4.3 VECC 19 without any other changes.

HCHI Response

Confirmed.

b. Do any of the carryover capital additions from 2013 also include a carryover of contributions and grants?

HCHI Response

None of the carryover capital additions from 2013 include a carryover of contributions and grants, as they are all on account of construction projects identified and initiated by HCHI.

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

7.6 EP 37s.

Reference: 7.6 EP 24.

The response seems to indicate that the costs associated with water and wastewater billing and collecting costs are significantly in excess of the associated revenues shows in account 4375.

a. Please confirm that this is the case.

HCHI Response

The methodology and history in the setting of the Water and Wastewater billing and collecting fee (the "Fee") was described in response to EP IR # 25 d., and indicated *"The customers of HCHI benefit from this billing arrangement because the revenue exceeds the marginal cost as evidenced by the fixed nature of some of the costs recovered by the arrangement. It is also important that the cost to the municipality be market based as they compare their alternatives. The Fee was not increased in 2009, 2010, 2011, 2013 and 2014 in order to avoid becoming uncompetitive and possibly losing the arrangement.*"

b. Please confirm that in the 2014 test year, the revenues from water and wastewater billing and collecting are $374,205, while the associated costs are $515,539. If this is not correct, what is the revenue and costs forecast for 2014?

HCHI Response

The revenue noted in Table 37 account 4375 accurately reflects the 2014 Test Year forecast revenue retained by HCHI of $374,205. Direct and indirect costs associated with Water and Wastewater billing and collecting related to the 2014 Test Year forecast total $515,539.

7.6 VECC 45s.

Reference: 7.6 EP 24.

a. Please explain why the actual 2013 revenues for Accounts 4225 and 4390 are materially higher than forecast in the November 2013 Application.

<u>HCHI Response</u>

Revenue account 4225 “Late Payment Charges” includes collection charges and late payment interest for a total amount of $358,659 in 2013. Each of the 2010, 2011 and 2012 actuals were below this amount at $349,416, $289,018, and $319,383, respectively. These revenue amounts are a function of billing quantities and associated collection activities. The forecast amount of $310,717 (included in the November 2013 application) for the 2014 Test Year was based on trending historical actuals. Even if HCHI had based the forecast on an average of the past 4 years (2010 to 2013) actuals, this would amount to $329,000 – a difference of $18,000.

Revenue account 4390 “Miscellaneous Non-Operating Income” for 2013 actual, totalling $118,846 includes amounts on account of items either outside of HCHI’s control and/or ad hoc events, such as theft of power and more significantly, short-term load transfer settlements with Hydro One Networks Inc. (“HONI”). As indicated in response to VECC IR # 28 b. “*HCHI does not expect to incur short-term load transfers in any given year and therefore does not forecast any revenue that is uncertain to happen. HONI made improvements at the transformer stations to minimize future short-term load transfers.*” 2013 also included, for the first time, revenue on account of managing a transmission-connected Cost Contribution Agreement. None of these three items were included in the forecast amount of $90,585 for the 2014 Test Year.

b. Is there any reason why similar revenue levels for these two accounts should not also be expected for 2014?

<u>HCHI Response</u>

With respect to the management of the transmission-connected cost contribution agreement, a component of that management fee should be included in the 2014 Test Year. The total contract, expected to be fully executed in 2014, provides for a total management fee in the amount of $222,183, of which $24,088 was received in 2013 (refer to updated Table 38 in response to VECC IR # 28 a.), leaving a balance of $198,095 to be received in 2014. As this is an ad hoc event not expected to continue beyond 2014, HCHI should expect to include an additional $39,619 in the 2014 Test Year other operating revenue account 4390. This is calculated as the $198,095 divided by 5 years to allocate the receipt of this ad hoc revenue over the rate rebasing term.

Other than for the management fee item noted above, HCHI does not expect the 2013 actual revenue levels to continue in 2014.

7.6 VECC 46s.

Reference: 7.6 EP 25 d.

a. Please provide any research or analysis that HCHI has undertaken to establish that the current fees and charges for Water and Wastewater billing and collecting are reflective of current market rates.

HCHI Response

HCHI has not undertaken any recent research or analysis since 2010 to establish the current fees and charges for Water and Wastewater billing and collecting.

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 EP 38s.

Reference: 7.7 EP 27.

Part (b) of the question requested a tracking sheet to show the changes made in the RRWF and noting the interrogatory response that resulted in the change. The answer refers to 7.7-Staff-27, however, no tracking sheet appears to have been included in that response.

a. Please provide the requested tracking sheet or indicate where in the filed material it can be found.

HCHI Response

The following tables provide the requested Revenue Requirement Workform ("RRWF") tracking sheet information.

RATE BASE

	Items Updated	Interrogatory Number	Original - 2014 COS Rate Application Filing	Updated - 2014 COS Interrogatory Responses	Rate Base Change
Cost of Capital Parameter Updates					
Weighted Debt Rate	Long-Term Debt Rate (Updates to HCHI's Long-term financing)	EP # 23	3.70%	2.89%	
	Short-Term Debt Rate (OEB Letter dated November 25, 2013)	Staff # 26	2.07%	2.11%	
			3.59%	2.84%	(0.75)%
Regulated Rate of Return	Return on Equity Rate (OEB Letter dated November 25, 2013)	Staff # 26	8.98%	9.36%	
	Weighted Average Cost of Capital		**5.75%**	**5.45%**	**(0.30)%**
Working Capital Allowance					
Operations, Maintenance, & Administration Expenses	1. HONI Sub-Transmission Charges attributed to HONI's own load - increase of $8,584 (HONI Sub-transmission rates updated to January 1, 2014 rate order, EB-2013-0141); 2. Regulatory Expenses - reduction of $44,000 (OEB Cost Awards spread over 5-years); and 3. Miscellaneous Expenses - reduction of $54,000 (Removal of Management Fee)	1. EP # 6 b., Staff # 36 a., and VECC # 41; 2. EP # 8; and 3. EP # 21 a.	$ 8,706,491	$ 8,617,075	$ (89,416)
Cost of Power Expenses Note: 2010 Board-Approved does not included Embedded Distributor - HONI	Updated for the following: 1. Commodity and Global Adjustment ("GA") rates updated to November 1, 2013 OEB RPP pricing report issued October 17, 2013; 2. Non-RPP consumption updated to HCHI's 2013 actual % allocation (applies to GA); 3. Retail Transmission Service rates (Network & Connection) updated to incorporate January 1, 2014 Uniform Transmission Rates (EB-2012-0031) and HONI Distribution Rates (EB-2013-0141) utilizing OEB's RTSR models: 4. Rural Rate Assistance rate updated to new rate effective May 1, 2014 (EB-2013-0396); 5. Low Voltage updated to incorporate HONI sub-transmission rates effective January 1, 2014 (EB-2013-0141); 6. Smart Meter Entity charge updated to incorporate customer numbers from revised Load Forecast; and 7. Load Forecast as noted below.	1. Staff # 27 and EP # 27; 2. Staff # 27 and EP # 27; 3. Staff # 36 b., Staff # 27, EP # 27, and VECC #41; 4. Staff # 27 and EP # 27; 5. Staff # 36 a., EP # 6 b., Staff # 27, EP # 27, and VECC # 41; and 6. Staff # 27, Staff # 30, and EP # 27.	46,008,158	47,402,229	1,394,071
Load Forecast	1. Updated with 2013 actual data as follows: (i) Customer numbers, (ii) Energy Billed/Unbilled (kWh), (iii) Demand Billed/Unbilled (kW), (iv) Purchases, (v) Heating & Cooling Degree Days, (vi) Employment Variable, and (vii) CDM Variable; 2. CDM allocation by customer class updated to include "Final 2012 OPA-CDM Verified Results"; 3. Manual Adjustment to CDM deducted from Billed Energy revised to exclude 2012 CDM energy savings; and 4. Loss Factor updated to 5-year average of 2009 to 2013 @ 1.0655 (previously calculated on 2008 to 2012 @ 1.0663).	1. Staff # 30, EP # 29, VECC # 33, 2. Staff # 29; 3. VECC # 36; and 4. VECC # 35	347,873,523 kWh (without HONI) 420,503,464 kWh (with HONI)	343,888,727 kWh (without HONI) 416,518,668 kWh (with HONI)	(3,984,796) kWh
			$ 54,714,649	$ 56,019,304	$ 1,304,655
			13%	13%	13%
Working Capital Allowance @ 13%		(a)	$ 7,112,904	$ 7,282,510	$ 169,605
Average Capital Asset Balance for 2014					
2014 Capital Asset Opening Balance Average NBV Change	2013 capital additions updated to actual spend	VECC # 19 and EP # 12 a.	$ 44,754,221	$ 43,615,106	$ (1,139,115)
2014 Capital Asset Closing Balance Average NBV Change	2014 capital additions updated to now include 2013 capital project carryover	VECC # 19 and EP # 12 b.	48,615,181	48,653,321	38,140
		(b)	$ 46,684,701	$ 46,134,213	$ (550,488)
Rate Base		EP # 22 (c)	**$ 53,797,605**	**$ 53,416,723**	**$ (380,883)**
Regulated Return on Capital					
Deemed Interest Expense			$ 1,159,231	$ 909,580	$ (249,651)
Deemed Return on Equity			1,932,410	1,999,922	67,512
		EP # 22	**$ 3,091,641**	**$ 2,909,502**	**$ (182,139)**

REVENUE REQUIREMENT

	Items Updated	*Interrogatory Number*	Original - 2014 COS Rate Application Filing	Updated - 2014 COS Interrogatory Responses	Revenue Requirement Change
Total Distribution Expenses					
Operations, Maintenance, & Administration Expenses	1. HONI Sub-Transmission Charges attributed to HONI's own load - increase of $8,584 (HONI Sub-transmission rates updated to January 1, 2014 rate order, EB-2013-0141); 2. Regulatory Expenses - reduction of $44,000 (OEB Cost Awards spread over 5-years); and 3. Miscellaneous Expenses - reduction of $54,000 (Removal of Management Fee)	1. EP # 6 b., Staff # 36 a., and VECC # 41; 2. EP # 8; and 3. EP # 21 a.	$ 8,706,491	$ 8,617,075	$ (89,416)
Depreciation Expense	2014 capital additions updated to now include 2013 capital project carryover	VECC # 19 and EP # 12 b.	2,113,988	2,078,190	(35,798)
			$ 10,820,479	$ 10,695,265	$ (125,214)
Regulated Return on Capital		EP # 22	$ 3,091,641	$ 2,909,502	$ (182,139)
Payment in Lieu of Taxes		Staff # 27 and EP # 27	100,492	143,748	43,256
Service Revenue Requirement			**$ 14,012,612**	**$ 13,748,515**	**$ (264,097)**

			Original - 2014 COS Rate Application Filing	Updated - 2014 COS Interrogatory Responses
2014 Revenue to Cost Ratios	Residential		100.0%	100.0%
	General Service Less Than 50 kW		100.0%	100.0%
	General Service 50 to 4,999 kW		105.9%	107.1%
	Embedded Distributor - HONI		105.5%	100.0%
	Sentinel Lighting		74.6%	74.8%
	Street Lighting		86.3%	86.6%
	Unmetered Scattered Load		80.6%	81.0%
2015 Revenue to Cost Ratios	Residential		100.0%	100.0%
	General Service Less Than 50 kW		100.0%	100.0%
	General Service 50 to 4,999 kW		105.2%	106.5%
	Embedded Distributor - HONI		105.5%	100.0%
	Sentinel Lighting		80.0%	80.0%
	Street Lighting		86.3%	86.6%
	Unmetered Scattered Load		80.6%	81.0%

b. The revised RRWF shows a reduction in OM&A of $89,417. Please show how this figure was determined based on the responses to 7.4-Energy Probe-21 and 4.2-Energy Probe-8 and any other changes made to the OM&A forecast.

<u>HCHI Response</u>

The following table details the $89,417 reduction in OM&A as a result of responses to interrogatories:

Interrogatory #	Description	Originally Filed in 2014 COS	Updated through Responses to IRRs	Difference
EP # 6 b.	Embedded Distributor - HONI sub-transmission Charges on account of HONI load	$ 227,541	$ 236,125	$ 8,584
EP # 8	2014 Cost of Service Intervenor Cost Awards	55,000	11,000	(44,000)
EP # 21	Management Fee	54,000	-	(54,000)
		$ 336,541	$ 247,125	$ (89,416)

c. Please confirm that the reduction in the power purchased which is reflected in lower distribution revenues as the result of interrogatory responses shown in the RRWF are also reflected in a lower cost of power used in the working cash calculation.

<u>HCHI Response</u>

The cost of power was not reduced, but in fact increased, as a result of responses to interrogatories. In fact, the changes to cost of power did not result in the lower distribution revenues; that is, lower distribution revenues were primarily a result of changes in cost of capital. While the cost of power was calculated using the resulting reduced load forecast, the cost of power expenses were impacted by an increase in rates. Refer to tables detailed in the RRWF changes “tracking sheet” now provided in response to a. Accordingly, the resulting net increase in cost of power is reflected in the working capital calculation.

8 Load Forecast, Cost Allocation and Rate Design

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

8.2 EP 39s.

Reference: Issue 8.2 Interrogatories

Please provide and updated Table 7 from Exhibit 7, Tab 1, Schedule 4 that shows the revenue to cost ratios from the updated cost allocation model that has resulted from the interrogatory responses, along with the proposals for the ratios in 2014 and 2015.

HCHI Response

The following Table 7 has now been updated to reflect revised revenue to cost ratios as a result of responses to interrogatories.

Table 7
Revenue-to-Cost Ratios

Customer Class	2011 IRM3 Board Approved	2014 Cost Allocation Study (Updated with IRRs)	2014 Proposed Ratios (Updated with IRRs)	2015 Proposed Ratios (Updated with IRRs)	Board Targets (Min.to Max.)
	%	%	%	%	%
Residential	99.86	97.14	100.00	100.00	85 - 115
General Service Less Than 50 kW	101.78	112.20	100.00	100.00	80 - 120
General Service 50 to 4,999 kW	112.88	127.55	107.15	106.51	80 - 120
Street Lighting	70.00	86.62	86.60	86.60	70 - 120
Sentinel Lighting	70.00	69.59	74.80	80.00	80 - 120
Unmetered Scattered Load	80.81	81.04	81.00	81.00	80 - 120
Embedded Distributor - Hydro One Networks Inc.	100.00	40.55	100.00	100.00	80 - 120

8.2 VECC 47s.

Reference: Staff 31.
Staff 33.

a. Inspection of Sheet I9 in the Cost Allocation Model filed with the interrogatory responses indicates that HCHI has changed the formula in cell C148 from that in the original Board model. Please explain why this change was made.

HCHI Response

With respect to Sheet I9 in the Cost Allocation ("CA") Model, HCHI did not change the formula in cell C148 updated in response to interrogatories. This cell formula change was already contained within the original CA model submitted by HCHI in its November 2013 Application. This change was required at that time to properly capture the Net Fixed Assets of the asset class servicing the Embedded Distributor – HONI rate class. Cell C148 of Sheet I9 was originally linked to the Gross Asset Value for all distribution assets before Contributed Capital and Accumulated Depreciation on "Sheet I4 BO Assets" and not Net Fixed Assets.

b. Please indicate if HCHI made any other changes to the formulae in the Board's CA model apart from this one and those described in response to Staff #31. If yes, please indicate what each one was and why it was made.

HCHI Response

Other than as noted in response to a., HCHI has not made any other changes to the formulas in the Board's CA model.

END OF DOCUMENT