Ontario Energy Board

Commission de l'énergie de l'Ontario

Cambridge & North Dumfries

2014 COS Rates Application

EB-2013-0116

Board Staff Compendium

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Board Staff Exhibit List

OM&A

Overhead Capitalization

4.2 Staff 16

Hiring

Exhibit 4 Tab 1 Schedule 1 page 1: Operation and Maintenance Overview

4.3 SEC 34: Financial results November 30, 2013

Appendix 2 – K: Employee Costs

Board of Directors

Exhibit 4 Tab 3 Schedule 1: OM&A General Administration

Appendix 2 – N: Shared Services

Post-Retirement Benefits

Exhibit 4 Tab 4 Schedule 4 page 4: Post-Retirement Benefits

Removal Costs

Flow Chart

Appendix B 2006 EDR

Exhibit 2 Tab 2 Schedule 2 Page 1: Capitalization Policy

2007 APH References

9.2 Staff 40: Removal Costs Interrogatory

Exhibit 2 Tab 2 Schedule 1 Page 7: Historical and Forecast CAPEX

Exhibit 4 Tab 2 Schedule 1 Page 15: Changes in Accounting Estimates

4.2-Staff-16

INTERROGATORY

- ***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?*

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?

RESPONSE

The following table summarizes the planned new hires, as outlined in Table 4-5, for 2013 and 2014. As noted in the table below, 7 of the new employees were hired prior to 2013.

Allocation of New Employees by Year

No. Positions	Allocation	Hired Prior to 2013	Planned in 2013	Planned in 2014
OM&A				
Administration	10	2	5	3
Operations / Maintenance	4	-	4	
Capital	4	-	4	
Operations / Maintenance / Capital	7	2	3	2
Billable – CDM Program	3	3		-
Total	28	7	16	5

As at January 31, 2014, CND has hired 23 of the 28 new hires.

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

1

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.

RESPONSE

CND confirms that the salary and benefit costs of the CDM employees are not included in the proposed revenue requirement.

The four new hires for capital include: (i) Two Design Technicians; (ii) One GIS Technician; and (iii) One Design Engineer.

- The two Design Technicians were hired to support the on-going asset management of the electricity distribution system, including the planning and design of overhead, underground, and street lighting distribution capital projects planned as part of the long-term DSP. The addition of the two Design Technicians brings the total complement of Design Technicians to three. Prior to the hiring of the additional Design Technicians, CND was outsourcing the design work to third party Engineering firms and incurring overtime to meet the increased demand for designs as a result of the growth in the capital projects due to infrastructure renewal requirements and customer demand.

- The GIS Technician is responsible for the design, development, implementation, and maintenance of the corporate Geographic Information System (GIS) hardware and software operational platforms. This includes managing distribution asset information and planning the integration of GIS and other software based operational technologies with other corporate enterprise applications. This position performs tasks associated with the creation and upkeep of digital maps, including the creation and management of the GIS database. The GIS Technician is responsible for GIS software customization, data conversion, quality control, administering map usage, and maintaining the GIS. The hiring of a GIS Technician supports the objectives set out in the DSP in that the GIS is a

2

critical element of support to CND's Asset Management Strategy. The GIS contains customer information (i.e. name, address, phone number, estimated peak demand, meter number), pole information (i.e. installation date, type, height, class, testing results), wire and cable information (i.e. size, type, installation date), transformer information (i.e. kVA, voltages, installation date, manufacturer, weight, impedance, estimated peak demand) and switch installation (i.e. type). As outlined in the DSP (Exhibit 2, Appendix 2-8A, Pg. 3), one of the guiding principles that have been used to determine CND's capital expenditure plans over the next five years is "continue to leverage the GIS system and functionality and build on the data base in order to harvest operational efficiency improvements. These improvements include the preparation of electronic documentation in support of the asset management system, and leveraging the investment in Smart Meters to improve outage management". Prior to hiring the GIS position, CND did not have a dedicated resource responsible for GIS, nor the specific skill sets required, for this position.

- The Design Engineer is principally responsible for: (i) providing reliable and cost effective materials, equipment, and construction methods to the utility in compliance with ESA O.Reg.22/04, which includes writing technical specifications, updating and maintaining subdivision, material, and construction specifications, and framing standards; (ii) the design, using specifications and standards, of overhead and underground distribution projects in a cost effective and safe manner utilizing information obtained from the System Control Centre, Operations and the Geographical Information System (GIS); (iii) approving design drawings, including third party designed subdivisions, utilizing specifications and standards as well as information from the GIS; and (iv) performing Economic Evaluation modelling and final reconciliations of capital contributions for completed projects. The hiring of a Design Engineer supports the objectives in the DSP as it provides the resource capacity and capabilities required to ensure the continued planning and development of the Asset Management Strategy, including the development of more formal processes, including data capture, analysis, forecasting and documentation (Exhibit 2, Appendix 2-8A, Pg. 22).

3

DEPARTMENTAL OVERVIEWS

OPERATIONS & MAINTENANCE

The Operations department at CND consists of operations, purchasing, stores, and fleet management. The Operations department currently has thirty-four staff consisting of a Vice President, Operations, four Supervisors (Overhead Construction and Maintenance, Underground Construction and Maintenance, Construction Projects, Purchasing and Stores), and twenty-nine front line staff. In 2013 and 2014, CND plans to hire a total of 5 additional trade apprentices to replace expected retirements over the next three to five years.

Operations:

Operations is responsible for the operations and maintenance of the electricity distribution system, including: (i) organizing, scheduling, and construction of capital projects; (ii) the maintenance, repairs and servicing of existing overhead and underground services; (iii) contractor management; (iv) tree trimming; and (v) locates.

The construction and maintenance area consists of seventeen journeyperson Powerline Technicians, three Apprentice Powerline Technicians, and two Truck Drivers who drive and operate the Digger Trucks. There is also one full time underground cable locator. The Operations department has an Operations Secretary and an Operations Clerk who provide administrative support to the department.

Purchasing:

Purchasing is responsible for the procurement of all goods and services for CND in accordance with an approved Purchasing and Contracts Policy, including relationships with suppliers, co-ordination of quotations and tendering processes, and the negotiating of agreements. There is one full-time Supervisor and one part-time clerk in the Purchasing area.

CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

FINANCIAL RESULTS – NOVEMBER 30, 2013

Income Statement

Month of November, 2013

Net loss for the month of November was $0.02MM compared to budget net income of $0.2MM. The net loss is explained by lower than budgeted income from operations, principally as a result of lower than budgeted electricity distribution revenue.

Electricity distribution revenue for the month was $1.7MM or $0.5MM lower than the budget of $2.2MM. Included in the month of November was an adjustment of $0.17MM (reduction) to distribution revenue related to the accounting for property, plant and equipment based upon changes to depreciation rates and capitalization policies. Consistent with an adjustment that was required for the year-end December 31, 2012, CNDHI is required to record a regulatory liability to customers for the differences between operating and depreciation expenses resulting from the change in accounting policies. The adjustment is incorporated in the 2013 budget as an adjustment in December 2013. Excluding this adjustment, electricity distribution revenue was $0.33MM lower than budget principally explained by lower residential and GS< 50 kW revenue due to lower than expected consumption during the month.

Year-to-date November 30, 2013

Year-to-date net income of $4.9MM continued to trend $0.5MM favourable to the budget of $4.4MM, principally explained by an adjustment to the current income tax provision of $1.0MM and lower interest expense of $0.3MM, partially offset by lower income from operations of $0.95MM.

As previously communicated, the adjustment to the income tax provision reflects the expected effective tax rate for the year of approximately 10% compared to the 26.5% provided for in the 2013 budget as a result of differences in depreciation rates for tax versus accounting purposes.

Significant variances contributing to the lower income from operations of $0.95MM include:

- Electricity distribution revenue was approximately $1.5MM lower than the budget as a result of:
    - A year-to-date adjustment of $1.6MM related to the accounting for property, plant and equipment based upon changes to depreciation rates and capitalization policies, as noted previously.
    - Partially offset by higher distribution revenue for the period of $0.1MM, principally explained by higher than budget consumption for Residential customers.

- Other revenue was $0.1MM lower than the budget, principally explained by lower carrying charges on regulatory assets.

- Operating expenses for the period continued to trend lower than budget by approximately $0.7MM, principally explained by:

    - Operations and maintenance costs were $0.1MM lower than budget principally explained by:
        - Timing of the hiring of three new Powerline Technician apprentices (originally planned for May and hired as of October 1st.);
        - Deferred the hiring of two of three new control room operators originally planned for June;
        - Lower meter expenses attributable to lower than expected AMI network fees in the first half of the year (costs were incurred commencing in July) offset by increased

5

labour costs required to change out the old meters prior to implementation of encryption in the meters; and

- Partially offset by pole removal costs related to the Preston TS Feeder, Boxwood Subdivision and Branchton Road rebuild capital projects.

As a result of the significant ice storm that occurred in the latter part of December, operations and maintenance costs for the year are expected to exceed the budget for the year. Management is currently in the process of determining the total cost of the storm and will provide an update to the Board of Directors as part of the Financial Report for December.

- General administration expenses were lower than budget by $0.6MM due to:
    - Wage and benefit savings due to the timing of new hires in various departments (Service Desk Analyst in ITS, Communications Manager, Field Service Representative);
    - Lower than anticipated regulatory costs of $0.07M related to the preparation of the 2014 Cost of Service Application due to delays by the OEB in proceeding with the next stages of the application process;
    - Lower than budget software maintenance costs due to lower license fee costs and the timing of planned projects; and
    - Lower than budget building maintenance costs of $0.07MM principally due to the deferral of certain maintenance projects (window and carpet replacements, painting, etc.) pending the outcome of the Space Study.

Capital Expenditures

Total capital expenditures for the month were $2.1MM, including:

Work in progress on distribution system capital projects	$2.04MM
Non-distribution system capital	$0.06MM

Non-distributions system capital expenditures for the month included computer hardware and software, meter reading devices, and office equipment.

YTD capital expenditures were $11.2MM, compared to the overall budget for the year of $18.2MM and the year-end forecast of $16.1MM. YTD capital expenditures include $9.5MM in distribution system capital expenditures and $1.7MM in non-distribution system capital expenditures (meters, office furniture, computer hardware and software, transportation, and tools and equipment).

Significant distribution system capital projects to date include the Preston TS Feeders project, Preston Parkway underground rebuild, Branchton Road, Boxwood Industrial Fisher Hallman rebuild, and Conestoga Boulevard feeder extension.

6

Appendix 2-K
Employee Costs

	Last Rebasing Year - 2010-Board Approved	Last Rebasing Year - 2010-Actual	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Number of Employees (FTEs including Part-Time)[1]						
Management (including executive)	20	19	20	21	23	25
Non-Management (union and non-union)	71	66	69	74	81	92
Total	91	85	89	95	104	117
Total Salary and Wages including ovetime and incentive pay						
Management (including executive)	$ 2,108,000	$ 2,126,864	$ 2,344,286	$ 2,511,257	$ 2,653,264	$ 2,883,848
Non-Management (union and non-union)	$ 4,797,300	$ 4,827,629	$ 5,438,199	$ 5,677,426	$ 6,291,291	$ 6,490,209
Total	$ 6,905,300	$ 6,954,493	$ 7,782,485	$ 8,188,683	$ 8,944,555	$ 9,374,057
Total Benefits (Current + Accrued)						
Management (including executive)	$ 868,259	$ 535,046	$ 537,785	$ 573,891	$ 730,115	$ 760,063
Non-Management (union and non-union)	$ 2,006,570	$ 1,416,686	$ 1,516,512	$ 1,679,223	$ 1,976,353	$ 2,114,468
Total	$ 2,874,829	$ 1,951,732	$ 2,054,297	$ 2,253,114	$ 2,706,468	$ 2,874,531
Total Compensation (Salary, Wages, & Benefits)						
Management (including executive)	$ 2,976,259	$ 2,661,910	$ 2,882,071	$ 3,085,148	$ 3,383,379	$ 3,643,911
Non-Management (union and non-union)	$ 6,803,870	$ 6,244,315	$ 6,954,711	$ 7,356,649	$ 8,267,644	$ 8,604,677
Total	$ 9,780,129	$ 8,906,225	$ 9,836,782	$ 10,441,797	$ 11,651,023	$ 12,248,588

Note:

[1] If an applicant wishes to use headcount, it must also file the same schedule on an FTE basis.

7

General Administration:

2010 Board Approved	2014 Test	Variance
$1,337,191	$4,783,802	$3,446,611

General and administrative expenses are expected to be $4,783,802 in the 2014 Test Year compared to the 2010 Board Approved amount of $1,337,191. The increase in general and administrative expenses is principally attributable to: (i) reallocation of all supervisory and management wages; (ii) hiring of additional supervisory and management staff over the period 2011 through 2014 (Exhibit 4, Table 21); (iii) annual salaries and benefit increases; (iv) increase in Board of Directors expenses; (v) higher general liability insurance premiums; and (vi) increased professional fees.

As explained in Exhibit 4, Tab 3, Schedule 1, and Page 3, one of the most significant changes to general and administration expenses as a result of the ERP implementation has been the allocation of all management and supervisory wages, which were previously allocated to the various departments. Based upon the 2014 Test Year salaries and benefits, the following is a summary of the salaries and benefits that have been reallocated:

Department Allocation Prior to 2012	2014 Test Year
Operations (Overhead/Underground/Maintenance)	$907,000
Load Dispatching	$157,000

Appendix 2-N
Shared Services and Corporate Cost Allocation

Year: 2014 Test Year

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
CNDHI	CND Energy Solutions	Street Light Maintenance	Cost	538,181	538,181
CNDHI	Energy Plus	Board of Directors	Cost	11,100	11,100
CNDHI	Energy Solutions	Board of Directors	Cost	11,100	11,100

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$
CNDHI	Energy Plus	Accounting	Cost	2.00%	12,000
CNDHI	Energy Solutions	Accounting	Cost	1.00%	6,000

Note:

1 **This appendix must be completed in relation to each service provided or received for the Historical (actuals), Bridge and Test years. The required information includes:**

- ***Type of Service:***

Services such as billing, accounting, payroll, etc. The applicant must identify any costs related to the Board of Directors of the parent company that are allocated to the applicant.

- ***Pricing Methodology:***

Pricing Methodology includes approaches such as cost-base, market-base, tendering, etc. The applicant must provide evidence demonstrating the pricing methodology used. The applicant must also provide a description of why that pricing methodology was chosen, whether or not it is in conformity with ARC, and why it is appropriate.

- ***% Allocation:***

The applicant must provide the percentage of the costs allocated to the entity for the service being offered. The Applicant must also provide a description of the allocator and why it is an appropriate allocator.

Appendix 2-N
Shared Services and Corporate Cost Allocation

Year: 2013 Bridge Year

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
CNDHI	CND Energy Solutions	Street Light Maintenance	Cost	519,181	519,181
CNDHI	Energy Plus	Board of Directors	Cost	11,100	11,100
CNDHI	Energy Solutions	Board of Directors	Cost	11,100	11,100

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$
CNDHI	Energy Plus	Accounting	Cost	1.90%	12,000
CNDHI	Energy Solutions	Accounting	Cost	1.00%	6,000

Appendix 2-N
Shared Services and Corporate Cost Allocation

Year: 2012 Actual

Shared Services

Name of Company		Service Offered	Pricing Methodology	Price for the Service	Cost for the Service
From	To			$	$
CNDHI	CND Energy Solutions	Street Light Maintenance	Cost	506,973	506,973
CNDHI	Energy Plus	Board of Directors	Cost	11,100	11,100
CNDHI	Energy Solutions	Board of Directors	Cost	11,100	11,100

Corporate Cost Allocation

Name of Company		Service Offered	Pricing Methodology	% of Corporate Costs Allocated	Amount Allocated
From	To			%	$
CNDHI	Energy Plus	Accounting	Cost	2.00%	12,000
CNDHI	Energy Solutions	Accounting	Cost	1.00%	6,000

Current accounting treatment of post-retirement benefits:

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefit method prorated on length of service and reflect management's best estimate of certain underlying assumptions. The current service cost is for a period equal to the actuarial present value of benefits attributed to that period in which employees rendered their services.

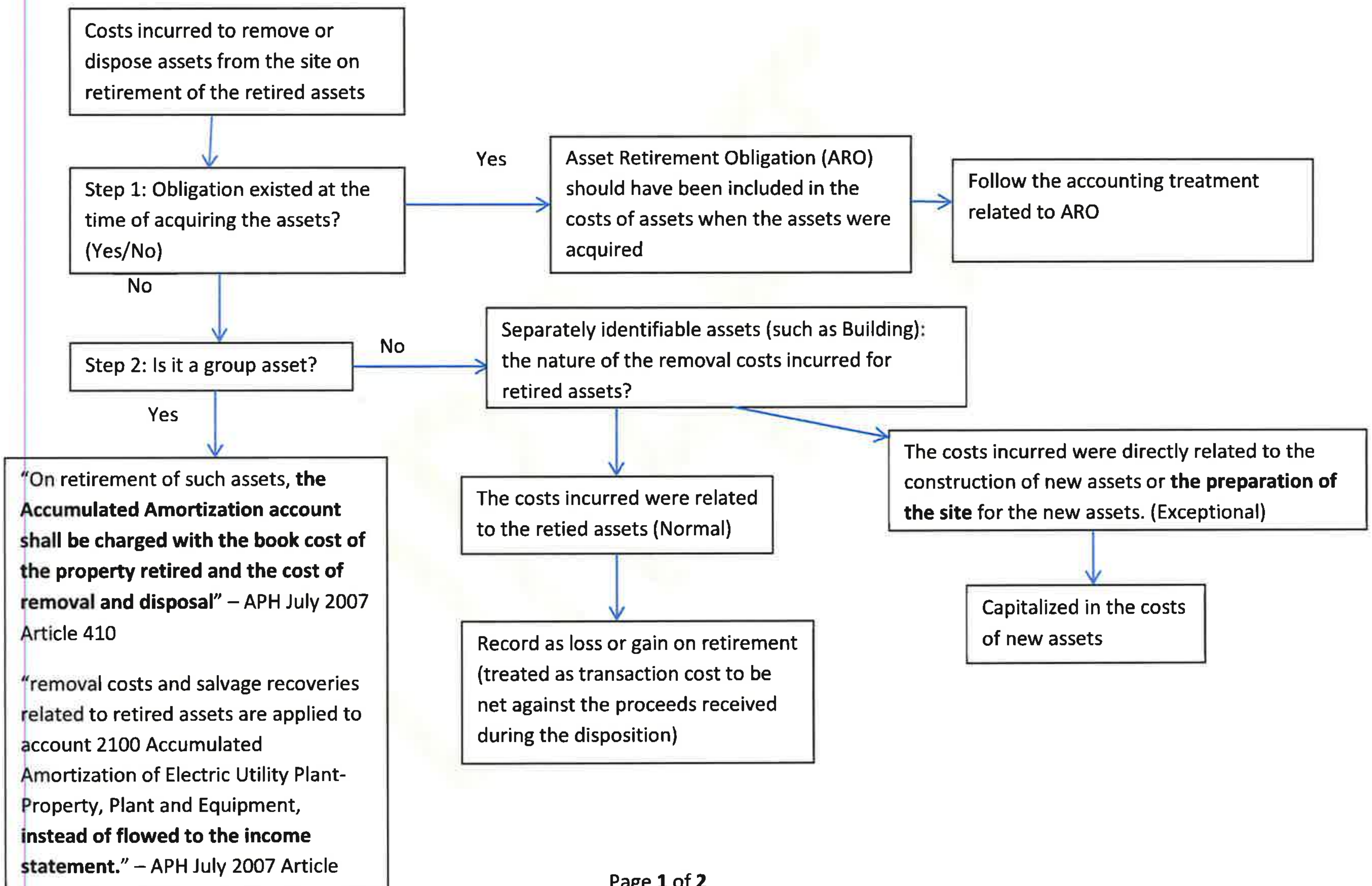
An actuarial valuation of the employee future benefit obligation is undertaken every three years. Significant assumptions underlying the valuation include management's best estimate of the interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs. The assumptions underlying the valuation of the employee future benefits are disclosed in the annual audited financial statements (see Note 7 of the CND audited financial statements).

The post-retirement expense includes the annual amortization of actuarial gains (losses). CND amortizes the actuarially determined experience gains (losses), whereby the excess of actuarial gains (losses) over 10 per cent of the accrued benefit obligation are amortized, into expense on a straight line basis over three years.

The post-retirement benefit expense in the 2013 Bridge Year is expected to increase by $65,825 over 2012 Actuals principally explained by: (i) the amortization of an unrealized loss arising in 2011 of approximately $27,000 ($83,000 over a three year period); and (ii) the amortization of the unrealized (loss) of $210,252 arising in 2012 over the next three years, or $70,084 per year in 2013 Bridge Year and 2014 Test Year.

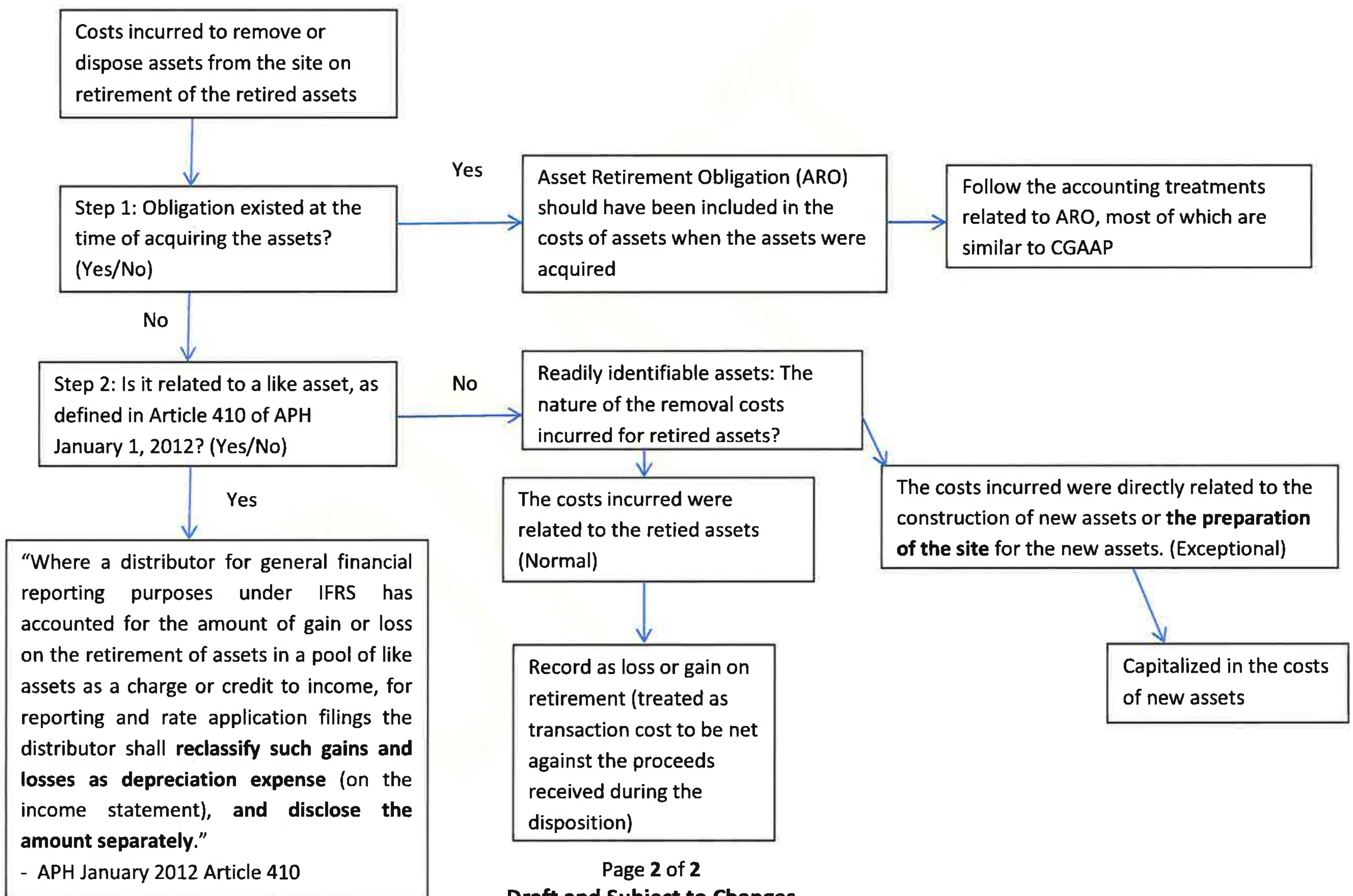
A copy of CND's Actuarial Valuation Report as at December 31, 2012 has been included in Appendix 4-12.

1. Regulatory Accounting Treatment for Removal Costs of Retired Assets - CGAAP



Draft and Subject to Changes

2. Regulatory Accounting Treatment for Removal Costs of Retired Assets - IFRS



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14

Appendix B

Appendix B: Amortization Rates

The amortization rates below apply to the respective assets listed under "Asset Type". All rates are based on the straight line method of amortization.

The inclusion of an asset in the chart below does not imply Board acceptance of the asset for inclusion in the Rate Base or for any other rate making purpose.

The amortization expense related to an asset used for both Distribution and Non-utility activities should be properly allocated to each type of activity. Only the amortization expenses related to distribution assets may be included as an expense in rate applications. The method of allocation should be reasonable and documented.

		Effective January 1, 1992		Prior to January 1, 1992	
USoA Account	**Asset Type**	**Life-Years**	**Rate**	**Life-Years**	**Rates**
1930	Rolling Stock and Equipment[1]				
	Automobiles	4	25.00%	4	25.00%
	Trucks under 3 tonnes	5	20.00%	5	20.00%
	Trucks 3 tonnes and over	8	12.50%	8	12.50%
1950	Work and service equipment	8	12.50%	8	12.50%
Part of 1620, 1708, 1808, 1908 (as applicable)	Buildings and fixtures: brick, stone, concrete, and steel	50	2.00%	60	1.67%
1920	Computer equipment: hardware	5	20.00%	5	20.00%
1830, 1835, part of 1855	Distribution lines and feeders: overhead	25	4.00%	25	4.00%
1840, 1845, part of 1855	Distribution lines and feeders: underground	25	4.00%	25	4.00%
1860	Distribution meters	25	4.00%	25	4.00%
1850	Distribution transformers	25	4.00%	25	4.00%
1915	General office equipment	10	10.00%	10	10.00%
1635 to 1685	Generating stations	60	1.67%	60	1.67%

[1] No allowance will be made for residual value.

USoA Account	Asset Type	Effective January 1, 1992 Life-Years	Effective January 1, 1992 Rate	Prior to January 1, 1992 Life-Years	Prior to January 1, 1992 Rates
1615, 1705, 1805, 1905	Land	Non-depreciable		Non-depreciable	
1630, 1710, 1810, 1910	Leasehold improvements	Over term of lease		Over term of lease	
1970	Load management controls: customer premises	10	10.00%	15	6.67%
1975	Load management controls: utility premises	10	10.00%	15	6.67%
1940	Miscellaneous equipment, major tools, and instruments	10	10.00%	10	10.00%
1820	Municipal distribution station equipment (below 50 kV)	30	3.33%	30	3.33%
1815, 1715	Municipal transformer stations equipment (above 50 kV)	40	2.50%	40	2.50%
1985	Sentinel lighting rental units	10	10.00%	10	10.00%
1935	Stores warehouse equipment	10	10.00%	10	10.00%
Below 50 kV relates to part of 1720, 1725, and 1735 Above 50 kV relates to 1830 and 1835	Sub-transmission feeders: overhead	25	4.00%	25	4.00%
Below 50 kV relates to 1840 and 1845 Above 50 kV relates to 1735 and 1740	Sub-transmission feeders: underground	25	4.00%	25	4.00%
1980	System supervisory equipment	15	6.67%	25	4.00%
Part of 1725 and 1730	Transmission lines: wood poles	25	4.00%	25	4.00%
1965	Water heater rental units	10[2]	10.00%	10[2]	10.00

[2] In areas where water conditions are deemed to affect the life of water heaters, a different depreciation rate may be approved. Applicants will be required to file full details as to the determination of such a rate.

CAPITALIZATION POLICY

Overview of Policy:

CND's capitalization policies and principles are based on Canadian Generally Accepted Accounting Principles ("CGAAP"), as well as the guidelines as set out by the Ontario Energy Board, where applicable.

Effective January 1, 2012, CND revised its capitalization policies under CGAAP to reflect changes that were required in accordance with regulatory accounting requirements and that align to the capitalization principles if CND were to adopt International Financial Reporting Standards ("IFRS").

The following is a summary of the significant elements of CND's capitalization policies:

- Only those costs directly attributable to the acquisition or construction of a capital asset are capitalized. Specific expenditures that are no longer included in the capital burden rates for CND include: (i) building maintenance costs; (ii) health and safety department expenditures; and (iii) municipal property taxes. CND does not, nor has it previously, capitalized any indirect administrative support costs such as Finance, Human Resources, or Corporate Services. A description of capitalized overheads (burdens) is described in more detail in this Exhibit below.

- Costs incurred to remove an existing asset from service are to be expensed and are no longer eligible to be included in the capital cost of the new asset.

- Assets that are intended to be used on an on-going basis and are expected to provide future economic benefit (generally considered to be greater than one year) are capitalized.

- Individual items with an estimated life greater than one year and that exceed $2,000 will be capitalized.

- CND does not capitalize interest on funds used during construction unless such funds relate to specific borrowings for capital purposes.

2007 APH References

1) Article 220, Page 83-84 defines the Account 2105 Accumulated Amortization of Electric Utility Plant - Property, Plant and Equipment. One item in the definition states that:

At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. On retirement, if costs of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate sub-account. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph.

2) Article 410, Page 15:

In summary, assets, including those with varying service lives, may be grouped and amortized using an amortization method that will allocate the combined cost of the assets over their estimated useful life in a rational and systematic manner. The amortization provision determined for the group should be determined based on the estimated average useful life of the respective assets in the group. Assets remaining in use after reaching the end of their average useful life are not regarded as fully depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal and disposal, and shall be credited with the salvage value and any other amounts recovered. (See account 2105, item B).

3) Article 540, Page 5:

Account 2100 Accumulated Amortization of Electric Utility Plant- Property, Plant and Equipment: Comment sought clarification of use of retirement work order, treatment of removal costs/ salvage values, gains/ losses on disposals

The procedure related to the retirement of assets has been modified to conform to that followed by the regulated gas utilities as well as the practice in other jurisdictions for electric utilities. Essentially, a retirement work order serves to document the retirement event and would include removal costs and salvage recoveries. As a result, associated removal costs and salvage recoveries would not go to the income statement accounts but instead be applied against/to account 2100.

An asset that is being retired would not normally have any associated or significant gains or losses that are the subject of accounts 4355, Gain on Disposition of Utility and Other Property and 4360, Loss on Disposition of Utility and Other Property. Instead accounts 4355 and 4360 serve to record gains and losses, respectively, on disposals other than retirements (i.e.- assets with some life left in them).

4) Article 540, Page 12:

Comment sought clarification of the requirement to remove fully depreciated grouped assets from the records (page 12) The phrase beginning "Such assets and accumulated amortization..." on page 12 has been revised to read "Assets remaining in use after reaching the end of their average useful life are not regarded as fully depreciated until actual retirement. On retirement of such assets the Accumulated Amortization account shall be charged with the book cost of the property retired and the cost of removal, and shall be credited with the salvage value and any other amounts recovered. (See account 2100, item B)."

9.2-Staff-40

INTERROGATORY

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).

RESPONSE

CND confirms that the removal costs refer to the costs of disposal with respect to assets that have been fully depreciated, as referenced in IAS16 cited above.

IAS16 Property Plant and Equipment ("PP&E") requires that the carrying amount of an item of property, plant and equipment shall be derecognized on disposal and that the gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss.

CND has recorded the removal costs as OM&A expenses, which results in recognizing these costs as a loss.

CND acknowledges that, based upon Article 410 of the Accounting Procedures Handbook ("APH"), *"where a distributor for general financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the distributor shall reclassifiy such gains and losses as depreciation expense (on the income statement), and disclose the amount separately" (APH, Article 410, Page 15)"*, the removal costs recorded in 2012 Actual, 2013 Bridge Year, and 2014 Test Year should have been recorded in Account 5705 Amortization Expense as opposed to OM&A.

In response to this interrogatory, CND submits the following revised Exhibits:

- Appendix 2-JA Summary of Recoverable OM&A Expenses
- Appendix 2-JD Recoverable OM&A Cost Driver Table
- Appendix 2-L OM&A Cost per Customer and per FTE
- Table 4-38 Summary of Depreciation/Amortization by Year

Appendix 2-JA - Adjusted for Removal Costs
Summary of Recoverable OM&A Expenses

	Last Rebasing Year (2010 Board-Approved)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Operations	$ 2,872,659	$ 2,516,620	$ 2,839,916	$ 3,306,212	$ 2,204,861	$ 2,501,846
Maintenance	$ 1,166,239	$ 931,863	$ 929,059	$ 1,788,739	$ 1,859,544	$ 2,035,344
SubTotal	**$ 4,038,898**	**$ 3,448,483**	**$ 3,768,975**	**$ 5,094,951**	**$ 4,064,405**	**$ 4,537,190**
%Change (year over year)			9.3%	35.2%	-20.2%	11.6%
%Change (Test Year vs Last Rebasing Year - Actual)						54.9%
Billing and Collecting	$ 1,447,594	$ 1,071,672	$ 1,494,842	$ 2,649,010	$ 2,839,880	$ 2,974,585
Community Relations	$ 46,969	$ 28,248	$ 43,768	$ 104,797	$ 130,555	$ 151,100
Administrative and General	$ 4,498,647	$ 5,032,154	$ 5,454,838	$ 5,494,299	$ 7,235,724	$ 7,334,228
SubTotal	**$ 5,993,210**	**$ 6,132,074**	**$ 6,993,448**	**$ 8,248,106**	**$ 10,206,159**	**$ 10,459,913**
%Change (year over year)			14.0%	17.9%	23.7%	2.5%
%Change (Test Year vs Last Rebasing Year - Actual)						70.6%
Total	**$ 10,032,108**	**$ 9,580,557**	**$ 10,762,423**	**$ 13,343,057**	**$ 14,270,564**	**$ 14,997,103**
%Change (year over year)			12.3%	24.0%	7.0%	5.1%

	Last Rebasing Year (2010 Board-Approved)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Operations	$ 2,872,659	$ 2,516,620	$ 2,839,916	$ 3,306,212	$ 2,204,861	$ 2,501,846
Maintenance	$ 1,166,239	$ 931,863	$ 929,059	$ 1,788,739	$ 1,859,544	$ 2,035,344
Billing and Collecting	$ 1,447,594	$ 1,071,672	$ 1,494,842	$ 2,649,010	$ 2,839,880	$ 2,974,585
Community Relations	$ 46,969	$ 28,248	$ 43,768	$ 104,797	$ 130,555	$ 151,100
Administrative and General	$ 4,498,647	$ 5,032,154	$ 5,454,838	$ 5,494,299	$ 7,235,724	$ 7,334,228
Total	**$ 10,032,108**	**$ 9,580,557**	**$ 10,762,423**	**$ 13,343,057**	**$ 14,270,564**	**$ 14,997,103**
%Change (year over year)			12.3%	24.0%	7.0%	5.1%

	Last Rebasing Year (2010 Board-Approved)	Last Rebasing Year (2010 Actuals)	Variance 2010 BA – 2010 Actuals	2011 Actuals	Variance 2011 Actuals vs. 2010 Actuals	2012 Actuals	Variance 2012 Actuals vs. 2011 Actuals	2013 Bridge Year	Variance 2013 Bridge vs. 2012 Actuals	2014 Test Year	Variance 2014 Test vs. 2013 Bridge
Operations	$ 2,872,659	$ 2,516,620	$ 356,039	$ 2,839,916	$ 323,296	$ 3,306,212	$ 466,296	$ 2,204,861	$ (1,101,351)	$ 2,501,846	$ 296,985
Maintenance	$ 1,166,239	$ 931,863	$ 234,376	$ 929,059	$ (2,804)	$ 1,788,739	$ 859,680	$ 1,859,544	$ 70,805	$ 2,035,344	$ 175,800
Billing and Collecting	$ 1,447,594	$ 1,071,672	$ 375,922	$ 1,494,842	$ 423,170	$ 2,649,010	$ 1,154,168	$ 2,839,880	$ 190,870	$ 2,974,585	$ 134,705
Community Relations	$ 46,969	$ 28,248	$ 18,721	$ 43,768	$ 15,520	$ 104,797	$ 61,029	$ 130,555	$ 25,758	$ 151,100	$ 20,545
Administrative and General	$ 4,498,647	$ 5,032,154	$ (533,507)	$ 5,454,838	$ 422,684	$ 5,494,299	$ 39,461	$ 7,235,724	$ 1,741,425	$ 7,334,228	$ 98,504
Total OM&A Expenses	$ 10,032,108	$ 9,580,557	$ 451,551	$ 10,762,423	$ 1,181,866	$ 13,343,057	$ 2,580,634	$ 14,270,564	$ 927,507	$ 14,997,103	$ 726,539
Adjustments for Total non-recoverable items (from Appendices 2-JA and 2-JB)											
Total Recoverable OM&A Expenses	$ 10,032,108	$ 9,580,557	$ 451,551	$ 10,762,423	$ 1,181,866	$ 13,343,057	$ 2,580,634	$ 14,270,564	$ 927,507	$ 14,997,103	$ 726,539
Variance from previous year				$ 1,181,866		$ 2,580,634		$ 927,507		$ 726,539	
Percent change (year over year)				12.3%		24.0%		7.0%		5.1%	
Percent Change: Test year vs. Most Current Actual						12.40%					
Simple average of %variance for all years						56.5%					12.1%
Compound Annual Growth Rate for all years											9.4%
Compound Growth Rate (2012 Actuals vs. 2010 Actuals)						39.3%					

Note:

1 "BA" = Board-Approved

2 If it has been more than three years since the applicant last filed a cost of service application, additional years of historical actuals should be incorporated into the table, as necessary, to go back to the last cost of service application. If the applicant last filed a cost of service application less than three years ago, a minimum of three years of actual information is required.

3 Recoverable OM&A that is included on these tables should be identical to the recoverable OM&A that is shown for the corresponding periods on Appendix 2-JB.

22

Appendix 2-JD - Revised for Removal Costs
Recoverable OM&A Cost Driver Table

OM&A	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Opening Balance	$ 9,911,562	$ 9,580,557	$ 10,762,424	$ 13,343,059	$ 14,270,564
Merit/Collective Bargaining/Other Annual Increases	167,712	186,247	196,446	223,676	198,775
Organizational Capacity	8,906	64,754	52,459	570,447	435,942
OMERS Pension Costs (OM&A Portion)	27,240	101,907	109,292	122,723	47,740
Employee Benefit Costs (OM&A Portion)	54,551	1,864	21,686	236,258	44,558
Change in allocation of labour to Operations/Maintenance				(100,000)	148,000
Effect of Loss on write-off of SAP CIS in 2009	(934,444)				
Effect of Loss of Water Billing Contract (2011)		603,131			
Effect of Smart Meter Decision			1,325,414	(1,325,414)	
Changes in Accounting Estimates - Capitalization Policies			428,129	76,141	38,185
Incremental TOU and Smart Meter Costs			360,291	28,983	10,671
IT Costs - Maintenance, Licenses, and Communication				237,952	
IT Costs - Professional Services				154,000	(61,480)
Cost of Service Application Costs/Regulatory Costs	207,000			287,000	46,000
LEAP Program		29,630	53	261	56
Bad Debt Expenditures/(Recoveries)	(143,631)	29,734	93,245	7,439	(37,600)
Space Optimization Study				200,000	(200,000)
Buildings (Rental and Maintenance)		70,389		139,260	44,851
Insurance Premiums/(Rebates)			(37,184)	73,671	7,799
Transformer Station Equipment Painting				90,000	(90,000)
Professional services fees	126,306				
Inflation/Other	155,355	94,211	30,804	(94,892)	93,041
Closing Balance	$ 9,580,557	$ 10,762,424	$ 13,343,059	$ 14,270,564	$ 14,997,102

23

Appendix 2-L - Revised for Removal Costs
Recoverable OM&A Cost per Customer and per FTE

	Last Rebasing Year - 2010- Board Approved	Last Rebasing Year - 2010- Actual	2011 Actuals	2012 Actuals	2013 Bridge Year	2014 Test Year
Reporting Basis	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Number of Customers	50,550	50,262	51,166	51,712	52,663	53,634
Total Recoverable OM&A from Appendix 2-JB	$ 10,032,108	$ 9,580,557	$ 10,762,422	$ 13,343,057	$ 14,270,564	$ 14,997,102
OM&A cost per customer	$ 198.46	$ 190.61	$ 210.34	$ 258.03	$ 270.98	$ 279.62
Number of FTEs	91	85	89	95	104	117
Customers/FTEs	557.33	593.41	574.90	544.91	506.38	458.41
OM&A Cost per FTE	110,608	113,112	120,926	140,601	137,217	128,180

24

Notes:

1 If it has been more than three years since the applicant last filed a cost of service application, additional years of historical actuals should be incorporated into the table, as necessary, to go back to the last cost of service application. If the applicant last filed a cost of service application less than three years ago, a minimum of three years of actual information is required.
2 The method of calculating the number of customers must be identified.
3 The method of calculating the number of FTEs must be identified. See also Appendix 2-K
4 The number of customers and the number of FTEs should correspond to mid-year or average of January 1 and December 31 figures.

Table 4-38 Summary of Depreciation/Amortization by Year - Revised

DEPRECIATION EXPENSE TABLE							
Depreciation		2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2013 Actual, Subject to Audit	2014 Test
		CGAAP	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
1805	Land						
1806	Land Rights						
1808	Building and Fixtures	135,865	135,058	21,409	21,351	21,350	21,351
1815	Transformer Station Equipment-Normally Primary above 50 kv	244,415	244,364	364,369	365,399	366,362	365,445
1820	Distribution Station Equipment-Normally Primary below 50 kv						
1830	Poles, Towers and Fixtures	1,048,309	983,534	347,909	404,621	388,779	511,463
1835	O/H Conductors & Devices	1,083,624	1,016,734	474,929	550,383	533,026	695,537
1840	Underground Conduit	840,472	911,479	176,381	188,599	189,245	212,324
1845	Underground Conductors and Devices	640,101	724,559	436,101	470,342	478,232	533,968
1850	Line Transformers	1,285,335	1,529,895	568,317	602,986	595,444	651,246
1855	Services	740,187	690,282				
1860	Meters	334,652	47,475	1,533,876	667,073	662,698	717,254
1908	Building and Fixtures			1,321,253	142,804	148,899	155,304
1915	Office Furniture and Fixtures	16,953	15,729	16,482	27,011	25,686	40,396
1920	Computer Equipment - Hardware	127,085	125,999	229,625	339,547	324,037	514,213
1611/1925	Computer Software	168,328	297,875	420,631	512,400	511,847	677,095
1930	Transportation Equipment	245,266	284,840	141,103	182,646	181,370	233,631
1935	Stores Equipment						
1940	Tools, Shop and Garage Equipment	66,456	73,797	66,778	74,628	72,206	85,910
1945	Measurement and Testing Equipment						
1950	Power Operated Equipment						
1955	Communication Equipment						
1960	Miscellaneous Equipment						
1980	System Supervisory Equipment						
1995	Contributions and Grants	(585,890)	(648,820)	(331,862)	(368,521)	(308,889)	(425,260)
		6,391,158	6,432,800	5,787,301	4,181,269	4,190,292	4,989,877
Less : Fully Allocated Depreciation							
	Transportation	(245,266)	(284,840)	(141,103)	(182,646)	(181,370)	(233,631)
	Smart Meters			(873,857)			
	Difference			1,714			
	Net Depreciation	6,145,892	6,147,960	4,774,055	3,998,623	4,008,922	4,756,246
Add: Loss on Retirement of Assets (Removal Costs)				333,253	600,835	639,000	806,208
				5,107,308	**4,599,458**	**4,647,922**	**5,562,454**
Depreciation As Per Audited Financial Statements		6,146,000	6,148,000	4,774,000			
Depreciation As Per Projected Budget					4,599,458		5,562,454

24

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.

RESPONSE

CND has historically recorded the costs (labour and materials) related to removing distribution assets as part of the capital costs of constructing new assets. There is no specific reference in CGAAP with respect to the treatment of removal costs. CICA Handbook Section 3060 provided guidance with respect to the types of costs that can be included in the cost of constructing a capital asset, which included the concepts of site preparation costs, as well as "betterments", which is defined as the cost incurred to enhance the service potential of a capital asset.

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

RESPONSE

CND confirms that the 2012 removal costs of $333,253 were included in CND's 2012 Audited Financial Statements as part of OM&A expense.

27

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

RESPONSE

The increase in the estimated removal costs is specifically attributable to the increase in System Renewal capital projects in 2013 and 2014, as well as System Access capital projects that involve the removal and/or relocation of distribution system assets.

The following table summarizes the removal costs for material capital projects in 2013 and 2014:

Project	Reference	2013 Removal Costs	2014 Removal Costs
Rebuild – Sheffield F2 Feeder and Branchton Rabbits	Exhibit 2, Appendix 2-8B, Pg. 90	$220,000	
Preston TS Feeders	Exhibit 2, Appendix 2-8B, Pg. 89	$156,100	
Franklin Boulevard Roundabouts	Exhibit 2, Appendix 2-8B, Pg. 100		$253,633
Shellard Rd.	Exhibit 2, Appendix 2-8B, Pg. 102		$69,700
Double Circuit 27.6kV Line – Fountain St.	Exhibit 2, Appendix 2-8B, Pg. 101		$73,700

28

Triple Circuit Existing 27.6kV Line - Speedsville Rd. - North of Royal Oak to Boxwood Industrial Subdivision - 1km	Exhibit 2, Appendix 2-8B, Pg. 101		$29,480
Greenfield Rd from West of Dumfries Rd. to East of Spragues Rd	Exhibit 2, Appendix 2-8B, Pg. 101		$132,000
Galt Core Area Upgrades	Exhibit 2, Appendix 2-8B, Pg. 102	$29,480	$29,480
Preston Parkway Area	Exhibit 2, Appendix 2-8B, Pg. 90	$16,080	-
Northview Acres Area	Exhibit 2, Appendix 2-8B, Pg. 102	$14,472	$24,120
Various Other		$164,703	$194,095
		$600,835	**$806,208**

29

SUMMARY OF CAPITAL EXPENDITURES

Table 2-15 below provides a summary of historical capital expenditures for the years 2009 through 2012, projections for the 2013 Bridge Year and 2014 Test Year, as well as projections for the period 2015 through 2018. Appendix 2-8B includes OEB Appendix 2-AB Capital Expenditure Summary from Chapter 5 Consolidated Distribution System Plan Filing Requirements.

Table 2-16 summarizes the capital expenditures, by asset category for the years 2009 through 2012 Actual, and projections for the 2013 Bridge Year and 2014 Test Year.

Table 2-15 Capital Expenditure Summary 2009 through 2018

	Historical (Actual)				Forecast (Planned)					
	Test-5 2009	Test-4 2010	Test-3 2011	Test-2 2012	Test -1 2013	Test 2014	Test +1 2015	Test +2 2016	Test +3 2017	Test +4 2018
	Actual	Actual	Actual	Actual	Forecast	Plan	Plan	Plan	Plan	Plan
Category	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
System Access	3,966	4,152	3,140	3,032	8,411	8,123	6,857	4,143	4,020	3,496
System Renewal	5,240	6,262	3,999	2,886	7,089	7,140	7,380	4,033	3,766	3,554
System Service	54	425	716	835	760	975	342	342	342	16,842
General Plant	1,257	1,436	2,187	10,108	2,864	3,817	2,169	2,135	2,270	2,060
Capital Contributions	(2,326)	(1,804)	(1,342)	(368)	(3,041)	(2,406)	(3,800)	(2,100)	(2,000)	(1,800)
Change in WIP	(118)	(576)	(338)	(3,011)						
Total	8,073	9,895	8,362	13,482	16,083	17,649	12,948	8,553	8,398	24,152
System O&M	3,376	3,448	3,769	5,428	4,665	5,343	5,240	5,036	4,929	4,820

CND's capital expenditures, including work in progress, are projected to be $16.1MM in the 2013 Bridge Year and $17.6MM in the 2014 Test Year. This compares to historical levels of between $8MM - $10MM, excluding Smart Meters, in 2009 through 2012. 2012 Actual capital expenditures of $16.5MM included approximately $8MM in Smart Meter investments transferred from the Smart Meter Capital variance account (1555) to capital asset account 1860 as a result of the Board's Decision on CND's Smart Meter Application (EB-2012-0086).

As part of the development of the DSP, CND has categorized its historical and 2013 Bridge Year and 2014 Test Year capital expenditures into four investment categories:

1. System Access Investments – modifications, including asset relocations, to a distributor's distribution system that a distributor is obligated to perform to provide a customer or group of customers with access to electricity services via the distribution system;

Changes in Accounting Estimates – Capitalization Policies:

As described in Exhibit 2, Tab 2, Schedule 2, CND revised its capitalization policies under CGAAP to reflect changes that would be required if CND were to adopt IFRS whereby only those costs directly attributable to the capital asset can be capitalized. Specific expenditures that are no longer included in the capital burden rates for CND include: (i) building maintenance costs; (ii) health and safety department expenditures; and (iii) municipal property taxes. In addition, costs incurred to remove an existing asset from service are to be expensed and are no longer eligible to be included in the capital cost of the new asset. The impact of this change in accounting policy resulted in an increase in OM&A of $761,382 in 2012. The impact for 2013 and 2014 are incremental costs of $343,723 and $243,558, respectively. The amounts for 2013 and 2014 vary as a result of the removal costs, which vary based on the nature of the capital expenditure program in any given year.

Table 4-9 summarizes the components of the incremental OM&A costs resulting from the change in CND's capitalization policies:

Table 4-9 Incremental OM&A – Changes in Accounting Estimates

	2012 Actual	2013 Bridge	2014 Test
Building Maintenance	131,135	172,913	186,368
Health and Safety	226,413	258,705	281,255
Property Taxes	70,581	72,652	74,832
Removal Costs	333,253	600,835	806,208
Total	761,382	1,105,105	1,348,663
Incremental Year over Year	761,382	343,723	243,558

Incremental Smart Meter and Time of Use Rates ("TOU") Costs:

As provided for in the Board's Decision on CND's Smart Meter Application (EB-2012-0086), the incremental increase to annual OM&A costs as a result of the implementation of Smart Meters and Time of Use rates was $360,000 in 2012. Expenditures are forecast to be $389,000 in 2013 and $399,000 in 2014. Operating expenses include: AMI fees, Sync operator fees, computer hardware and software maintenance fees.

31