

EB-2015-0107
**Pre-ADR Clarification Question (Energy Probe) Responses from Wasaga
Distribution Inc.**

2016 Cost of Service Rate Application
Wasaga Distribution Inc. (“Wasaga Distribution”)
January 18th, 2016

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Interrogatory Responses from Wasaga Distribution Inc.

**2016 Cost of Service Rate Application
Wasaga Distribution Inc. (Wasaga Distribution)
EB-2015-0107
December 22nd, 2015**

Exhibit 1 – Administration

1-Energy Probe-CQ 1

Reference: Energy Probe #8

- a) Does the reference to “their Consultants” in the response refer to consultants of the OEB or consultants employed by Wasaga Distribution?
- b) Please explain what is meant by “other than what has been provided by Wasaga Distribution from the Ontario Energy Board”? Is this in reference to base productivity and stretch factors employed by the Board in the price cap?

Wasaga Distribution Response:

- a) The reference was in response to the consultants of the Ontario Energy Board.
- b) Wasaga Distribution relies on the information provided by the Ontario Energy Board. Including, but not limited to the PEG report for productivity and efficiency measures, and the Kinectrics Asset Depreciation study.

Exhibit 2 – Rate Base

2-Energy Probe-CQ 2

Reference: Lead Lag Study, Page 3

Please explain what is meant by "this study has relied on board staff submissions".

Wasaga Distribution Response:

This was in reference to the June 3rd, 2015 Letter to All Licensed Electricity Distributors: Allowance for Working Capital for Electricity Distribution Rate Applications. Specifically Appendix A: "The following is a summary of the results of OEB staff analysis, based on its review of eight lead-lag studies provided to the OEB since 2010".

2-Energy Probe-CQ 3

Reference: Lead Lag Study, Page 5

- a) Please explain why WDI has and needs 3 billing cycles. Please explain why with smart meters used for residential and GS < 50 customers these rate classes need 2 billing cycles.
- b) What is the relevance of the size of the geographical service area for cycles 1 and 2?
- c) Please explain why the average billing dates for cycles 2 and 3 are so much higher than those for cycle 1 if they are all calculated from the service period end?
- d) What does WDI mean by ledgers and what is the relevance of 8 different ledgers in relation to the billing lag?

Wasaga Distribution Response:

Wasaga Distribution has provided below a table provided in EB-2014-0105. According to benchmarking studies Wasaga Distribution continues to compare favourably to other LDCs of similar size.

Distributor	# of Customer	OM&A/ Customer	DX Rev./ Customer	Gross PPE/ Customer	Net PPE/ Customer	Aging Ratio	Benchmarking Results					
							2010	2011	2012	2013	2014	3 Year
COLLUS PowerStream	16,426	\$277.87	\$414.81	\$2,017.70	\$972.76	48.21%	-8.2%	-9.5%	-1.2%	-12.3%	-14.2%	-9.2%
E.L.K. Energy	12,398	\$182.72	\$286.01	\$1,826.64	\$638.76	34.97%	-28.2%	-26.2%	-25.4%	-33.2%	-44.9%	-34.5%
Erie Thames	18,265	\$309.42	\$546.28	\$2,672.46	\$1,655.96	61.96%	14.9%	14.4%	3.9%	7.9%	7.0%	6.3%
Grimsby Power	11,038	\$255.05	\$385.82	\$1,926.56	\$1,689.30	87.68%	-23.1%	-18.6%	-9.6%	-16.9%	-17.3%	-14.6%
Innpower	15,790	\$333.71	\$514.35	\$4,945.40	\$2,938.67	59.42%	-7.1%	-6.2%	-2.4%	-2.8%	-2.8%	-2.7%
Lakeland Power	13,264	\$390.02	\$641.47	\$3,244.20	\$1,849.49	57.01%	na	na	-6.4%	-0.9%	-1.9%	-3.1%
Norfolk Power	19,559	\$368.79	\$608.96	\$2,893.41	\$2,850.02	98.50%	-1.8%	-2.6%	6.0%	1.2%	6.5%	4.6%
Orangeville Hydro	11,685	\$275.88	\$448.13	\$3,004.07	\$1,417.06	47.17%	-2.7%	1.6%	0.8%	0.1%	-4.0%	-1.0%
Orillia Power	13,340	\$347.90	\$644.48	\$3,116.24	\$1,615.83	51.85%	-3.5%	-1.9%	-3.7%	-4.7%	-5.3%	-4.6%
Ottawa River Power	10,820	\$266.93	\$394.14	\$2,557.23	\$809.21	31.64%	-2.9%	2.7%	0.0%	4.3%	-6.9%	-0.9%
St. Thomas Energy	16,918	\$243.83	\$423.35	\$3,025.06	\$1,507.99	49.85%	-6.4%	-4.5%	6.8%	-4.6%	-6.3%	0.1%
Wasaga Distribution	12,985	\$219.16	\$312.73	\$1,895.37	\$921.95	48.64%	-46.8%	-46.3%	-37.8%	-41.6%	-41.6%	-40.3%
Woodstock Hydro	15,745	\$260.77	\$540.39	\$3,334.39	\$1,804.54	54.12%	33.5%	32.9%	29.0%	25.9%	23.0%	25.9%
Averages	14,479	\$287.08	\$473.92	\$2,804.52	\$1,590.12	56.23%	-6.9%	-5.4%	-3.1%	-6.0%	-8.4%	-5.7%

Wasaga Distribution believes that internal process contribute to these results. As such, the response to the above question has been provide below with this in mind:

- a) Wasaga Distribution's 2 billing cycles (Residential, GS<50, an USL) provides Wasaga Distribution the opportunity to distribute the work load for process efficiencies. Phone calls, walk-in traffic, billing enquires, and collection

process workload are distributed more evenly because of the multiple billing cycles. Wasaga Distribution 3rd billing cycle is for all interval customers.

- b) The intent of this statement was to provide the reader of Wasaga Distribution's billing process and practices and assist the reader of the reason as to why there is a difference in customer count by cycle. However, the geographical sizes of the cycles are important for collection processes.
- c) Please see response to section (a). The cycles are generally, 1 week apart.
- d) The intent of this statement was to provide the reader of Wasaga Distribution's billing process. These ledgers were originally developed based on the old manual reads process. However, Wasaga Distribution still identifies customer accounts by ledgers.

2-Energy Probe-CQ 4

Reference: Lead Lag Study, Page 5

- a) Please illustrate the statement that "these are processed the week after the previous due date from the prior period" using the example of a residential customer that has their meter read on June 15. Based on this starting point, please show, based on the average billing, collection and payment processing lags the dates on which the invoices are billed, collected and deposited into the WDI bank account. Please also show the due date for this bill. Please then show the corresponding dates for the meter read of July 15.
- b) Does WDI use the standard due date of 16 days after the billing date, plus 3 days allowance for mail? If not, what does WDI use?

Wasaga Distribution Response:

- a) All of Wasaga Distribution due dates are either the 2nd or 3rd Tuesday of the month following the billing date. A read date of June 15th would never occur, unless it is a manual read which has resulted from a change in account, due to a move – which would not be a common occurrence.
- b) Please see response to section (a).

2-Energy Probe-CQ 5

Reference: Lead Lag Study, Page 6

- a) The evidence indicates that WDI has used 3 days to account for the processing, printing and mailing of the bill. Please explain the status of the billing prior to the addition of this 3 day lag. In other words, what has been done after 22.443 days (Table 1.4) given that the bill has not yet been processed?
- b) How many days after the end of the service period does WDI receive the information from the IESO it needs to start invoicing its customers?

Wasaga Distribution Response:

- a) Wasaga Distribution processes the bills and sends them electronically to a third party contractor for processing, printing and mailing.
- b) Approximately 3 weeks after the service period ends.

2-Energy Probe-CQ 6

Reference: Lead Lag Study, Page 7

- a) Approximately what percentage, based on revenues, of bills is paid by mail?
- b) Approximately what percentage, based on revenues, of bills are paid through payments made at banks or through online banking, including the one chartered bank noted in the payment processing discussion?
- c) Please confirm that payments made by customers at a bank or through online banking are not considered to have been made by mail. Energy Probe Supplemental IRs to Wasaga Distribution Inc. Page 4
- d) Do WDI's GS > 50 customers pay by mail or by direct deposit or some other form? Please explain fully and provide details if there is a combination of payment methods.

Wasaga Distribution Response:

Based on 2014 Actual Data:

- a) Wasaga Distribution is unable to provide this information at this time. However According to Section (b): All remaining payments less the \$14,000,000 are paid in the office or by cheque.
- b) Approximately \$14,000,000 was paid through online banking, Telebanking, and Pre-Authorized Payments. \$3,200,000 is processed through the one chartered bank noted.
- c) Wasaga Distribution can agree that if paid through online banking, then these payments are not mailed.
- d) Wasaga Distribution briefly looked into this data for GS>50 kW customers and approximately 10 customers pay by cheque, 23 pay by online banking and 4 pay by Visa. These payments are not always consistent and sometimes there is a combination of payments. Wasaga Distribution can confirm that there are 14 customers on Pre-Authorized Payments (which include all of the Town of Wasaga Beach Accounts)

2-Energy Probe-CQ 7

Reference: Lead Lag Study, Page 12

- a) Please confirm that the PILs payable for 2014 was \$44,455, as shown on the tax form. If this cannot be confirmed, please indicate the tax payable for 2014 and provide the source of this figure.
- b) When was the excess over the installment payments made in 2014 of \$37,800 made?

Wasaga Distribution Response:

- a) Wasaga Distribution agrees.
- b) May 19th, 2015.

Wasaga Distribution confirms that this was inadvertently omitted in the calculation of the PILs- Expense Lead. Due to rounding, this would not result in a change to the Working Capital allowance rate.

2-Energy Probe-CQ 8

Reference: Lead Lag Study, Page 13

- a) Does WDI have a monthly or quarterly reporting period for the HST?
- b) Please confirm that WDI is required to remit any net HST owing by the last day of the month following the end of the reporting period. If this cannot be confirmed, please explain.
- c) Please confirm that the HST is remitted to the government based on when the bills are issued to customers. For example, if a bill is issued in June, the associated HST is remitted to the government at the end of July. If this is not correct, please explain.
- d) Please confirm that the HST is based on when an invoice is received by WDI and that the credit is deducted from the amount remitted to the government at the end of the month following the reporting period. If this cannot be confirmed, please explain.
- e) With respect to Table 1.11, please indicate which line items attract HST and which items do not.

Wasaga Distribution Response:

- a) Wasaga Distribution has monthly reporting for HST.
- b) Wasaga Distribution confirms this is correct.
- c) Wasaga Distribution confirms this is correct.
- d) HST ITCs are deducted from the HST received. HST ITCs are recorded in the month the expense or purchase is related (or received), unless this is past month end cut-off (15th of the month) at which point it is recorded in the current month.
- e) With respect to Table 1.11 the following are subject to HST: Miscellaneous, Internet, Executive, Auditing, Legal, CHEC, USF, EDA, and Regulatory Expenses.

2-Energy Probe-CQ 9

Reference: Lead Lag Study, Tables 1.4, 1.5, 1.6 and 1.7

- a) Please explain why and how the total revenues shown in Table 1.4 of \$12.083 million can be lower than the IESO charges of \$13.439 million and the Hydro One charges of \$1.835 million.
- b) Does Table 1 include revenues for distribution and cost of power? If not, please provide a revised Table 1 that includes all revenues by rate class for distribution and cost of power.
- c) Please show how the average sales per month in Table 1.5 of \$1,952,784 relate to the total revenues shown in Table 1.4.
- d) Please show the calculations used to arrive at the pro-rate sales (yearly) of \$22,992,453 shown in Table 1.5 and please explain why this figure is different than the total revenue shown in Table 1.4.
- e) Please explain why the costs shown in Tables 1.6 and 1.7 do not match the cost of power figures shown in Table 2-15 in Exhibit 2. Please reconcile the total revenues shown in Table 1.4 with the figures shown in Table 3.1 in Exhibit 3 of \$3,556,761 and the total cost of power figure of \$14,506,669 shown in Table 2-15 of Exhibit 2.

Wasaga Distribution Response:

- a) This amount was used as a weighting to calculate the billing lag. According to the RRR filing 2.1.7: The sale of power was \$12.078 million (less WMS, NW, etc.). The difference of less than \$5,000 is not material.
- b) Wasaga Distribution is unclear on what is expected. However, Table 1.1 total expense includes over \$18 million in total expenses which would include all revenues less non cash expenditures and net income. Wasaga Distribution is unable to provide total revenue by rate class for 2014 at this time.
- c) Wasaga Distribution did not use total revenues as part of the weighting factor calculation for Table 1.4.
- d) Since based on a 31 day month the calculation was: $\$1,952,784 / 31 \text{ Days} * 12 \text{ Months}$. Wasaga Distribution did not use total revenue in Table 1.4. Please find total sales calculation in the table illustrated below:

Month	Account Receivable Total	Total Sales (\$) for month
Jan-14	1,432,323.03	\$ 2,023,115.03
Feb-14	2,032,779.57	\$ 1,686,688.37
Mar-14	1,822,408.06	\$ 1,668,946.91
Apr-14	1,831,277.77	\$ 1,297,893.15
May-14	1,494,860.48	\$ 1,316,557.38
Jun-14	1,451,229.35	\$ 1,495,334.08
Jul-14	1,474,820.21	\$ 1,159,295.60
Aug-14	1,544,081.63	\$ 1,594,477.69
Sep-14	1,481,805.62	\$ 1,417,703.59
Oct-14	1,284,424.73	\$ 1,351,116.55
Nov-14	1,251,470.39	\$ 1,644,077.85
Dec-14	1,470,881.43	\$ 1,882,452.32
Average A/R	1,547,696.86	\$ 18,537,658.52
Days Sales Calculation		11.98
Potential Collection Lag		30.47

- e) The difference between Tables 1.6 and 1.7 versus Table 2.15 in Exhibit 2 is that Table 1.6 and 1.7 shows the "actual" costs and Table 2.15 shows the adjusted cost of adjusting Cost vs. Sale of Power as required for reporting for Regulatory Purposes and the adjustment for year-end accruals. The difference between Table 1.4 and Table 3.1 in Exhibit 3 is that Table 1.4 only includes Revenue specific to WDI (i.e. Service Charge and Volumetric Revenue); whereas, Table 3.1 includes all Revenue (i.e. Service Charge, Volumetric, Sale of Power etc.).

Exhibit 3 – Operating Revenue

3-Energy Probe-CQ 10

Reference: 3-Energy Probe #11

The response indicates that WDI has updated the 2015 forecast for account 4360 to \$0 because the replacements are fully depreciated. Please explain why there is a significant jump in the loss still forecast for 2016.

Wasaga Distribution Response:

Wasaga Distribution updated the 2015 forecast due to not being able to replace any 1st generation smart meters in 2015. These meters will be replaced in 2016.

Exhibit 4 – Operating Expenses

4-Energy Probe-CQ 11

Reference: 4-Staff-46 & 4-Energy Probe-19

- a) Please reconcile the increases shown in response to part (b) of 4-Staff-46 with the growth rates that result from the increases for the grand total shown in 4-Energy Probe-19 for 2015 and 2016.

- b) Please show the calculation that results in the residential increase of \$35,963.65 in 2016 shown in the response to 4-Energy Probe-19 (a).

Wasaga Distribution Response:

- a) 4-Energy Probe-19 are the correct calculations.

- b) $\$35,963.65 = \$3,306,804$ estimated total residential distribution revenue divided by 12,505 Residential Customers * 170 New Services * 80%

4-Energy Probe-CQ 12

Reference: 4-Energy Probe-17

What regulatory activities have increased such that the costs in 2016 are forecast to be \$56,000 higher than they were in 2012?

Wasaga Distribution Response:

As referred to in the response to 4-Energy Probe-17 any costs for any Regulatory activities are over and above the fee charges through the MSA. These types of activities would include all regulatory reporting to the OEB, including the increased costs from increased regulatory requirements, the increased staff time required to complete the Rate Application, the increased time to complete such surveys as required for Customer Satisfaction and the ESA Survey.

Exhibit 5 – Cost of Capital and Capital Structure

5-Energy Probe-CQ 13

Reference: Energy Probe-27

The response to part (a) indicates that the interest rate is the deemed variable interest rate approved in the last Cost of Service and that this was agreed on by the Board of Directors and the Shareholder.

- a) Please provide all documentation associated with this agreement.

- b) Please explain why Wasaga Distribution does not pay the interest rate as set out in the long term note payable which is equal to the Government of Canada 10 year bond rate as of December 31?

- c) Please explain why Wasaga Distribution has not included any forecast of additional long term debt in this application when the capital expenditure problem may require the addition of new debt?

Wasaga Distribution Response:

- a) At this time we are unable to provide this documentation.
- b) This was an agreement the Board of Directors.
- c) Since WDI was not able to determine the nature or the amount of debt that would be required with any certainty it was not included in this application.

Exhibit 6 – Calculation of Revenue Requirement

6-Energy Probe-CQ 14

Reference: Updated RRFE dated January 8, 2016

Please explain why the difference shown on line 14 in the Revenue Requirement sheet in the Interrogatory Responses column is \$11,101 rather than \$0.

Wasaga Distribution Response:

Wasaga Distribution is unable to locate this amount.

Exhibit 7 – Cost Allocation

7-Energy Probe-CQ 15

Reference: 7-VECC-36 & Updated Evidence for Lead Lag Study

- a) Please confirm that based on the updated Appendix 2-P provided as part of this response, that the revenue shortfall resulting from the reduction in the revenue to cost ratio for the street lighting class to 120% is now proposed to be recovered from the GS < 50 class. If this cannot be confirmed, please explain.

- b) Please provide an updated Appendix 2-P that reflects the increased revenue requirement resulting from the Lead Lag Study.

Wasaga Distribution Response:

- a) Wasaga Distribution has submitted evidence that illustrates the reduction of the Streetlight Customer class to 120% with the offset being an increase to the GS <50 class.

- b) Please find an updated Appendix 2-P that reflects the update from the Lead Lag Study and the updated Load Forecast model arising from VECC Clarification questions.

Appendix 2-P Cost Allocation

Please complete the following four tables.

A) Allocated Costs

Classes	Costs Allocated from Previous Study	%	Costs Allocated in Test Year Study (Column 7A)	%
Residential	\$ 3,101,557	78.17%	\$ 3,750,112	81.16%
GS < 50 kW	\$ 458,794	11.56%	\$ 493,427	10.68%
GS > 50 kW	\$ 292,419	7.37%	\$ 311,277	6.74%
Street Lighting	\$ 110,070	2.77%	\$ 60,880	1.32%
Unmetered Scattered Load (USL)	\$ 5,095	0.13%	\$ 5,048	0.11%
Total	\$ 3,967,935	100.00%	\$ 4,620,744	100.00%

B) Calculated Class Revenues

Classes (same as previous table)	Column 7B	Column 7C	Column 7D	Column 7E
	Load Forecast (LF) X current approved rates	L.F. X current approved rates X (1 + d)	LF X proposed rates	Miscellaneous Revenue
Residential	\$ 2,998,870	\$ 3,401,454	\$ 3,401,454	\$ 363,296
GS < 50 kW	\$ 362,083	\$ 410,691	\$ 411,285	\$ 55,838
GS > 50 kW	\$ 239,748	\$ 271,933	\$ 271,933	\$ 39,098
Street Lighting	\$ 51,315	\$ 58,204	\$ 57,610	\$ 15,445
Unmetered Scattered Load (USL)	\$ 3,601	\$ 4,084	\$ 4,084	\$ 700
Total	\$ 3,655,617	\$ 4,146,365	\$ 4,146,365	\$ 474,377

C) Rebalancing Revenue-to-Cost (R/C) Ratios

Class	Previously Approved Ratios Most Recent Year: 2012	Status Quo Ratios (7C + 7E) / (7A)	Proposed Ratios (7D + 7E) / (7A)	Policy Range
	%	%	%	
Residential	102.29	100.39	100.39	85 - 115
GS < 50 kW	92.60	94.55	94.67	80 - 120
GS > 50 kW	98.52	99.92	99.92	80 - 120
Street Lighting	70.00	120.97	120.00	80 - 120
Unmetered Scattered Load (USL)	102.29	94.77	94.77	80 - 120

D) Proposed Revenue-to-Cost Ratios

Class	Proposed Revenue-to-Cost Ratios			Policy Range
	2016	2017	2018	
	%	%	%	%
Residential	100.39	100.39	100.39	85 - 115
GS < 50 kW	94.67	94.67	94.67	80 - 120
GS > 50 kW	99.92	99.92	99.92	80 - 120
Street Lighting	120.00	120.00	120.00	80 - 120
Unmetered Scattered Load (USL)	94.77	94.77	94.77	80 - 120
Embedded distributor class				

Note:

1 The applicant should complete Table D if it is applying for approval of a revenue to cost ratio in 2014 that is outside the Board's policy range for any customer class. Table (d) will show the information that the distributor would likely enter in the IRM model) in 2016. In 2017 Table (d), enter the planned ratios for the classes that will be 'Change' and 'No Change' in 2016 (in the current Revenue Cost Ratio Adjustment Workform, Worksheet C1.1 'Decision - Cost Revenue Adjustment', column d), and enter TBD for class(es) that will be entered as 'Rebalance'.

Exhibit 9 – Deferral and Variance Accounts

9-Energy Probe-CQ 16

8. Ref: 9-Staff-59

a) If Wasaga Distribution has never been charged the OPEBs, who has paid the affiliates OPEB costs?

b) How does Wasaga Distribution know that the costs it pays its affiliate do not include costs related to OPEBS or any other specific component of costs?

Wasaga Distribution Response:

- a) The OPEB's have always been paid by Wasaga Resource Services Inc.
- b) Wasaga Distribution knows because the Director of Finance works for both companies and has stated this during interrogatories. As well, the OPEB's are audited by the external auditors who then make the adjustment to WRSI financials.