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Ontario

BY E-MAIL

April 28, 2014

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Fort Frances Power Corporation
Application for Rates
Board File Number EB-2013-0130

In accordance with Procedural Order No. 1 and Order for Interim Rates issued on March 20, 2014, please find attached the Board staff interrogatories on the referenced application filed by Fort Frances Power Corporation.

Original Signed By

Martin Davies
Project Advisor, Electricity Rates & Accounting

Attachment

cc: Parties to EB-2013-0130 proceeding

Board Staff Interrogatories
2014 Cost of Service Rate Application
Fort Frances Power Corporation ("FFPC")
EB-2013-0130
April 28, 2014

1. Foundation

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

1.1-Staff-1
Ref: E2.Appendix 2A, p.97.

In the above reference, it is stated that:

> FPCC is working towards having all asset attribute and condition data linked to the assets themselves within the GIS system. […] In future iterations of the DS Plan FFPC, also plans to link risk ratings, health indexes and consequence of failure data to all individual assets.

a) Please indicate FFPC's anticipated timing for the achievement of each of the two stages referenced above and whether or not all asset groups will be covered by these two stages as they are completed.

b) Please state whether or not FFPC would anticipate that once the above referenced enhancements are in place, FFPC would be able to develop a process to determine the probability of failure at end of life for each asset and if so what such a process would encompass. If not, please explain why not.

1.1-Staff-2
Ref: E2/T3/S1, p.4 and E2.Appendix 2A, p.32 and *Electricity Distribution Licence* ED-2003-0028 Fort Frances Power Corporation.

With respect to the first reference, "Table 2-AA: Capital Projects Table" includes in the category "Mandated Service Obligations" Project 14-14-006 Elimination of Long Term Load Transfers in the amount of $371,739.

In the second reference, with respect to this project, it is stated that:

> There are currently fourteen (14) customers within FFPC's licensed electrical distribution service territory that are physically connected to and serviced by

> Hydro One Networks Inc.'s electrical distribution system…FFPC is planning on extending its feeders to eliminate the LTLT's in 2014, as per the requirements of the DSC.…The feeder expansions will unlock access to approximately 25% of FFPC's distribution service territory that is currently not developed."

a) Please provide verification that the 14 customers are in FFPC's licensed service area.
b) Have these 14 customers been described in FFPC's LTLT implementation plans filed with the Board? If not, why not? If so, please file the most recent implementation plan.
c) In typical LTLT arrangements, there is a settlement process between the physical and geographic distributors to true up any differences in the costs to serve the subject customers. Please confirm that there is no, and never has been, a settlement process between Hydro One and FFPC.
d) Please state whether or not FFPC has had any discussions with Hydro One Networks Inc. regarding the connection of these customers to FFPC and, if so, please comment on the status of these discussions. If not, please explain why not, including the basis for FFPC's belief that this project can be completed in 2014.
e) Please state which requirements of the DSC FFPC is referencing in the above paragraph.
f) Of the total expenditure of $371,739 anticipated for this project, please state how much of this amount is related to the connection of the 14 referenced customers and how much is related to unlocking access to the approximately 25% of FFPC's distribution service territory currently not developed.
g) What is FFPC's expectation for additional customers (beyond the 14 customers) to be connected to the new feeders in the next 5-years.

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

1.2-Staff-3
<u>Ref: E1/T1/S2, p.4</u>
It is stated that:

> During the summer of 2013, FFPC conducted an extensive customer satisfaction survey, which was instrumental in gauging satisfaction, identifying improvement opportunities and assessing future customer needs and wants.

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

Please state whether or not any forms of outreach other than the customer survey were employed to explain how the current application serves the needs and expectations of customers? If no others were employed, please explain why.

2. Performance Measures

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

2.1-Staff-4
Ref: E4/T1/S4, p.3
It is stated that "FFPC participates in market surveys in order to pay competitive salaries to its management staff to attract and retain talented employees."

Please state which market surveys FFPC participates in and how it made use of such surveys in determining compensation increases.

3. Customer Focus

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

3.1-Staff-5
Ref: E2/T3/S3, Table 2.3.1(b).
Capital expenditures for the past 5 years have averaged about $270,000 annually. The applicant's capital plan includes the planned expenditure of $820,000 on the capital program in the test year.

Chapter 5 of the Filing Requirements states, "A DS Plan filing must demonstrate that distribution services are provided in a manner that responds to identified customer preferences."

a) Please describe and quantify where possible the benefits that FFPC's customers will realize from this investment.

b) Please describe the alternatives to this capital investment that were assessed and rejected in favour of the proposed capital investment.

c) Please explain how the project reflects customer preferences identified through customer engagement.

3.1-Staff-6

Ref: E4/T1/S1, Table 4.2.1

FFPC is proposing significant OM&A increases of 16% in the Test year.

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

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

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

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

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

3.1-Staff-7

Ref: E4/T1/S1, Table 4.2.1

a) Please identify what improvements in services and outcomes the applicant's customers will experience in 2014 and during the subsequent IRM term as a result of increasing the provision for OM&A in 2014 at about twice the rate of increase experienced for the 2010 to 2013 period.

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

3.1-Staff-8

Ref: E2.Appendix 2A.(Appendix 3 – FFPC 2013 Customer Satisfaction Survey)

With respect to FFPC's 2013 Customer Satisfaction Survey:

Please state whether or not FFPC discussed in any of its communications with customers its intention to increase in the Test Year (2014) its planned investment in System Renewal over historical levels including the levels in the 2013 bridge year. If yes, please discuss the feedback received.

4. Operational Effectiveness

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

4.1-Staff-9

Ref: E1.T1.S8.p.3 (Table 1.8) and E2.App. 2A.p.322 and *Response to Board Staff Teleconference on April 4, 2014* to Board staff # 12

In the first reference, it is shown that for "Fully Dressed Wood Poles," FFPC's adopted useful life is 45 years which corresponds to the Kinetrics study mid-range for such an asset.

In the second reference it is stated that:

> The pace at which wood poles reach their end of useful service life is a function of their deterioration based largely on age and operating conditions that they are subjected to. FFPC will annually select the worst thirty (30) primary poles and twelve (12) secondary poles that are most likely to fail due to deterioration. One additional primary pole and secondary pole replacement have also been allocated annually, for unplanned circumstances [..].

In the third reference FFPC in regard to wood poles, highlighted various aspects including that:

- it currently only uses one kind (species) of wood pole – CCA Red Pine, with different classes and lengths depending on the application, and that over the last 10+ years FFPC has also standardized its wood pole supplier.

- FFPC determines whether to advance or delay pole replacement based on the results of its maintenance inspection and condition testing process that every wood pole is subjected to on a three year cycle via a composite score that is based its age and the results of the various inspection findings and condition test results.
- FFPC is currently working towards the formal assignment of health indexes to all major assets owned.

a) Please state how many primary and secondary poles reached the age of 45 years in 2014;
b) If this number is different from the 30 primary poles and 12 secondary poles discussed in the second reference, please comment on the reasons for the difference.
c) For FFPC's total population of existing wood poles, if there are any wood types other than CCA Red Pine in use: (i) please state what these wood types are, and what the approximate percentage split between them would be and (ii) please state how FFPC adjusts the useful lives of wood poles for different wood types, given that different wood types have varying strengths and thus varying expected useful lives
d) Please provide the assessment results of the 5 worst wood poles of the 42 wood poles identified for replacement, providing for each pole its type, the health index, its original expected useful life, and the adjusted useful life.

4.1-Staff-10

Ref: E2/T3/S1/p.4

The above reference reproduces Tables 2-AA: Capital Projects Table and 2-AB Capital Expenditure Summary for the years 2006 to the 2014 Test year.

The average capital expenditure level in the 2013-2018 is roughly two and a half times that of the 2006 to 2012 level of expenditures actually achieved.

Please state whether FFPC would anticipate any difficulties in delivering a capital program in the 2013-2018 period that is roughly two and a half times what is it has previously delivered. If FFPC believes there would be difficulties, please explain what they would be, or if FFPC believes there would not be any difficulties, please explain why not.

4.1-Staff-11

Ref: E2/T3/S3p.2, Table 2.3.1 (b) – Capital Projects – Period 2006 to 2014

The referenced table includes a "Miscellaneous" category for Capital Projects. This line item represents 15 to 30% of the total capital projects in the 2012 to 2014 period and is as high as the 50 to 60% range in some of the historical years.

Please explain why the "Miscellaneous" category represents such a significant component of the total projects.

4.1-Staff-12

Ref: E2.Appendix 2A.p. 185 and EB-2012-0064,T4.SB1.pp. 131 – 132

At the first reference, FFPC indicated that it intends to evaluate several service providers who perform analytical condition testing (determine cable insulation degradation profile,) as well as who offer cable rejuvenation services. FFPC notes that a common rejuvenation technique is silicone injection.

At the second reference, evidence in the noted proceeding discusses Toronto Hydro Electric System Limited's (THESL) experience with the cable injection option, stating that:

> In 2008, THESL completed a cable rejuvenation pilot job. Direct buried XLPE cable was injected with insulation rejuvenating fluids (such as silicon-based fluids). The pilot job was not as successful as THESL had anticipated. Based upon a qualitative analysis, it was determined that the cable injection process had a number of operational issues and drawbacks, including the need to locate and remove existing splices in cable circuits, the difficulties in accurately locating these splices, and the need for extremely long planned outages required to implement the cable injection procedures. A quantitative analysis was performed, which indicated that a very low percentage of cable assets would receive a positive net benefit from injection. It was concluded that cable injection was not an economically viable alternative to replacement. The detailed study of the cable injection pilot job has been included in Appendix C. [emphasis added].

a) Is FFPC aware of THESL's experience with the cable injection option? If so please discuss the THESL experience in the context of FFPC's possible use of a similar approach.
b) If FFPC was not to make use of the cable injection option, please discuss other alternatives which it might consider.

4.1-Staff-13

Ref: E2.Appendix 2A.pp. 320-321

The above reference includes details for 14 Capital Project forecasts, including:

- Fully Dressed Wood Pole Replacement Program;
- Overhead & Pad-Mounted Transformer Replacement Program;

- Primary UG Cable Replacement Program.

For the three asset groups referenced above, please provide for the 2011 to 2014 period in tabular form the annual replacement costs incurred and forecasted, assuming FFPC's historical "maintenance based approach" had been maintained rather than the capital rebuild approach which has now been adopted. Please include any necessary explanations.

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

4.2-Staff-14

Ref: E1/T1/S1, pp. 4-7.

It is stated that the amount of the benefit of the 1905 Agreement currently exceeds $2.2 million annually, but that the agreement is under constant attack from the owner of the generation assets.

It is further stated that costs associated with maintaining the benefits of the 1905 Agreement are not insignificant and three specific areas of unique costs are outlined.

Finally, it is stated that:

> FFPC believes its individual utility circumstance must be fully recognized when cost performance is compared to that of other LDC's. As such, operating, maintenance and administrative (OM&A) costs must be adjusted to reflect the unique operating circumstances, such that subsequent performance scores and ranking reflect "apples-to-apples" comparisons…
>
> …
>
> FFPC believes that its current performance scores derived from historic RRR supported OM&A cost data are flawed, as they include costs associated with the upkeep of the 1905 Historic Power Agreement, as well as costs associated with the upkeep and operation of a High Voltage Transformer Station, which prior to 2012 was improperly classified as a Distribution Station. FFPC's OM&A costs at face value essentially support three distinct business functions, which in essence have increased FFPC's scope. As such, synergies from this arrangements are best measured at the Total Bill level which encompass FFPC's unique circumstances and operating strategy.

a) Please quantify to the extent possible the additional costs that FFPC incurs that lead to the referenced flawed OM&A cost data by providing a breakdown of OM&A cost data for the 2014 Test year (and previous years, if available) between: (i) Distribution Business, (ii) 1905 Historic Power Agreement Upkeep Costs and (iii) High Voltage Transformer Upkeep Costs.

b) Please elaborate on the statement that the 1905 Agreement is under constant attack from the owner of the generation assets. Please state whether there are currently any ongoing legal proceedings related to the 1905 Agreement and, if so, what they are.
c) Please elaborate on the statement that synergies from the referenced arrangements are best measured at the Total Bill level and explain how this would impact FFPC's performance scores if they were adjusted in this fashion.

4.2-Staff-15
Ref: E1/T1/S2/p.9
In the above reference, it is stated that:

> The current level of effort exerted by FFPC's staff is not sustainable, and as such, FFPC is realigning its revenue requirement to fund additional resources (the addition of a Technical Customer Service Representative to staff, as well as more necessary services from third party service providers including Human Resources, Legal and IT expertise).

Please state the amount of expenses that are included in the 2014 Test year for the referenced third party service providers for Human Resources, Legal and IT expertise.

4.2-Staff-16
Ref: E1/T1/S6p.1
It is stated that "FFPC has always billed our customers monthly, but will now bill on the actual true calendar month consumption."

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

b) Please describe the Applicant's efforts to promote e-billing to its customers.

4.2-Staff-17
Ref: E4/T2/S4/p.5
FFPC has proposed 9% increases in headcount and 17% in employee compensation for the Test year relative to the 2012 actual levels.

a) What objectives has FFPC established for its operations?

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

4.2-Staff-18

Ref: E4/T2/S4/p.5

With respect to Appendix 2-K, please explain FFPC's compensation strategy. Please discuss how this strategy has resulted in a 25% increase in management and 9% increase in non-management compensation relative to the 2012 actual levels.

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

4.3-Staff-19

Ref: E2/T3/S1/p.4

FFPC's proposed level of capital expenditures of $820,000 is significantly higher than the typical level in the period 2009 to 2013.

a) In its annual capital planning and implementation for the years 2009 to 2014 did FFPC take into account the cumulative impact its capital expenditures would have on rates in 2014?

b) What changes ensued from these considerations?

5. Public Policy Responsiveness

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

5.1-Staff-20

Ref: E2.App. 2A.p.337 and *Response to Board Staff Teleconference on April 4, 2014* Board staff # 2

In the first reference, in regard to the "Over 50 kV Transformer Station - Renewable Enabling Improvements", FFPC indicates that it is seeking the recovery of two prior year capital investments totalling $62,673 for the completion of phases one and two of the conversion project.

At the second reference at page 5, it is stated that:

> FFPC has amended both Appendix 2-FA and Appendix 2-FB to include the recent updated project costs to Year End 2013 for a total of $53,757 in the 2014 column. The 'Total OM&A (Ongoing)' costs (cell C73) for Project 1 and Project 2 totaling $5,000 were removed as these costs are included in the 2014 Test Year OM&A Expenses listed in Appendix 2-JA.

a) Please reconcile the amount of $78,479 shown in the revised Appendix 2-FB (second reference), under 2014 for "Net Fixed Assets (average)" with:
   - the $53,756.55 shown in the revised Appendix 2-FA (second reference) under 2014 for projects 2011-2013; and
   - the $62,673 shown in the first reference.

b) Please state why if the $5,000 referenced above was included twice in the application as filed and is OM&A related to renewable generation connection investment, it would not be more appropriate for FFPC to remove this amount from the 2014 Test Year OM&A expenses listed in Appendix 2-JA rather than Appendix 2-FA. Please comment on whether or not FFPC's proposed approach, if accepted by the Board, would result in an appropriate recovery of renewable generation connection investments and, if so, why.

5.1-Staff-21

Ref: E2.Appendix 2A.p.337

In the above reference when discussing the project "Over 50 kV Transformer Station – Renewable Enabling Improvement," it is stated that a total investment of $167,000 for the period 2014-2018 (or $33,400 per year) involves "Digital & Numeric Remote SCADA" and that:

> The final objective of this multiyear project will be for the transformer station to be able to accommodate reverse power flow, as well as the deployment of a fully operational Remote SCADA system. The improvements will allow FFPC to monitor the performance of core station components, as well as of individual feeders […] It is important to note that FFPC is also seeking the recovery of two prior year capital investments, totaling $62,673, for the completion of phases one and two of the conversion

a) Please confirm that it is FFPC's intention that the total cost of this project, for the period 2014-2018, is to be allocated to the Renewable Enabling enhancements

b) If this is the case, please discuss why some of these costs should not be recovered through FFPC's distribution rates given that the deployment of a fully operational remote SCADA system is likely to result in OM&A cost reductions.

c) In the event that the Board was to determine that such a split in the cost recovery was appropriate, please provide any views FFPC may have on a methodology to be used to split the costs.

6. Financial Performance

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

6.1-Staff-22

Ref: E1/App. A

The Balance Sheet in FFPC's Audited Financial Statements for 2012 shows current investments in 2012 of $2.35 million and $2.97 million in 2011, representing 28% and 32% respectively of FFPC's total assets.

Note 1 to the Financial Statements states that these investments are money market and bond mutual funds and GICs with interest rates in 2012 in the 1% to 3% range.

Please state why FFPC maintains this level of current investments.

6.1-Staff-23

Ref: E5/T1/S1, p. 2.

It is stated that:

> FFPC has an accumulated deficit of $513,338 as stated in Shareholder Equity portion of FFPC's audited Financial Statements for the year ended December 31, 2012. With the approval of this application, FFPC is seeking to address this deficiency by rebuilding operating and capital reserves to support the ongoing business of FFPC. FFPC, when in an excess revenue position, allocates all funds to build up operating and capital reserves.

a) Please state for which periods since its last cost-of-service application was approved FFPC has been in an excess revenue position and, if so, by how much.

b) Please state whether in the event FFPC's application is approved by the Board as filed the accumulated deficit will be eliminated and if so by when.

c) Please state whether the rate relief requested in this application is expected to be sufficient to allow FFPC to avoid the development of another accumulated deficit in the period before FFPC's next cost-of-service application and, if not what actions FFPC would anticipate taking to deal with this matter.

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

6.2-Staff-24

Ref: E2.Appendix 2A.pp. 29-31, p. 258, p.337

At the above reference, on page 30, FFPC indicated that the total projected savings arising from its DSP over the planning horizon is $455,757. At the same reference on page 31, FFPC also indicated that:

- it has utilized its own internal resources towards the development of its GIS based Asset Management Process, Capital Planning Process as well as its DSP. The projected savings are estimated to be in excess of $250,000; and
- additional cost savings such as reduced maintenance costs and reduced distribution losses will also be achieved; however, they are more difficult to quantify with a high degree of confidence.

a) Please provide a breakdown of the cited cost savings of $250,000 between the three undertakings using internal resources referenced as generating the savings.

b) Please provide FFPC's best estimate as to the magnitude of the OM&A cost savings expected to occur as a result of its DSP implementation.

7. Revenue Requirement

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

7.1-Staff-25

Ref: E2/App. 2A/ p.40 and E2/T1/S1/p.4

In the first reference it is noted that FFPC is planning to transition to true calendar monthly billing with an anticipated 2014 rollout.

In the second reference it is noted that FFPC's working capital allowance in the Test year of 2014 is based on the 13% default level established in the Board's letter of April 12, 2012.

a) Please provide an update on the status of the monthly billing project and when implementation is expected.

b) Please comment on whether or not FFPC believes that the adoption of true calendar monthly billing will have any impact on the required level of its working capital allowance and, if so, what that impact would be. If not, please explain why not.

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

No Board staff interrogatories.

Issue 7.3: Are the proposed levels of taxes appropriate?

No Board staff interrogatories.

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

7.4-Staff-26
Ref: E4/T3/S1/p.2 and Response to Letter of Incomplete February 11, 2014, App. 2-N
In the first reference, it is stated that:

> FFPC has, over the past five years, determined the condition based physical plant characteristics during the conversion to GIS based mapping of all capital plant. FFPC shared GIS services with the Town of Fort Frances to minimize cost and overlap.

In the second reference it is stated that:

> FFPC pays for the hourly wage and benefits for GIS services of the Town of Fort Frances employee for actual hours worked at the request of FFPC.

Please state whether FFPC paid any of the acquisition costs for the GIS system, or any other costs aside from those noted in the second reference.

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

7.5-Staff-27
Ref: E5/T1/S1, p. 4.and EB-2012-0327 *Decision and Order* November 8, 2012, pp. 7-9.
In the first reference, it is stated that:

> FFPC is requesting a return on equity (“ROE”) for the 2014 Test year of 0.0%. FFPC has chosen a zero rate of return to preserve its benefits of the historic 1905 agreement….FFPC has elected to operate within a ‘not-for profit’ structure to ensure the safe guarding of the agreement on behalf of its customer base within the Town of Fort Frances….FFPC has no debt instruments within its capital structure.

In the second reference which is the Board’s Decision and Order related to FFPC’s application for smart meter cost recovery, it is stated that the Board approves FFPC’s proposal for a return on equity of 3%.

a) Please provide the provisions of the 1905 Agreement and the 1983 Supreme Court ruling on the agreement which FFPC believes require it to choose a zero rate of return to preserve the benefits of the 1905 Agreement.

b) Has FFPC considered other options for setting its revenue requirement on a not-for profit basis, such as the reserve fund approach approved by the Board in EB-2009-0387?

c) On what basis did FFPC seek a 3% ROE in the referenced smart meter cost recovery application.

d) Given that FFPC has no debt instruments within its actual capital structure, please provide rationale why it is appropriate for FFPC to use the Board’s deemed debt cost?

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

No Board staff interrogatories.

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

7.7-Staff-28
Updated RRWF
Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF in working Microsoft Excel format with any corrections or adjustments that FFPC wishes to make to the amounts in the previous version of the RRWF included in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

7.7-Staff-29

Updated Appendix 2-W, Bill Impacts

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

8. Load Forecast, Cost Allocation and Rate Design

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

8.1-Staff-30

Ref: E3/T2/S1/p. 2

In the above reference, it is stated that:

> In addition, Board staff and Intervenors expressed concern that the regression analysis assigned coefficients to some variables that were counter intuitive. For example, the customer variable would have a negative coefficient assigned to it which meant as the number of customers increased as the energy forecast decreased. Further, the regression analysis indicated that some of the variables used in the load forecasting formula were not statistically significant and should not have been included in the equation. FFPC has attempted to address these concerns in the load forecast used in this Application. As a result, variables such as Unemployment and Employment data in the Northwestern Region, FFPC CDM Activity and Number of Peak Hours were tested but not used since they had counter intuitive coefficients and/or they were not statistically significant.

For each of the variables in the above reference that were described by FFPC as being tested, but not used, please state whether it was because they had counter intuitive coefficients, or were not statistically significant. Please also include a brief explanation.

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

8.2-Staff-31

Ref: E7/T1/pp. 2-3

In the above reference, Table 7.1 Service Weighting Factors shows that for the General Service >50 kW class that while the OEB Default Factor is shown as 10, the FFPC Factor is shown as 0. It is subsequently stated that

"General Service >50 kW are not included in this cost pool as the service costs are borne by the customer in perpetuity."

Board staff is unclear as to what this means. Please provide additional explanation of the above statement.

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

8.3-Staff-32
Ref: E8/S2/p.1 and *Response to Board Staff Teleconference on April 4, 2014,* p.12

In the above reference, as amended by the second reference, it is stated that:

> The total bill impact for the Street Lights class is an increase of 8.97%. This increase is primarily due to increases in the Distribution Service Charge and Volumetric Rate to recover allocated costs. FFPC's Street Light rates have been historically lower than neighbouring LDCs and this slight rate increase realigns charges to closer to industry levels.

Please provide the basis for FFPC's conclusion that the proposed rate increase realigns charges closer to industry levels.

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

No Board staff interrogatories.

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

No Board staff interrogatories.

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

8.6-Staff-33
Tariff of Rates and Charges

The 3rd paragraph in the "Application" section of the tariff sheet for each rate class reads as follows:

> Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable.

Based on recent Tariff of Rates and Charges approved by the Board in 2013 rate applications, the above paragraph should be amended as follows:

> Unless specifically noted, this schedule does not contain any charges for the electricity commodity, be it under the Regulated Price Plan, a contract with a retailer or the wholesale market price, as applicable. In addition, the charges in the MONTHLY RATES AND CHARGES – Regulatory Component of this schedule do not apply to a customer that is an embedded wholesale market participant.

Please state whether or not FFPC has any concerns with the noted change to be applied to those classes for which the regulatory component applies, and if so, why.

9. Accounting

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

9.1-Staff-34
Ref: E9/T1/S1/p.1, ll 7-9 & DVA Continuity Schedule, Account 2425

FFPC has stated that the account balances per the DVA continuity schedule match the trial balance in the RRR filing with the exception of account 1595. However, Board staff notes that the balance in Account 2425 as reported for 2012 under RRR differs from the balance requested for disposition. The RRR 2.1.7 shows a balance in Account 2425 of -$106,480. The disposition per the DVA continuity schedule is for -$6,144.

a) Please reconcile and explain the difference.

b) Please describe the nature of transactions that have been recorded in Account 2425, Other Deferred Credits.

c) According to the Board 's EDDVAR report[1], at the time of rebasing, all account balances should be disposed of unless otherwise justified by the distributor or as required by a specific Board decision or guideline. Please provide reasons for the portion of Account 2425 that is being sought for recovery and why no disposition has been sought for the other portion.

9.1-Staff-35

Ref: E9/T1/S2/pp.6-8, Account 1508 – Sub-account IFRS Transition Costs

FFPC is applying for disposition of its December 31, 2012 balance in IFRS Transition Costs of $27,183 including carrying charges to April 30, 2014. FFPC has also stated that it is deferring implementation of IFRS until January 1, 2015, and that costs may be incurred in the future as FFPC completes its transition to IFRS. FFPC has also requested continuation of IFRS transition costs sub-account 1508.

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

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

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

a) Given that FFPC's IFRS adoption will be on January 1, 2015 and given Section.2.12.3 of the 2014 filing requirements, please explain why FFPC is seeking disposition of the balance in its current rate application instead of requesting disposition in the next rate proceeding when the IFRS transition period is complete.

[1] Report of the Board dated July 31, 2009 (EB-2008-0046) on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), page 13

b) Please indicate whether or not FFPC has any IFRS transition costs built into its OM&A in the current application. If so, please confirm that the difference between what is included in rates and the actual costs would be recorded in this account.

9.1-Staff-36
Ref: E9/T1/S2/p.9, Accounts 1518 and 1548

FFPC has stated that it does not track the variances in the Account 1518, Retail Settlement Variance Account – Retail and Account 1548, Retail Settlement Variance Account – Service Transaction Request.

According to the APH Article 490, page 4:

> A distributor must establish at least two variance accounts for the purpose of recording variances between reasonable costs incurred for the provision of retail services and the rates for these services in their Board-approved rate order. These are:
>
> i. A Retail Cost Variance Account for Retail Services ($RCVA_{Retail}$), and
> ii. A Retail Cost Variance Account for Service Transaction Requests ($RCVA_{STR}$)

a) Please provide an explanation for not recording balances per the APH.

b) Please quantify the estimated variance in Accounts 1518 and 1548 had FFPC followed the APH.

9.1-Staff-37
Ref: E9/T1/S2/p.12, Account 1592

FFPC is requesting an exception from recording any tax variances in account 1592 – PILs and Tax Variance for 2006 and Subsequent Years due to its not-for-profit status and rate minimization strategy.

Board staff notes that FFPC had Shared Tax Savings Adjustments in its 2012 and 2013 IRM proceedings (EB-2012-0146 and EB-2012-0083).

a) Please describe the nature of these shared tax savings.

b) Board staff notes that FFPC's approach to account 1592 and its approach to its IRM applications are not consistent. Given that FFPC had shared tax savings adjustments in its rates in 2012 and

2013, please explain why FFPC believes that going forward, there would be no tax variances that would need to be captured in account 1592.

9.1-Staff-38
Ref: E9/T3/S3/ Tables 9.15 and 9.17

As a result of the Board's decision with respect to FFPC's stand-alone smart meter cost recovery application EB-2012-0327, FFPC was approved Smart Meter Disposition Riders to recover the net deferred historical revenue requirement and Smart Meter Incremental Revenue Requirement Rate Riders to recover the ongoing incremental revenue requirement for smart meters until FFPC Power rebased its rates through a cost of service application. The utility is doing so in this Application.

FFPC's existing approved distribution rates are based on a revenue requirement based on the 2006 EDR cost of service methodology and include the recovery of costs for conventional meters now stranded through replacement by smart meters for residential and GS < 50 kW customers. As such, FFPC's distribution rates recover the return of (i.e., depreciation expense) and return on capital for conventional meters, until they are rebased through this Application.

a) In Table 9.15, FFPC shows no increase in accumulated depreciation from end of 2012 to 2013. Please explain why.

b) Please update Tables 9.15 and 9.17 to reflect the depreciation expense that would have been recovered in FFPC's distribution rates to December 31, 2013. Please provide these two tables in working Microsoft Excel format, if available.

9.1-Staff-39
Ref: E9/T3/S6 Accounting Changes under CGAAP and Account 1576 (Appendix 2-EE)

FFPC has requested a refund of -$114,729 to customers for Account 1576. FFPC has stated that it made changes to its depreciation and capitalization policies effective January 1, 2013.

a) Board staff notes that the Net Additions under CGAAP and under revised CGAAP are the exact same amounts for 2013 (i.e. an amount of $256,922). Given this, please state the changes that were made by FFPC to the capitalization policy effective January 1, 2013, and their impact on PP&E in 2013.

b) Please update the 2013 forecast figures in Appendix 2-EE if necessary and provide the reasons for the update (i.e. adjustments identified, audited by external auditor).

Issue 9.2: Have all impacts of any changes in accounting standards, policies, estimates and adjustments been properly identified, and is the treatment of each of these impacts appropriate?

No Board staff interrogatories.