

**Ontario Energy Board**

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

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

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**ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")  
CROSS-EXAMINATION COMPENDIUM**

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9.2-Staff-39

**INTERROGATORY**

- **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?*

**Ref: Exhibit 9/Tab 2/Schedule 1/ Pages 13 – 16; Appendix 2-ED; Appendix 2-CO;**

**Appendix 2-CP;**

**Exhibit 2/ Tab 2/ Schedule 3/ Page 1;**

**Exhibit 4/ Tab 2/ Schedule 1/ Page 15 – Account 1576**

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

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

**Table 9-9 Calculation of Account 1576 for 2012**

<b>1. Depreciation: IFRS vs. CGAAP</b>			
2012 Depreciation under IFRS		\$4,922,357	
2012 Depreciation under CGAAP		\$6,850,557	
	Difference	(\$1,928,200)	(\$1,928,200)
<b>2. Costs No Longer Eligible for Capitalized</b>			
	Burden - Safety and Health Department		\$226,413
	Burden - Building Expense Reallocation		\$131,135
	Burden - Municipal Taxes		\$70,581
	Removal Costs		\$333,253
			-----
	Balance in Account 1576 at December 31, 2012		(\$1,166,818)

**Table 9-10 Calculation of Account 1576 for 2013**

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

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

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

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

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

**RESPONSE**

Attached is the update to Appendix 2-ED and relevant tables in the evidence to incorporate the 2013 actual figures, subject to audit:

**Updated Table 9-10 Calculation of Account 1576 for 2013 Actuals (Subject to Audit)**

<b>Accounting Changes Under CGAAP</b>			
1.	Depreciation IFRS vs CGAAP		
	2013 Depreciation under IFRS	\$4,190,292	
	2013 Depreciation under CGAAP	7,370,318	
	Difference	<u>(3,180,026)</u>	(3,180,026)
2.	Costs No Longer Eligible for Capitalization		
	Burden - Safety and Health Department		251,124
	Burden - Building Expense Reallocation		153,978
	Burden - Municipal Taxes		68,721
	Removal Costs		639,000
	Balance for 2013		<u>(2,067,203)</u>
	Add balance from 2012		<u>(1,166,818)</u>
	Balance in Account 1576 at December 31, 2013		<u><u>(3,234,021)</u></u>

**Account 1576 - Accounting Changes under CGAAP  
2012 Changes in Accounting Policies under CGAAP**

Reporting Basis									
Forecast vs. Actual Used in Rebasing Year									
	2010 Rebasing Year	2011	2012	2013 Actuals, Subject to Audit	2014 Rebasing Year	2015	2016	2017	2018
	CGAAP	IRM	IRM	IRM	CGAAP - ASPE	IRM	IRM	IRM	IRM
	Forecast	Actual	Actual	Forecast	Forecast				
			\$	\$	\$	\$	\$	\$	\$
<b>PP&amp;E Values under former CGAAP</b>									
	Opening net PP&E - Note 1								
	Net Additions - Note 4								
	Net Depreciation (amounts should be negative) - Note 4								
	<b>Closing net PP&amp;E (1)</b>								
<b>PP&amp;E Values under revised CGAAP (Starts from 2012)</b>									
	Opening net PP&E - Note 1								
	Net Additions - Note 4								
	Net Depreciation (amounts should be negative) - Note 4								
	<b>Closing net PP&amp;E (2)</b>								
<b>Difference in Closing net PP&amp;E, former CGAAP vs. revised CGAAP</b>									

Closing balance in Account 1576	(3,234,021)	
Return on Rate Base Associated with Account 1576 balance at WACC - Note 2	(213,445)	
<b>Amount included in Deferral and Variance Account Rate Rider Calculation</b>	<b>(3,447,466)</b>	
		<b># of years of rate rider disposition period</b>
		<b>1</b>
		<b>WACC</b>
		<b>6.60%</b>

- 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

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
		<b>\$600,835</b>	<b>\$806,208</b>

7.5-Energy Probe-30

**INTERROGATORY**

**Ref: Exhibit 5, Tab 2, Schedule 2 &**

**Exhibit 5, Tab 4, Schedule 1**

- a) Table 5-4 in Exhibit 5, Tab 4, Schedule 1 shows the calculation of the requested long term debt rate of 4.96% and is based on the two promissory notes shown. However, the amended evidence at page 2 of Exhibit 5, Tab 2, Schedule 2 indicates that the long term debt rate is calculated based on the two promissory notes as noted above, but also the application of the Board's deemed rate to the unfunded long term debt. Please reconcile.

**RESPONSE**

Please see CND's response to Board staff interrogatory 7.5-Staff-21.



- b) Table 5-2 shows that there is a forecasted amount of deemed long term debt in excess of \$36 million in the test year. Given the significant amounts of capital expenditures that have taken place and are forecast to take place, please explain why CNDHI is not forecasting the addition of any incremental third party long term debt.

**RESPONSE**

CND has not forecasted any incremental third party long-term debt in 2014 Test Year as CND expects that it will be able to fund its capital expenditures in 2014 with its cash flow from operations, existing cash and cash equivalents, and short-term bank indebtedness. As at December 31, 2013, CND had approximately \$8.8MM in cash and cash equivalents and also has available to it an \$8MM operating line of credit.

c) How will CNDHI finance the increase in rate base?

**RESPONSE**

As noted in response to b), CND intends to finance the increase in rate base in 2014 with its existing cash and cash equivalents, cash flow from operations, and its operating line of credit.

CND intends to update its financing plan from year-to-year on a going forward basis. No decisions about future financing plans beyond 2014 have been made at this time.

- d) Has CNDHI had any discussions with third party lenders, such as chartered banks or Infrastructure Ontario about obtaining additional long term financing? If yes, please provide all details and correspondence related to the discussions.

**RESPONSE**

CND has had introductory discussions with chartered banks and a financial institution with respect to its long-term debt financing requirements as it pertains to the proposed rate base and capital structure as outlined in the Application. The discussions were of an introductory nature whereby CND introduced its new President and CEO and Chief Financial Officer (“CFO”), and provided a general overview of CND’s operations and its financial position. CND’s CFO also participated in an introductory meeting with Infrastructure Ontario in early 2013, which provided the CFO an opportunity to understand the nature of financing that may be available to CND in the future through Infrastructure Ontario. There were no materials or correspondence exchanged in these discussions, other than marketing materials provided by Infrastructure Ontario.

- d) Please show the calculation of interest income (Table 3-41) for each of 2012, 2013 and 2014 including the average cash balance and the average interest rate for the year.

## **RESPONSE**

The following table summarizes the components of interest income for each of 2012, 2013, and 2014, including the computation of the average cash balance and the average interest rate for the year in relation to the average cash balance:

		<b><u>2012</u></b>	<b><u>2013 Bridge</u></b>	<b><u>2013 Subject to Audit</u></b>	<b><u>2014</u></b>
Investment Income	(A)	161,517	104,000	152,074	52,712
OEB Carrying Charges		332,327	189,990	64,069	-
		<u>493,844</u>	<u>293,990</u>	<u>216,143</u>	<u>52,712</u>
Average Bank Balances					
Opening	(B)	12,183,336	10,727,000	14,607,183	9,291,000
Closing	(C)	14,607,183	9,291,000	8,854,853	-
Average	(D)	<u>13,395,260</u>	<u>10,009,000</u>	<u>11,731,018</u>	<u>4,645,500</u>
Avg. Interest Rate (=A/D)		1.21%	1.04%	1.30%	1.13%

1 ***Long-term Debt Rate:***

2 CND is requesting a weighted average rate of 4.96% on Long Term Debt for the 2014 Test  
3 Year. The 4.96% is computed based on the weighted average of the following:

4 a) The actual rate of 4.962% on the \$35,000,000 Promissory Note payable to Sun Life  
5 Assurance Company of Canada;

6 b) The actual rate of 4.993% on the \$3,019,708 unsecured Promissory Note payable to the  
7 Corporation of the Township of North Dumfries; and

8 c) The rate of 4.12% on the amount of deemed debt in excess of the actual long-term debt  
9 obligations of CND. The rate of 4.12% is the Deemed Long-term Debt Rate in  
10 accordance with the Cost of Capital Parameter Updates for 2013 Cost of Service  
11 Application issued by the OEB on February 14, 2013. CND understands that the Board  
12 will provide future updates to the Cost of Capital parameters applicable to 2014 Cost of  
13 Service Applications. CND's use of a weighted average long term debt rate of 4.12% is  
14 without prejudice to any revised Long-Term Debt Rate that may be adopted by the Board  
15 in early 2014.

16 CND has a \$35,000,000 unsecured Promissory Note payable to Sun Life Assurance  
17 Company of Canada ("Sun Life Promissory Note") bearing interest at 4.962% per annum,  
18 and maturing November 2020. CND requests a debt rate of 4.962% with respect to the  
19 Sun Life Promissory Note. Such rate was approved in the 2010 Cost of Service  
20 Application Decision. There have been no changes to the terms of the Sun Life  
21 Promissory Note since this Decision. A copy of the Sun Life Promissory Note is provided  
22 in Appendix 5-1 to this Exhibit.

23 CND has a \$3,019,708 unsecured Promissory Note payable to the Corporation of the  
24 Township of North Dumfries ("Township Promissory Note") bearing interest at 4.993% per  
25 annum, and is payable on demand. CND requests a debt rate of 4.993% with respect to  
26 the Township Promissory Note. Such rate was approved in the 2010 Cost of Service  
27 Application Decision. There have been no changes to the terms of the Township

Promissory Note since this Decision. A copy of the Township Promissory Note is attached in Appendix 5-1 to this Exhibit.

CND also has intercompany debt in the amount of \$3,665,000 owing to its corporate holding company, Cambridge and North Dumfries Energy Plus Inc. ("CND Energy Plus"). This amount represents cash that was advanced by CND Energy Plus, was combined with CND's cash, and is invested in short-term GICs or similar low risk investments. By combining the surplus funds available within the corporate group of companies, a higher interest rate is earned than may be possible if each company invested independently. No net interest expense is recorded by CND on this intercompany debt as the amount of interest expense on the intercompany debt is equivalent to the proportion of interest income earned on the \$3,665,000 as a percentage of the total cash investment for the corporate group of companies. This investment strategy has been in place since February 2009.

The amount of deemed debt in excess of the current long-term debt is computed as the amount of Deemed Long-term Debt less the amount of the Sun Life Promissory Note and the Township Promissory Note, which is \$36,157,060.

Table 5-2 provides of the computation for the amount of deemed debt which is in excess of CND's current long term debt.

**Table 5-2 Deemed Debt in Excess of Current Long Term Debt**

Deemed Debt in Excess of Current Long Term Debt		
Deemed Long Term Debt Percentage	56.00%	A
2014 Rate Base	\$132,458,506	B
Deemed Long Term Debt	\$74,176,763	C = A * B
Actual Long Term Debt	\$38,019,703	D
Deemed Debt in Excess of Current Long Term Debt	\$36,157,060	E = C - D



CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

**Notes to Financial Statements (continued)****(In thousands of dollars)****Year Ended December 31, 2013****7. Pension and other post-employment benefits (continued)****(b) Other post-retirement benefits**

Reconciliation of accrued benefit obligation:

	2013	2012
Accrued benefit obligation (ABO)	\$ 1,917	\$ 2,319
Unfunded ABO	(1,917)	(2,319)
Unrecognized (gain) loss	(209)	184
Accrued benefit liability	\$ (2,126)	\$ (2,135)

**8. Related party transactions**

Intercompany debt comprises:

	2013	2012
Township of North Dumfries 4.993% unsecured promissory note, interest payable quarterly, principal due on two months demand notice and payable to related party	\$ 3,020	\$ 3,020
Energy Plus intercompany loan	3,667	\$ 3,720
	\$ 6,687	\$ 6,740

**(a) Township of North Dumfries**

During the year, interest of \$151 (2012 - \$151) was paid to Township of North Dumfries.



CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

**Notes to Financial Statements (continued)****(In thousands of dollars)****Year Ended December 31, 2013****8. Related party transactions (Continued)****(b) Cambridge and North Dumfries Energy Plus Inc.**

During the year, interest of \$152 (2012 - \$51) was paid to Energy Plus on the intercompany loan.

The Company provided the following services to Energy Plus during the year:

	2013	2012
Management fees	\$ 11	\$ 11
Accounting and administration fees	\$ 6	\$ 6

**(c) The Company provided the following goods and services to Cambridge and North Dumfries Energy Solutions Inc., an unregulated wholly-owned subsidiary company of Energy Plus:**

	2013	2012
Maintenance of street lights	\$ 276	\$ 353
Management fees	\$ 11	\$ 11
Accounting and administration fees	\$ 12	\$ 12

**9. Capital stock**

	2013	2012
Authorized		
Unlimited common shares		
Issued		
1,001 common shares	\$ 38,224	\$ 38,224

**10. Dividends**

In 2013, the Company declared and paid a dividend to its shareholders in the amount of \$2,621 (2012 – \$2,948).



1	<b><u>OM&amp;A - Excludes Property Taxes</u></b>					
2		Old CGAAP	Old CGAAP	Old CGAAP	New CGAAP	New CGAAP
3		<u>2010 BA</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
4	Final as Filed (1)	10,032,108	9,580,557	10,762,423	12,017,643	13,788,894
5	4-2-Energy Probe-13					14,997,103
6	7.4-VECC-32					57,400
7	Settlement Agreement - RRWF					-117,600
8		10,032,108	9,580,557	10,762,423	12,017,643	13,788,894
9	Adj. for Smart Meter Decision (2)	524,903	524,903	696,770		14,936,903
10	Final as Filed after Smart Meter Adj.	10,557,011	10,105,460	11,459,193	12,017,643	13,788,894
11						
12	4.2-Energy Probe-13 - Regulatory costs to be recovered					-287,000
13	4.2-SEC-25 One Time Cost for Space Study					-200,000
14	Final as Filed after Smart Meter Adj. & One Time Costs	10,557,011	10,105,460	11,459,193	12,017,643	13,301,894
15						10.7%
16						12.3%
17						
18	Adjustment For Accounting Change (3)	0	0	0	-428,129	-473,823
19	Final as Filed Adjusted to Old CGAAP	10,557,011	10,105,460	11,459,193	11,589,514	12,828,071
20			-4.3%	13.4%	1.1%	10.7%
21				8.5%		12.2%
22	Customers (4)	50,550	50,262	51,166	51,712	52,663
23						53,634
24	New CGAAP OM&A per Customer				232.40	261.83
25	percentage change					12.7%
26						6.4%
27	Adj. Old CGAAP OM&A per Customer	208.84	201.06	223.96	224.12	243.59
28	percentage change		-3.7%	11.4%	0.1%	8.7%
29						10.2%
30						
31						
32	(1) 4.2-Energy Probe-14, includes					
33	- unaudited actual for 2013					
34	- removal of Smart Meter Decision costs from 2012					
35	(2) Smart Meter Decision 4.2-Energy Probe-7C					
36	(3) Ex. 4, Tab 2, Sch 1, Table 4-9 & 4.2-VECC-7					
37	(4) Ex. 4, Appendix 4-4					

**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
<b>Reporting Basis</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>
<b>Opening Balance</b>	\$ 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
<b>Closing Balance</b>	\$ 9,580,557	\$ 10,762,424	\$ 13,343,059	\$ 14,270,564	\$ 14,997,102

#### 4.2-Energy Probe-16

### INTERROGATORY

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

Please update Tables 4-20 and 4-25 to reflect actual data for year-end 2013.

### RESPONSE

CND has updated Table 4-20 with actual data for year-end 2013.

**Table 4-20**

Department	2010	2011	2012	2013 Bridge	2013 Actual	2014 Test	Increase/ (Decrease) 2014 vs. 2010
Executive /Administration/HR	8	8	8	9	10	10	2
Finance	6	6	6	6	6	7	1
Customer Care	15	17	17	17	17	17	2
Communications	-	-	1	1	1	1	1
Engineering	15	15	15	22	20	22	7
Operations	32	34	34	37	35	39	7
ITS	3	4	3	5	4	5	2
Billing/Metering/CDM	10	10	13	15	16	16	6
Total	89	94	97	112	109	117	28

CND has updated Table 4-25 with actual data for year-end 2013.

**Table 4-25**

	Last Rebasing Year (2010 Board-Approved)	Last Rebasing Year (2010 Actuals)	2011 Actuals	2012 Actuals	2013 Bridge Year	2013 Actuals	2014 Test Year
Number of Employees (FTEs including Part-Time)							
Management	20.0	19.1	20.2	21.2	22.6	21.9	25.0
Non-Management	70.7	65.7	68.8	73.8	81.3	78.7	91.5
<b>Total</b>	<b>90.7</b>	<b>84.8</b>	<b>89.0</b>	<b>95.0</b>	<b>103.9</b>	<b>100.6</b>	<b>116.5</b>
Increase over Prior Year			4.2	6.0	8.9	5.6	15.9
Increase 2014 over 2010 Board Approved							25.8