EB-2015-0083

Ontario Energy Board

Kingston Hydro Corporation

Application for electricity distribution rates for the period from January 1, 2016 to December 31, 2020.

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

August 20, 2015

KINGSTON HYDRO CORPORATION
2016 -2020 CUSTOM IR APPLICATION
EB-2015-0083

ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES

EXHIBIT 1 – ADMINISTRATIVE

1-Energy Probe-1

Ref: Exhibit 1, Tab 3, Schedule 1, page 16

Is the list of adjustments proposed for 2017 through 2020 shown at lines 5 through 15 a complete list of the adjustments proposed by Kingston Hydro? If not, please provide a complete list of proposed adjustments.

1-Energy Probe-2

Ref: Exhibit 1, Tab 3, Schedule 1, pages 15-16

a) On page 15 it states that the long term debt rate for 2017 through 2020 would be approved as part of this proceeding, while on page 16 it states that the cost of capital would be updated as part of the annual process. Please explain fully, including the adjustment (or not) of the average rate for embedded long term debt.

b) Please explain how the PILS recovery amounts for 2017 through 2020 can be approved in this proceeding (page 15), when Kingston Hydro proposes adjustments to the cost of capital and tax rates as part of the annual process (page 16).

c) Does the change in tax rates include changes in the corporate tax rate, changes in CCA rates and classes and changes in tax credits? What else would the change in tax rates include?

1-Energy Probe-3

Ref: Exhibit 1, Tab 3, Schedule 1, page 13 &
Exhibit 1, Tab 7, Schedule 7

Please reconcile the different residential bill impacts shown on the above two references. Is the difference due solely to deferral and variance accounts?

1-Energy Probe-4

Ref: Exhibit 1, Tab 5, Schedule 1, Attachment 4

Kingston Hydro has a letter of credit noted in Note 6(c) of the 2014 Audited Statements on page 18 required to meet the requirements of the IESO.

a) **What is the forecasted cost of this letter of credit in 2016?**

b) **Where has this cost been included in the 2016 revenue requirement?**

1-Energy Probe-5

Ref: EB-2014-0002 Settlement Agreement dated September 22, 2014

a) **Please comment on the acceptability to Kingston Hydro of the Efficiency Adjustment included in the Horizon Utilities settlement agreement as described on pages 31-32 of that agreement.**

b) **Please comment on the acceptability to Kingston Hydro of the Capital Investment Variance Account included in the Horizon Utilities settlement agreement as described on pages 32-35 of that agreement.**

c) **Please comment on the acceptability to Kingston Hydro of the Earnings Sharing Mechanism included in the Horizon Utilities settlement agreement as described on pages 29-30 of that agreement**

EXHIBIT 2 – RATE BASE

2-Energy Probe-6

Ref: Exhibit 2, Tab 1, Schedule 1, Attachment 1

a) **Please explain why there are no contributions and grants shown for 2015 through 2020. If the contributions and grants have been included in the individual line items that add up to the total, please provide revised continuity schedules for 2015 through 2020 that reflect the gross additions by line item, offset by the contribution and grants shown in a separate line.**

b) **Please explain why the depreciation expense shown on both schedules for 2013 have different figures for the Total PP&E line and the Total line, whereas in all other years they are identical.**

c) Please confirm that Kingston Hydro does not have any fully allocated depreciation expense. If this cannot be confirmed, please provide a table that shows for 2011 through 2020 the total fully allocated depreciation and the amount that is capitalized and the amount that is expensed and included in OM&A.

2-Energy Probe-7

Ref: Exhibit 2, Tab 1, Schedule 1, Attachment 1

a) Please provide an updated continuity schedule for 2015 based on the latest year to date capital expenditures in 2015 along with the most current forecast for the remainder of the year.

b) If necessary, please provide updated continuity schedules for 2016 through 2020 that reflect the changes in 2015 plus any additional changes based on the most current forecast available.

2-Energy Probe-8

Ref: Exhibit 2, Tab 1, Schedule 4

Given the Board letter of June 3, 2015 setting the default WCA percentage to 7.5%, is Kingston Hydro going to continue with the option of choosing the default value, or does Kingston Hydro plan on filing a lead-lag study? If the latter, when does Kingston Hydro expect to file the study?

2-Energy Probe-9

Ref: Exhibit 2, Tab 2, Schedule 3, Attachment 1

Please provide a version of Appendix 2-AB that shows for each of 2010 through 2014 the budgeted capital expenditure amount for each year and the actual amount (already shown) as well as variance column in the same level of detail as shown in the table.

2-Energy Probe-10

Ref: Exhibit 2, Tab 2, Schedule 3, Attachment 2

Please provide an updated Appendix 2-AA (for 2015 only) that reflects actual expenditures to date in 2015 along with the most recent forecast for the remainder of the year. Please also include a column that shows for each project the projected in-service date for each discrete project.

2-Energy Probe-11

Ref: Exhibit 2, Tab 2, Schedule 8

Please confirm that each of the projects shown in Table 1 was complete and placed into service by the end of 2014. If this cannot be confirmed, please indicate when the project was completed and placed into service and the total cost associated with the project at the time of completion.

2-Energy Probe-12

Ref: Exhibit 2, Tab 2, Schedule 3, Attachment 2

Please provide a table in the same format at Appendix 2-AA that shows the capital projects forecast for 2016 through 2020 broken down by project within each of the system access, system renewal, system service and general plant categories.

EXHIBIT 3 – OPERATING REVENUE

3-Energy Probe-13

Ref: Exhibit 3, Tab 1, Schedule 1, Attachment 1 &
Exhibit 4, Tab 2, Schedule 1, Attachment 3

Please explain the difference in the total number of customers shown in Appendix 2-IA and in Appendix 2-L.

3-Energy Probe-14

Ref: Exhibit 3, Tab 1, Schedule 4

Please update the cost of power and the working capital allowance to reflect the most recent rates available.

3-Energy Probe-15

Ref: Exhibit 3, Tab 2, Schedule 1

Please provide a set of tables that show the revenue at current rates (2015) for each of 2016 through 2020.

3-Energy Probe-16

Ref: Exhibit 3, Tab 1, Schedule 2, Attachment 1

a) Please confirm that the use of the trend variable would account for the reduction in volumes due to the historical CDM achieved through 2014.

b) Please explain how the continuation of the trend variable does not overlap with the CDM adjustments made for 2015 through 2020.

3-Energy Probe-17

Ref: Exhibit 3, Tab 1, Schedule 2, Attachment 1

a) Please estimate a residential kWh equation that includes the explanatory variables shown on page 5, along with the following 8 dummy variables where the dummy variable has a value of 1 in the specified month and 0 otherwise: January, April, May, June & July, August, September, October, November.

b) Please provide the regression statistics of the this equation similar to that found on page 5, along with a graph on page 6 and the table on page 6 including the annual and monthly MAPE statistics.

c) Please provide the resulting table on page 17 that reflects the change in the equation.

3-Energy Probe-18

Ref: Exhibit 3, Tab 1, Schedule 2, Attachment 1

Please explain why a negative coefficient on HDD in the large use equation is considered appropriate.

3-Energy Probe-19

Ref: Exhibit 3, Tab 1, Schedule 2, Attachment 1

Please explain why in the GS<50 equation, the forecast value of the trend value has been set to 0 for all of 2015 through 2020.

3-Energy Probe-20

Ref: Exhibit 3, Tab 3, Schedule 1, Attachment 1

a) Please explain why Kingston Hydro is not forecasting any change in revenues beyond 2015 for any of the categories listed except for interest and dividend income.

b) Please explain the difference in the figures provided in Appendix 2-H for each of 2016 through 2019 compared to the figures shown as revenue offsets on the revenue requirement sheet of each of the RRWF's.

c) Please provide, in the same level of detail as shown in Appendix 2-H, the most recent year-to-date figures available for 2015 along with the figures for the corresponding period in 2014. Please exclude regulatory debits (account 4305) from this calculation.

3-Energy Probe-21

Ref: Exhibit 3, Tab 3, Schedule 1, Attachment 1

If Kingston Hydro were to change the rates charged for any of the services provided that generate other operating revenue during the term of the Custom IR, such as the charge for pole rentals or the rates for specific service charges, would Kingston Hydro agree to apply for a variance account and record in that account any variance from the forecasted revenues built into the Custom IR forecast that are the result of changes in rates? If not, why not?

EXHIBIT 4 – OPERATING COSTS

4-Energy Probe-22

Ref: Exhibit 4, Tab 2, Schedule 1, Attachment 3

a) Please expand Appendix 2-L to include data for 2017 through 2020 based on the OM&A forecast increase of 2.0% for inflation less 0.3% productivity. Please ensure that the number of customers is consistent with the forecast in Exhibit 3.

b) Please provide the 2011 Board approved OM&A, number of customers and FTEs.

4-Energy Probe-23

Ref: Exhibit 4, Tab 1, Schedule 1

a) Is there any difference in the OM&A expenses shown because of the movement to MIFRS in 2015?

b) Please confirm that the $6,858,652 figure shown for 2015 on page 1 includes property taxes.

c) Please reconcile the 3% increase for 2016 above the $6,858,652 figure, or $7,064,412, with the figure shown in Appendix 2-JA of Exhibit 4, Tab 2, Schedule 1, Attachment 1, of a 4.0% increase in OM&A in 2016 over 2015.

d) Please confirm that the Bank of Canada aims to keep inflation at the 2% midpoint of an inflation control target range of 1 to 3%.

4-Energy Probe-24

Ref: Exhibit 4, Tab 2, Schedule 1, Attachment 2

For each of the following line items shown in Appendix 2-JB, please explain the cost included in the line item, and explain the changes noted below and indicate whether the change was a one-time cost or permanent change in the level of costs incurred:

a) $110,000 in 2013 for Document Standard Operating Procedures in Operations;

b) $147,000 in 2014 for Condition Assessment - Substation 1; and

c) $300,000 decrease in 2014 (followed by $300,000 increase in 2015) for Bell "Bell Fibre at the home" labour.

4-Energy Probe-25

Ref: Exhibit 4, Tab 2, Schedule 1, Attachment 2

a) There is an increase in 2013 of $185,000 for recognition of smart meter costs. Please provide a breakdown of the $185,000 that was booked in 2013 that shows the amounts incurred on an actual basis by year.

b) Please explain the $71,000 increase in rent in 2015.

c) Please explain the $53,000 increase in bad debt in 2015 and explain why it is expected to remain at this level in 2016 and beyond.

d) There is a material increase of more than $200,000 in the miscellaneous line in 2016. Please provide a more disaggregated breakdown of this amount.

4-Energy Probe-26

Ref: Exhibit 4, Tab 2, Schedule 1, Attachment 1

Please provide the most recent year-to-date actuals available for 2015 in the same level of detail as shown in Appendix 2-JA, along with the figures for the corresponding period in 2014.

4-Energy Probe-27

Ref: Exhibit 4, Tab 3, Schedule 2, Attachment 1

a) Please confirm that the total compensation charged to OM&A as shown in Appendix 2-K represents all of the labour related charges included in the total OM&A figures shown in Appendix 2-JA. If this cannot be confirmed, please explain fully.

b) Kingston Hydro has not provided a forecast beyond 2016 for employee costs. Please confirm that the ratio of total compensation charged to OM&A to total OM&A in 2016 is a good forecast of the ratio in 2017 through 2020. If this cannot be confirmed, please provide a forecast for this ratio and an explanation of the forecast.

c) The ratio of total compensation charged to OM&A (Appendix 2 – k) to total OM&A (Appendix 2 – JA) appears to have been in the range of 46% to 49% in 2011 through 2014, but falls to a level of 41% in 2015 and 2016. Please explain this decrease while at the same time the number of FTE's is forecast to rise from 47.32 in 2014 to 50.34 in each of 2015 and 2016.

d) The percent of the total employee costs has ranged from 69% to 80% in 2011 through 2014, but is forecast to fall sharply in 2015 and 2016 to 60%. Please explain what is driving the reduction in OM&A expenses and the corresponding increase in capitalization.

4-Energy Probe-28

Ref: Exhibit 4, Tab 3, Schedule 7

Please confirm that none of the $351,850 has been included in the historical year or 2015 OM&A forecasts shown in Appendix 2-JA. If this cannot be confirmed, please provide the amount included in each year.

4-Energy Probe-29

Ref: Exhibit 4, Tab 3, Schedule 9

Are the costs associated with any charitable donations other than LEAP included in the historical OM&A figures shown in Appendix 2-JA? If yes, please quantify by year.

4-Energy Probe-30

Ref: PILs Worksheet

a) Please explain why Kingston Hydro has placed the capital additions for meters in CCA Class 1 rather than Class 47 in each of 2015 through 2020.

b) Please explain why Kingston Hydro has placed the capital additions for computer software in CCA Class 50 rather than Class 12. Please explain what software is being purchased.

4-Energy Probe-31

Ref: PILs Worksheet

Please confirm that the expenditures related to the ICM expenditures were added to the CCA prior to 2015.

4-Energy Probe-32

Ref: PILs Worksheet &
RRWFs &
Appendix 2-BA

The depreciation expense added back into taxable income in each of 2016 through 2020 matches the depreciation expense shown in the Revenue Requirement sheet of the RRWF's. However, these figures are higher than the depreciation expense for each of 2016 through 2020 shown in the fixed asset continuity schedules found in Appendix 2-BA. Please provide a table that shows the difference for each year and explain what the difference is related to.

EXHIBIT 5 - COST OF CAPITAL & CAPITAL STRUCTURE

5-Energy Probe-33

Ref: Exhibit 5, Tab 1 Schedule 1, page 1

The evidence indicates that Kingston proposes to adjust the cost of capital parameters when the Board updates them for rates effective in the 2016 calendar year and each year of the custom IR period.

Does Kingston propose to adjust the deemed capital structure if the Board were to adjust the deemed capital structure as part of the update to the cost of capital parameters at some point during the custom IR period?

5-Energy Probe-34

Ref: Exhibit 5, Tab 1 Schedule 1, pages 4-5

a) Please confirm that for each of the proposed long term debt issuances shown on pages 4 and 5 for 2017 through 2020 (i.e. excluding the 2015 and 2016 issuances), the rates to be used will be updated based on the OEB deemed long term debt rate in effect in the fall of the year before the issuance as part

of the annual update. For example, the $1.0 million forecast for December 1, 2017 would be updated to the OEB's deemed long term debt rate as set by the Board in the fall of 2016. If this cannot be confirmed, please explain how the rate for the December 1, 2017 issue would be set.

b) Is the amount of each issuance in each year to be set as part of this application, or can the amount, and term, be adjusted each year as part of the annual update, in addition to the rate?

c) As part of each annual update, will the cost of the actual embedded debt be updated to reflect actual issuances and costs for the previous years? As an example, when the long term debt rate for 2017 is determined in the fall of 2016, will the cost of the embedded debt reflect the actual issuance and rates associated with 2015 mid-December loan and/or the December 1, 2016 loan? Please explain fully.

5-Energy Probe-35

Ref: Exhibit 5, Tab 1 Schedule 1, page 4

a) Will the forecast for the 2016 long term debt of $3.5 million to be executed on December 1, 2016 be updated based on the OEB deemed long term debt rate to be released in the fall of this year?

b) Is Kingston proposing any update for the mid-December 2015 issuance of $5 million from the April 25, 2015 Infrastructure Ontario rate of 3.39%?

5-Energy Probe-36

Ref: Exhibit 5, Tab 1 Schedule 1, Attachment 3

a) What was the Board's deemed long term debt rate when the Amended Promissory Note was signed on November 28, 2012?

b) Please confirm that the Amended Promissory Note is callable within the custom IR period.

c) Can Kingston Hydro pay off the affiliate debt if it so choses to do so?

d) If the response to (c) is yes, what are the penalties, if any, associated with repayment of the loan?

e) If the response to (c) is yes, has Kingston Hydro estimated the savings that could be had by replacing the affiliate loan with third party debt at the lower rates currently available in the marketplace today? If not, why not?

f) Please provide a copy of the demand promissory note earlier executed by Kingston Hydro Corporate to which the amended promissory note refers.

EXHIBIT 6 - REVENUE SUFFICIENCY/DEFICIENCY

6-Energy Probe-37

Ref: Exhibit 6, Tab 1, Schedule 1

Please confirm that the estimated revenue deficiencies calculated for 2017 through 2020 assume distribution revenues equal to 2016 distribution revenues and do not reflect any changes in the volume and customer forecasts provided in Exhibit 3.

6-Energy Probe-38

Ref: Exhibit 6, Tab 1, Schedule 1, page 5

a) Please confirm that 2017 through 2020 additional revenue deficiencies relative to the previous years do not take into account changes in distribution revenues resulting from changes in customer and volume forecasts.

b) Please provide live versions of the RRWF that calculate the revenue deficiency for each year based on the application of current (2015) rates to the forecast of customers and volumes in each year.

6-Energy Probe-39

Ref: Exhibit 6

Upon completion of the interrogatory responses, please provide updated RRWFs that reflect any and all changes made as a result of the responses to the interrogatories and any updates or corrections made to the evidence. Please include a live Excel version of each of the RRWF spreadsheets, including the tracking form that shows the changes made, the source of each change and the impact of each change. Please also make these RRWF's consistent with the RRWF's requested above that reflect the forecasted customers and volumes in each year in the calculation of the deficiency.

EXHIBIT 7 – COST ALLOCATION

7-Energy Probe-40

Ref: Exhibit 7, Tab 1, Schedule 1, Attachment 1

Please provide a revised Table 7 from Attachment 1 that shows the status quo revenue to cost ratios for all rate classes for each year shown, if the hourly load profiles prepared by Hydro One for the 2006 CAIF were used for all classes, including the Large Use class.

7-Energy Probe-41

Ref: Exhibit 7, Tab 1, Schedule 1, Attachment 1

a) **Has the cost allocation model been prepared based on the new cost allocation policy for the street lighting rate class that was issued by the Board on June 12, 2015? If not, please update the response to the previous interrogatory to also reflect the new cost allocation policy for the street lighting rate class.**

b) **Based on the response to part (a) above, please provide a revised Appendix 2-P summary table that shows by year the status quo and proposed revenue to cost ratios for all rate classes.**

7-Energy Probe-42

Ref: Exhibit 7, Tab 3, Schedule 2, Table 1 & Attachment 5

Please explain why Kingston is proposing to change the revenue to cost ratios for those ratios where the status quo figures are already within the Board approved ranges.

EXHIBIT 8 - RATE DESIGN

8-Energy Probe-43

Ref: Exhibit 8, Tab 1, Schedule 1, page 5

The Board released its decision on the implementation of a new rate design for electricity distributors on July 16, 2015. As a result of that decision, is Kingston proposing any changes to its proposal?

8-Energy Probe-44

Ref: Exhibit 8, Tab 4, Schedule 3, Attachment 1

a) Please provide a table that shows the bill impacts for the residential class only for levels of consumption of 100, 250, 500, 800, 1,000, 1,500 and 2,000 kWh, as detailed in Appendix 2-W.

b) Based on the most recent 12 months of billing data available, please provide a breakdown as to the number of residential customers that fall into the following ranges of monthly usage:

- **0-100 kWh**
- **>100 – 250 kWh**
- **>250 - 500 kWh**
- **>500 – 800 kWh**
- **>800 – 1,000 kWh**
- **>1,000 – 1,500 kWh**
- **>1,500 – 2,000 kWh**
- **>2,000.**

8-Energy Probe-45

Ref: Exhibit 8, Tab 4, Schedule 3, Attachment 1

a) Based on the bill impacts shown in Appendix 2-W for the street lighting class please explain why the revenue to cost ratio phase in is required beyond 2016.

b) Please confirm that the increase in 2016 rates is mainly the result of the recovery of the LRAMVA and deferral/variance account rate riders.

c) If both the LRAMVA and deferral/variance account balances were recovered over 5 years instead of 1, for the street lighting class only, what type of phase-in would be proposed by Kingston Hydro? Please indicate the impact on other rate classes of this proposal.

EXHIBIT 9 - DEFERRAL & VARIANCE ACCOUNTS

9-Energy Probe-46

Ref: Exhibit 9, Tab 1, Schedule 12, Attachments 1 & 2

a) Please explain why the net additions in Appendix 2-EC do not appear to match the additions in the continuity schedules for 2013, 2014 and 2015.

b) Please explain why the net additions shown for each of 2013, 2014 and 2015 in Appendix 2-EC are identical under both the former and revised CGAAP. Does this mean that there are no changes in capitalization between the two methodologies?

c) Please provide continuity schedules that show the net depreciation figures for 2014 and 2015 shown in Appendix 2-EC.

d) Please show the calculation of the 2013 opening net PP&E figure of $32,192,679 with respect to the figures shown in the 2012 and 2013 continuity schedules provided in Attachment 1.