## OPERATING EXPENSES

### 4-Staff-24

**Ref: Exh 4 page 37 to xx, OM&A**
**Ref: Appendix 2-JA – Summary of Recoverable OM&A Expenses**

OEB staff has prepared a table based on Exhibit 4 and Appendix 2-JA.

a) Please confirm that the data entries in the table below are correct.
b) Please confirm that with the exception of 2012 actual maintenance cost, HHHI has actually underspent in each OM&A category in the period 2012 to 2014 vs 2012 OEB approved.
c) Please provide 2015 actuals for each OM&A category.
d) Please explain how the trend in Operations and Maintenance spending is consistent with HHHI's strategic objective with respect to reliability.

| Expense | OEB Approved 2012 | Actual 2012 | Actual 2013 | Actual 2014 | Bridge 2015 | Test 2016 |
|---|---|---|---|---|---|---|
| Operations | $ 1,049,101 | $ 797,619 | $ 800,456 | $ 791,622 | $ 1,265,363 | $ 1,355,647 |
| Maintenance | $ 933,985 | $ 1,905,957 | $ 742,555 | $ 615,219 | $ 341,000 | $ 374,125 |
| One Time Meter Cost | | ($951,608) | | | | |
| Sub-Total O&M | $ 1,983,086 | $ 1,751,968 | $ 1,543,011 | $ 1,406,841 | $ 1,606,363 | $ 1,729,772 |
| Billing and Collecting | $ 1,226,281 | $ 1,072,259 | $ 1,210,087 | $ 1,203,346 | $ 1,584,893 | $ 1,890,937 |
| Community Relations | $ - | $ - | $ - | $ - | $ - | $ - |
| Administrative and General | $ 2,584,033 | $ 2,036,642 | $ 2,331,334 | $ 2,568,754 | $ 2,929,017 | $ 3,134,097 |
| Sub-Total Admin | $ 3,810,314 | $ 3,108,901 | $ 3,541,421 | $ 3,772,100 | $ 4,513,910 | $ 5,025,034 |
| **Total** | **$ 5,793,400** | **$ 4,860,869** | **$ 5,084,432** | **$ 5,178,941** | **$ 6,120,273** | **$ 6,754,806** |
| %Change (year over year) | | | 4.60% | 1.86% | 18.18% | 10.37% |
| % Change 2016 vs 2012 OEB approved | | | | | | 16.6% |
| % Change 2016 vs 2014 Actual | | | | | | 30.4% |

### Response:

a) Confirmed.

b) HHHI has underspent in OM&A category from 2012 to 2014 compare to the 2012 OEB approved amount, however this underspending was a result of the shift in spending from OM&A to capital. The table below is presented in Exhibit 2, Tab 1, page 28 of the application. As shown in the table HHHI total capital expenditures from 2012 to 2014 was higher than the 2012 OEB approved amount.

**Table 2-25: Gross Assets by Category**

| Description | 2012 Board Approved | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|
| *Reporting Basis* | Revised CGAAP | Revised CGAAP | Revised CGAAP | Revised CGAAP | MIFRS | MIFRS |
| Distribution Plant | 7,454,011 | 9,267,849 | 6,036,638 | 8,254,726 | 8,086,812 | 8,918,863 |
| General Plant | 879,083 | 906,758 | 521,201 | 1,231,176 | 629,136 | 424,800 |
| Contributions and Grants | (1,433,093) | 39,153 | (907,623) | (1,195,066) | (1,448,137) | (1,132,703) |
| **Total Excluding WIP** | 6,900,000 | 10,213,759 | 5,650,217 | 8,290,836 | 7,267,811 | 8,210,959 |
| WIP | - | 482,129 | 1,573,088 | (10,822) | 450,000 | - |
| **Total Including WIP** | **6,900,000** | **10,695,889** | **7,223,305** | **8,280,014** | **7,717,811** | **8,210,959** |

c) Table IRR - 47 below presents HHHI 2015 forecast.

**Table IRR - 47 : 2015 Forecast by OM&A Category**

| Expenses | 2015 Bridge Year As Filed | 2015 Bridge Year Forecast | Variance |
|---|---|---|---|
| | | | |
| Operations | 1,265,363 | 1,477,345 | 211,982 |
| Maintenance | 341,000 | 380,464 | 39,464 |
| **Sub - Total** | **1,606,363** | **1,857,810** | **251,447** |
| | | | |
| Billing and Collections | 1,584,893 | 1,634,779 | 49,886 |
| Community Relations | - | | |
| Administrative and General | 2,929,017 | 2,970,925 | 41,908 |
| **Sub - Total** | **4,513,910** | **4,605,704** | **41,908** |
| | | | |
| **Total** | **6,120,273** | **6,463,513** | **293,354** |
| | | | |

d) The trend in Operations and Maintenance spending is shown in SAIDI and SAFI results from 2010 to 2014 as provided in E1, Tab 2, Schedule 2,page 26 Table 1.1. These index's other than 2013 have shown continual improvement and are well within OEB Targets. Further with HHH's continued effort in succession planning ensures a fully trained staff for the ultimate benefit to our customers.

## 4-Staff-25

**Ref: Exh 2 Appendix H**

As part of its application, HHHI filed the results of a Utility Pulse survey of customers to support HHHI's DSP. The Utility Pulse report contained data comparisons where applicable to an Ontario-wide LDC benchmark and to Ontario LDCs participating in Utility Pulse's customer satisfaction survey.

Did HHHI conduct any benchmarking other than the above to support the current cost of service application?

**Response:**

HHHI did not conduct any additional benchmarking related to customer service, however, HHHI did refer to the Pacific Economics Group Research, LLC Report (PEG Report) and supporting data (dated July 2015) for provincial benchmarking results in support of the current Cost of Service application. HHHI participates in a formal salary survey, conducted by an unrelated third party survey.

## 4-Staff-26

**Ref: Exh 4 page 56**
**Ref: Appendix 2-L – Recoverable OM&A Cost per Customer and per FTE**

a) Please confirm that the "customer" data provided in Appendix 2-L filed on October 2, 2015 was both customer and connections.
b) Please confirm that the data in the table below, adjusted for customer only data, are correct.
c) The OM&A cost per customer will increase 14% since the last rebasing. Please describe how customers will benefit from this increase.

| | Last Rebasing Year - 2012-Board Approved | Last Rebasing Year - 2012-Actual | 2013 Actuals | 2014 Actuals | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|
| Number of Customers | 21,413 | 21,116 | 21,441 | 21,535 | 21,715 | 21,897 |
| Total Recoverable OM&A | $ 5,793,400 | $ 5,812,477 | $ 5,084,432 | $ 5,178,941 | $ 6,120,273 | $ 6,754,806 |
| OM&A cost per customer | $ 270.56 | $ 275.26 | $ 237.14 | $ 240.49 | $ 281.85 | $ 308.48 |
| Number of FTEs | 51 | 50 | 49 | 50 | 51 | 53 |
| Customers/FTEs | 420 | 422 | 438 | 431 | 426 | 413 |
| OM&A Cost per FTE | $ 113,596.08 | $ 116,249.54 | $ 103,763.92 | $ 103,578.82 | $ 120,005.35 | $ 127,449.17 |

## Response:

a) HHHI confirms that the "customer" data provided in Appendix 2-L filed on October 2, 2015 was both customer and connections.

b) HHHI confirms that the Number of Customers, Total Recoverable OM&A, OM&A cost per customer and Number of FTEs is correct. However, HHHI does not agree with the 2014, 2015 and 2016 calculations of Customers/FTEs and OM&A Cost per FTE. As shown in Table IRR - 48 below, HHHI has provided its calculation for Appendix 2-L, adjusted for customer only data.

**Table IRR - 48 : Appendix 2-L Adjusted for Customer Only Data**

| | Last Rebasing Year - 2012-Board Approved | Last Rebasing Year - 2012-Actual | 2013 Actuals | 2014 Actuals | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|
| *Reporting Basis* | R-CGAAP | R-CGAAP | R-CGAAP | R-CGAAP | MIFRS | MIFRS |
| Number of Customers | 21,413 | 21,116 | 21,441 | 21,535 | 21,715 | 21,897 |
| Total Recoverable OM&A from Appendix 2-JB | $ 5,793,400 | $ 5,812,477 | $ 5,084,432 | $ 5,178,941 | $ 6,120,273 | $ 6,754,806 |
| OM&A cost per customer | $ 271 | $ 275 | $ 237 | $ 240 | $ 282 | $ 308 |
| Number of FTEs | 51 | 50 | 49 | 50 | 51 | 53 |
| Customers/FTEs | 420 | 422 | 438 | 435 | 430 | 417 |
| OM&A Cost per FTE | $ 113,596 | $ 116,250 | $ 103,764 | $ 104,625 | $ 121,194 | $ 128,663 |

c) The OM&A cost per customer will increase since the last rebasing. There are many factors to the increase that can be considered directly beneficial to customers..

In the application, HHHI discussed OM&A costs that have a direct benefit to customers.

Control Room

The Control Room partnership with Oakville Hydro will provide 24/7/365 coverage and dispatch in the event of outages. HHHI Crews will be able to arrive at the scene of outages and fix the problem quicker with the aid of the Control Room. With increased automated infrastructure, the Control Room will also be able to perform the necessary switching automatically, before crews arrive at the scene of the outage, thereby reducing the amount of crew time needed to correct the outage. Additionally, the Control Room is able to provide more accurate and detailed outage reports that can be used by HHHI's Engineering and Operations departments to better plan capital and maintenance projects thus improving outage times and frequencies. The improved crew management through the Control Room will also provide increased safety for crews and the public.

GIS Technician

The GIS Technician position is responsible for creating and maintaining informational mapping that includes all distribution infrastructures, asset conditions and locations. The more accurate information will provide the Control Room with the information it requires to more efficiently dispatch crews during outages resulting in shorter outage times. Additionally, efficiencies can be found through reductions in Engineering design times.

Monthly Billing

In response to Board Amendments to the Distribution System Code, dated April 15, 2015, HHHI is required to convert from bi-monthly billing to monthly billing for its residential customers. Monthly billing is expected to provide customers with a timely summary of their energy consumptions, thus allow the customers to make more immediate changes to their usages and reduce consumption and costs.

Tree Trimming

HHHI is balancing the needs of the community to both maintain reliable and safe operation of the distribution system together with the need for greater environmental responsibility and community aesthetics in the Town of Halton Hills. Vegetation management open houses have been conducted as part of HHHI's customer engagement and in customer engagement surveys, fifty-three percent (53%) of respondents indicated they would be willing to pay more for tree trimming.

Safety Program

HHHI's Safety Management System provides employee knowledge and on-going engagement in safety programs. The System is designed to develop, maintain, and sustain a mature Health and Safety Program. In addition to employee compliance, The System also provides Contractor Compliance. Contractor Compliance is a program that tracks documents such as WSIB and Insurance certificates for contractors doing work for HHHI and ensures contractors operate with the same high level of safety as the utility. The holistic view of Safety System encompasses training, analysis, prevention, verification, and reporting resulting in increased safety for staff and the public.

## 4-Staff-27

**Ref: Exh 4 page 56**
**Ref: Appendix 2-L – Recoverable OM&A Cost per Customer and per FTE**

HHHI is a "Mid-size GTA Medium-High & High Undergrounding" distributor. Three other utilities in this group have filed for 2016 cost of service. On the basis of 2014 actual data, OEB staff has prepared the following summary:

| Distributor | File Number | 2014 Actual OM&A/Customer | 2014 Actual Customer/FTE |
|---|---|---|---|
| Halton Hills Hydro | EB-2015-0074 | $240 | 431 |
| Guelph Hydro Electric | EB-2015-0073 | $211 | 549 |
| Milton Hydro Distribution | EB-2015-0089 | $247 | 665 |
| Waterloo North Hydro | EB-2015-0108 | $251 | 413 |

The 2014 data show that HHHI OM&A expense per customer and customers per FTE are in the mid-range for this group of distributors.

Please provide details on any initiatives undertaken to improve HHHI's results in these measures.

## Response:

HHHI has provided corrected 2014 actual numbers in Table IRR - 49. HHHI has made the following corrections to the original table provided in 4-Staff-27:

i. HHHI Customers per FTE reflect the correction made previously in 4-Staff-26.
ii. Guelph Hydro numbers are corrected to reflect an interrogatory request in proceeding EB-2015-0073 to correct the numbers based on customers only (removing connections, similar to 4-Staff-26 in HHHI proceeding EB-2015-0074)

**Table IRR - 49 : Corrected OM&A per customer and Customers per FTE Numbers**

| Distributor | File Number | 2014 Actual OM&A / Customer | 2014 Actual Customers / FTE |
|---|---|---|---|
| **Halton Hills Hydro Inc.** | EB-2015-0074 | $ 240 | 435 |
| **Guleph Hydro Electric** | EB-2015-0073 | $ 268 | 433 |
| **Milton Hydro Distribution** | EB-2015-0089 | $ 247 | 665 |
| **Waterloo North Hydro** | EB-2015-0108 | $ 251 | 413 |

Board Staff indicates that HHHI is classified as a "Mid-size GTA Medium-High & High Undergrounding" distributor. For the purposes of benchmarking, HHHI observes the PEG report benchmarking on a provincial level as the report and calculations use an econometric model that normalizes operating efficiencies on a provincial level, thus removing the necessity of any specific cohort comparisons.

HHHI is ranked 6th in the province for efficiency in 2014. HHHI continues to try to improve efficiencies through beneficial partnerships (i.e. purchasing, Control room, CDM, etc.) and encouraging staff in continuing HHHI's Creative and Critical Thinking endeavours.

## 4-Staff-28

**Ref: Exh 2 page 35**
**Ref: Exh 1 page 30**

In 2014, HHHI implemented a new Enterprise Reporting Platform (ERP) financial software package at a cost of $818,918

The application states that, HHHI intends to utilize the new financial reporting system to improve reporting and integrate key business processes while reducing manual processing procedures.

Have the costs related to reduced manual processing been factored into this application? What is the quantum of those benefits?

**Response:**

The personnel from the reduced manual processing have been redirected to improving reporting, integrate business processes and developing more analytics to assist in decision making.

## 4-Staff-29

**Ref: Exh 4 page 6-7 and 33-34, New FTE**

The application states that "HHHI's Information Technology Department regularly uses external contractors to cope with the increased workload. All departments will benefit from this position by having in-house expertise to solve technical and non-technical related issues. This addition will also aid in the avoidance of costs related to external support at a rate of $205 per hour (the hourly rate for service from HHHI's IT system provider). … HHHI has included Business System Analyst in 2016 resulting in an increase of $92,820 in wages and benefits."

Please advise where costs will be avoided (i.e. reduced) by hiring the business system analyst. Please identify specific line items in Table 4-6 on pages 33-34.

## Response:

HHHI currently does not have the in-house expertise to solve technical and non-technical related issues with the new ERP system and as such is required to acquire external services at a rate of $205 per hour. The services include system maintenance, system enhancement, new module deployment, system upgrade, reporting writing, in house support etc. The Business System Analyst will provide the necessary in-house expertise.

The costs of the external services have not been included in Table 4-6 on page 33 – 34 as the cost of the Business System Analyst is included on line (5610 Management Salaries and Benefits) of Table 4-6 on page 33 – 34 of the application.

## 4-Staff-30

**Ref: Exh 4 page 54 – Management Employees**

The application states that, "For management employees, HHHI utilizes the industry standards and benchmarks with LDCs in the Greater Toronto Area (GTA). As shown in Table 4-13, Summary of Wage Increases by Year, the average increase for … the four year period to 2015 [for] management staff, with merit and progression adjustment has averaged 2.86%..."

a) What is the industry standard and benchmark referred to?
b) What was the comparable GTA LDC management increase for the four year period to 2015?

**Response:**

a) HHHI participates in a formal survey, conducted by an unrelated third party.

b) It is difficult to develop an accurate comparison; a result of the fact average increase is not comparable, without first normalizing for the impact of progression and merit from comparable position(s) in one LDC to another LDC.

## 4-Staff-31

**Ref: Exh 4 page 68 – Other Post-Employment Benefits**

HHHI has recovered OPEBs in rates previously.

a) Please indicate if OPEBs were recovered on a cash or accrual accounting basis for each year since HHHI started to recover OPEBs.

b) Please complete the table below to show how much more than the actual cash benefit payments, if any, have been recovered from ratepayers from the year HHHI started recovering amounts for OPEBs.

| OPEBs | First Year of Recovery to 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|
| Amounts included in Rates | | | | | | | |
| OM&A | | | | | | | |
| Capital | | | | | | | |
| Sub-Total | | | | | | | |
| Paid Benefit Amounts | | | | | | | |
| Net excess amount included in rate greater than amounts actually paid | | | | | | | |

c) Please describe what HHHI has done with the recoveries in excess of cash benefit payments.

**Response:**

a) For the period 2011 through 2014, HHHI followed the accrual method, in accordance with CICA 3461. Effective January 01, 2015, HHHI is following IAS 19.

b) HHHI has calculated a shortfall of $360,624 which includes $149,953 unamortized loss that will be charged to retained earnings under IAS 19 which have not been recovered from ratepayers.

## Table IRR - 50 : Other Post-Employee Benefits

| OPEBs | First Year of Recovery to 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|
| Amounts included in Rates | | | | | | | |
| OM&A | - | 17,000 | 17,000 | 17,000 | 17,000 | | 68,000 |
| Capital | - | - | - | - | - | | - |
| **Sub-Total** | - | **17,000** | **17,000** | **17,000** | **17,000** | | **68,000** |
| Expensed | 12,805 | (17,556) | 67,700 | 56,558 | 124,681 | 34,483 | 278,671 |
| IAS 19 * | | | | | 149,953 | - | 149,953 |
| **Net excess (Shortfall) amount included in rate greater than amounts actually paid** | **(12,805)** | **34,556** | **(50,700)** | **(39,558)** | **(257,634)** | **(34,483)** | **(360,624)** |

*** 2015 Bridge Year amount $149,953 represents the unamortized loss charged to Retained Earnings, as per IAS 19 and not recovered in rates.**

| OPEBs | First Year of Recovery to 2011 | 2012 | 2013 | 2014 | 2015 - IFRS IAS 19 ** | 2016 - IFRS IAS 19 ** | TOTAL |
|---|---|---|---|---|---|---|---|
| **Note 11 - Employee future benefits** | | | | | | | |
| Accrued benefit obligation, beginning of period | $ 391,745 | $ 610,192 | $ 655,902 | $ 704,029 | $ 753,958 | $ 728,686 | $ 391,745 |
| IFRS 1 - IAS 19 - Retained Earnings | | | | | (149,953) | - | (149,953) |
| Estimated expense for the year | 13,584 | 29,006 | 30,311 | 31,675 | 19,659 | 20,455 | 144,690 |
| Interest expense | 21,941 | 28,499 | 30,592 | 32,780 | 27,835 | 29,204 | 170,851 |
| Benefits paid during the year | (12,805) | (11,795) | (12,776) | (14,526) | (12,176) | (15,176) | (79,254) |
| Actuarial loss | 195,727 | - | - | - | 89,363 | - | 285,090 |
| Accrued benefit obligation, end of period | 610,192 | 655,902 | 704,029 | 753,958 | 728,686 | 763,169 | 763,169 |
| Unamortized actuarial (loss) gain | (112,889) | (176,155) | (156,582) | (149,953) | - | - | - |
| | | | | | | | |
| Accrued benefit liability | $ 497,303 | $ 479,747 | $ 547,447 | $ 604,005 | $ 728,686 | $ 763,169 | $ 763,169 |

**** 2015 Bridge Year and 2016 Test Year are based on estimates, and subject to changes such as re-negotiated benefits, increase benefit costs, or significant swings in demographics.**

c) Not applicable, as HHHI is not in an excess recovery position.

## 4-Staff-32

**Ref: Exh 4 page 73, Shared Services**
**Ref: Table 4-27**

The application states that, "HHCEC's Executives provide strategic and financial planning, governance, risk management, employee management and mentoring along with Board meeting preparation and attendance to the HHHI business." The actual and forecast costs and revenues are summarized in Table 4-27.

**Table 4-27: Shared Services and Corporate Cost Allocation**

| | | 2012 Board Approved | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|---|
| Halton Hills Community Energy Corporation (HHCEC) | Parent Corporation | $ 25,000 | $ - | $ - | $ - | $ - | $ - |
| SouthWestern Energy Corporation (SWE) | Affiliate | 320,000 | 306,450 | 299,687 | 323,026 | 331,697 | 331,697 |
| Harvester Energy Canada Inc. | Affiliate (Amagmated with SWE - January 31, 2014) | 43,000 | 6,000 | - | - | - | - |
| 1820259 Ontario Inc., operating as Hummingbird Wireless | Affiliate (Busines Assets sold -September 30, 2011; subsequent January 01, 2012 amalgamated with SWE) | 8,000 | - | - | - | - | - |
| **Total Intercompany Revenue - 4375 Revenues from Non-Utility Operations** | | **$ 396,000** | **$ 312,450** | **$ 299,687** | **$ 323,026** | **$ 331,697** | **$ 331,697** |
| **Services provided BY HHHI to:** | | | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Bridge Year | 2016 Test Year |
| SouthWestern Energy Corporation (SWE) | Water & Sewer billing services and IT Services | | 252,150 | 247,697 | 246,945 | 253,397 | 253,397 |
| | Management and administration | | 54,300 | 51,990 | 76,081 | 78,300 | 78,300 |
| Harvester Energy Canada Inc. | Management and administration | | 6,000 | - | - | - | - |
| **Services Provided By HHHI** | | | **312,450** | **299,687** | **323,026** | **331,697** | **331,697** |
| **Services provided TO HHHI to:** | | | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Bridge Year | 2016 Test Year |
| SouthWestern Energy Corporation (SWE) | Sub-Contract work (construction), year end accounting & special projects), smart meter & gatekeeper maintenance, building maintenance. | | 32,738 | 205,098 | 132,228 | 177,000 | 177,000 |
| Halton Hills Community Energy Corproartion (HHCEC) | Management services | | | | 211,840 | 268,356 | 273,723 |
| Harvester Energy Canada Inc. | Panels on Poles - Green Energy Initiative | | 148,190 | 3,383 | | | |
| **Services Provided TO HHHI** | | | **180,928** | **208,481** | **344,068** | **445,356** | **450,723** |

a) How was this support provided in the period prior to 2014? Are there OM&A reductions in other areas to reflect the change in the source of this support?

b) Has a cost benefit analysis of the approximately $250,000/year HHCEC service been completed? If yes, please provide.

## Response:

a) During 2014, a corporate re-organization was completed between the Parent company and its affiliates. This re-organization did not result in any change to the total OM&A within the respective corporations.

b) A cost benefit analysis has not been completed, as there is no change in OM&A.

## 4-Staff-33

**Ref: Exh 4 page 83, Depreciation**
**Ref: Exh 1 page 42**

The 2016 forecast depreciation noted on page 83 of Exhibit 4 is $2,530,022, while Exhibit 1 lists $2,356,442. Please reconcile.

## Response:

The 2016 depreciation of $2,530,022 on page 83 of Exhibit 4 is the total depreciation, while the amount of $2,356,442 in Exhibit 1 is the total depreciation of $2,530,022 less the depreciation of $173,580 for transportation equipment (Account 1930). The $2,356,442 is the amount used in the revenue requirement calculation as shown on the Revenue Requirement Workform in Exhibit 6.

## 4-Staff-34

**Ref: Exh 1 page 19, Monthly Billing**

Beginning in 2016, HHHI will move to monthly billing for residential and small commercial customers who currently receive bimonthly bills.

a) Please confirm that the move to monthly billing for residential and small commercial customers will be completed by December 31, 2016. If not, please explain why not.
b) Please provide the number of residential and GS <50 kW customers that are currently billed on a monthly and on a bi-monthly basis.

## Response:

a) HHHI confirms that the move to monthly billing for residential and small commercial customers will be completed by December 31, 2016.

b) Table IRR - 51 below indicates the number of residential and GS<50 kW customers that are currently billed on a monthly and on a bi-monthly basis as of July 31, 2015.

**Table IRR - 51 : Residential and General Service less than 50 kW customers as at July 31, 2015**

| Customer Class | Customer Numbers at July 31/15 |
|---|---|
| Residential | 19,662 |
| GS<50 - bi-monthly billed | 358 |
| GS<50 - monthly billed | 1,410 |

## 4-Staff-35

**Ref: Exh 1 page 44, Monthly Billing**
**Ref: Exh 4 page 52 OM&A Cost Driver Table**

At page 44 of Exhibit 1 it states that, "Monthly billing will [result in] $173,195 in additional costs, **including** staffing, postage, etc. on an ongoing basis."

Table 4-12, which is also Appendix 2-JB, lists OM&A cost drivers. The New FTE line includes expense for the proposed billing clerk. The "implementation of monthly billing" results in an expense of $173,195 in 2016. That expense **excludes** "FTE billing clerk – included above".

a) Please reconcile the differences in the two pieces of evidence listed above.
b) Please provide a breakdown of the $173,195 cost associated with the implementation of monthly billing.
c) Please quantify any offsetting costs (benefits) associated with the implementation of monthly billing.
d) Please identify the percentage of customers on e-billing as of December 31, 2015. If HHHI does not provide e-billing to its customers please explain the reasons.
e) Please describe HHHI's efforts to promote e-billing to its customers.
f) Please describe other initiatives that HHHI has undertaken, or intends to undertake, to manage the costs of monthly billing for all customers.
g) Please provide a breakdown of the $231,918 expense related to new FTEs.

## Response:

a) The narrative at page 44 of Exhibit 1 (line #26) should read "Monthly billing will result in additional costs of $173,195 for incremental postage, data fees, metering fees, plus an additional $78,000 for one (1) new FTE (Billing Clerk).

b)

**Table IRR - 52 : Breakdown of Costs Associated with Monthly Billing**

| | 2016 | 2015 | Variance | |
|---|---|---|---|---|
| Wages | $ 387,974 | $ 309,974 | $ 78,000 | 1 New FTE (Billing Clerk) |
| Meter | 135,500 | 120,500 | 15,000 | |
| Data Hub Fees | 154,355 | 112,680 | 41,675 | |
| Comm | 22,252 | 21,850 | 402 | |
| Postage | 227,207 | 115,180 | 112,027 | |
| Other | 48,351 | 44,260 | 4,091 | |
| | | | | |
| | $ 975,639 | $ 724,444 | 251,195 | |
| | | | | |
| | | | (78,000) | New FTE (Billing Clerk) |
| | | | | |
| Additional Billing costs associated with monthly billing | | | $ 173,195 | |
| | | | | |

c) HHHI does not believe there are any benefit(s) associated with the implementation of monthly billing, therefore is unable to quantify any offsetting costs.

d) As of December 15, 2015, HHHI had 3,063 customers or 13.82% of customers registered for e-billing.

e) HHHI promotes e-billing in the following ways:
   a. Website
   b. Facebook
   c. Twitter
   d. New customers default to e-billing, unless new customer requests paper bill.
   e. Customer service promotes during customer inquiry calls
   f. Promoted at all community events
   g. Promoted in bill inserts and newsletters as well as on bill messaging
   h. Ran a contest to promote e-billing – limited response

f) The following is a list of continuing initiatives HHHI intends to undertake to manage the costs of monthly billing for all customers.
   a. Will continue promoting e-billing and automatically setting up new customers on e-billing unless instructed otherwise by the new customer.
   b. Promotion of Account Online tool where customers can view their account data online to reduce phone calls.
   c. Promotion of pre-authorized payment – to reduce payment processing and return envelope costs.

g)

**Table IRR - 53 : Breakdown of Costs Associated with New FTEs**

| New FTE's | 2015 | 2016 | | |
|---|---|---|---|---|
| GIS Tech | $ 74,000 | | | $ 74,000 |
| Apprentice Line | | 68,894 | | 68,894 |
| Billing Clerk | | 78,000 | | 78,000 |
| Business Analyst | | 79,918 | | 79,918 |
| | | | | |
| | $ 74,000 | $ 226,812 | | 300,812 |
| | | | | |
| Less: estimate direct labour to be capitalized | | | | (68,894) |
| | | | | |
| Net OM&A 'Cost Driver' related to New FTE's | | | | $ 231,918 |
| | | | | |

## 4-Staff-36

**Ref: Exh 1 – Achieved Return on Equity**

OEB staff has prepared a table of deemed and achieved return on equity. The achieved ROE is sourced from page 41 of Exhibit 1 and from the scorecard provided at Appendix 1-K.

| Return on Equity | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Deemed | 8.57% | 8.57% | 9.12% | 9.12% | 8.82% |
| Achieved -Exh 1 page 41 | 7.59% | 8.47% | 12.71% | 14.97% | 12.91% |
| Achieved - Exh 1 App 1-K | | 9.14% | 13.30% | 14.97% | 12.91% |

a) Please explain the difference in the achieved return on equity from the two sources for the years 2011 and 2012 within the current application.
b) Which achieved return on equity is correct?
c) The application states that, "HHHI's profitability based on the achieved rate of return on equity for historical years 2010 to 2011 are within the allowed dead band of ±300 basis points. The 2012, 2013 and 2014 are above the allowed dead band, the result of tax recovered by HHHI in relation to following CRA Interpretation Bulletin IT-l 28R: Capital Cost Allowance - Depreciable Property to expense amounts capitalized under MIFRS requirements .. ."
   i. Please provide the $ value of the overearnings related to applying the Bulletin IT-I 28R resulting in expensing items that were previously capitalized for tax purposes for each of the years 2012, 2013 and 2014.
   ii. What other drivers contributed to the over earning in the period 2012 to 2014. Please provide the analysis in $ as well as in % of overearnings for each of the years 2012, 2013 and 2014.

## Response:

a) Please see Table IRR - 54 below.

b) Please see Table IRR - 54 below.

**Table IRR - 54 : Return on Equity**

| Return on Equity | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Deemed | 8.57% | 8.57% | **8.82%** | **8.82%** | 8.82% |
| Achieved - Exh 1 page 41 | 7.59% | **9.14%** | **13.30%** | 14.97% | 12.91% |
| Achieved - Exh 1 App 1-K | | 9.14% | 13.30% | 14.97% | 12.91% |

c) Please see below.
   i. With reference to EB-2014 -0211 and EB-2014-0079 HHHI reported ROE for 2012 and 2013 as 13.30% and 14.97% respectively.

   In 2012 HHHI recognized LRAM revenue of $384,800 as approved in its 2012 Cost of Service 9EB-2011-0271). HHHI does not consider the recognition of LRAM as 'excess-earnings'.

In 2013 HHHI recognized 'One-Time' tax refund of $977,797 relating to 2010, 2011 and 2013. It is important to note this one-time adjustment is a 'Timing Difference' and not a permanent tax savings.

With reference to the OEB's Decision and Rate Order dated March 19, 2015 EB-2014-0079 (page 2 – 5) Board Findings:

> *"The Board notes that the 300 basis points dead band above the ROE approved in rates is a threshold number at which the Board may initiate a more detailed review and order the distributor to terminate or modify the IRM for setting rates. There is no reason to conclude that Halton Hills Hydro will be able to sustain this level of overearnings."*
>
> *"In 2012, the Board approved the disposition of the LRAMVA over a two-year period which ended on April 30, 2014. Although Board staff provided a 2012 normalized calculation of 12.17%, the Board does not consider the 5 basis points to be significantly over the approved ROE deadband of 12.12%. In 2014, the evidence is incomplete and the Board will not draw conclusions based on forecast net income."*
>
> *"In 2013, Halton Hills benefited from one-time tax savings. The Board does not find merit in the suggestion that Halton Hills share the 2013 tax savings with customers as it would result in retroactive rate making. Halton Hill's 2013 rates were issued on a final basis and the tax saving was not the result of a legislative tax change which is explicitly addressed in the IRM methodology. This type of tax savings is not part of that methodology."*
>
> *"Halton Hills is scheduled to file a cost of service application for 2016 at which time all revenues and costs will be reviewed with the objective of establishing base rates for a new IRM term. For these reasons, the Board finds that Halton Hills Hydro should be eligible for a price cap index adjustment for 2015."*

ii. HHHI concludes that there are no other significant cost drivers that contributed to the over earnings for the years 2012, 2013.

**4-Staff-37**

**Ref: Exh 1 – Achieved Return on Equity**
**Ref: Attachment 1 to OEB Staff Interrogatories**

An analysis of 2014 return on equity is provided at Attachment 1 of these interrogatories.

a) Please confirm the data.
b) Will the tax planning and expense control driver and the revenue driver identified in this analysis of 2014 return on equity continue to persist?
c) Please provide a forecast of 2015 ROE performance using the actual information from January 1 to November 30, 2015 and forecast information for December 2015.
d) Please provide the return on equity performance results for 2015 adjusted for taxes.

**Response:**

a) HHHI agrees with the 2014 ROE performance: 12.91% is 409 basis points over deemed ROE or 109 basis points outside of the dead band.

   HHHI does not agree with "Drivers for Over-Earnings" in 2014 as presented by the Board Staff.

b) Tax planning is a very prudent business practice and HHHI will continue this practice.

   With reference to 'Tax Schedule 1' - evidenced filed in Schedule 4, Appendix 4-G HHHI 2014 Corporate Tax Return; HHHI has deducted 2014 expenses capitalized for accounting $1,439,197 plus $954,246 resulting in a Net Loss for income tax purposes of $755,568. Essentially, this result in HHHI currently subject only to Ontario Corporate Minimum Tax (Tax Schedule 510).

   Please refer to 4-Staff-36.

c) The forecast 2015 ROE is 7.48%.

d) The forecast 2015 ROE is 7.48%.

## Table IRR - 55 : Forecasted 2015 ROE

**2015 FORECAST - 4 STAFF 37 ( c ) & ( d )**

Halton Hills Hydro Inc. - Calculation of 2015 FORECAST ROE

| | | 2015 Forecast | | 2012 Cost of Service | 2012 Cost of Service |
|---|---|---|---|---|---|
| Regulated net income, as per OEB Trial Balance | | $ 2,650,538 | A | | $ 1,496,896 |
| Adjustment to interest expense - for deemed debt | | (538,045) | B | | 0 |
| Adjustment to future/deferred taxes expense | | 69,168 | | | |
| Non-rate regulated items | | (358,197) | | | |
| Adjusted regulated net income | | $ 1,823,464 | C | | $ 1,496,896 |
| Rate Base: | | | | | |
| Cost of Power | | $ 59,633,107 | | | $ 46,736,102 |
| Operating Expenses | | $ 6,463,513 | | | $ 5,900,000 |
| Total | | $ 66,096,620 | | | $ 52,636,102 |
| Working Capital Allowance % | | 15% | | | 15% |
| Total Working Capital Allowance | | $ 9,914,493 | | | $ 7,895,415 |
| Fixed Assets | | | | | |
| Opening Balance | $ 49,081,455 | | | $ 30,441,969 | |
| Closing Balance | $ 52,917,495 | | | $ 38,621,640 | |
| Average | $ 50,999,475 | $ 50,999,475 | | $ 34,531,805 | $ 34,531,805 |
| **Total Rate Base - 2014** | | $ 60,913,968 | D | | $ 42,427,220 |
| Regulated Deemed Equity (40%) | | $ 24,365,587 | E | | $ 16,970,888 |
| Regulated Deemed Debt (60%) | | $ 36,548,381 | F | | $ 25,456,332 |
| **Regulated Rate of Return on Deemed Equity** | | 7.48% | G = C/E | | 8.82% |
| **ROE% from most recent Cost of Service application** | **2012 COS** | **8.82%** | | **2012 COS** | **8.82%** |
| **Difference - maximum deadband 3%** | | **-1.34%** | | | **0.00%** |

| Interest adjustment on deemed debt: | | |
|---|---|---|
| Regulated Deemed Debt - as above | $ 36,548,381 | |
| Weighted Average Interest Rate | 4.07% | |
| | $ 1,486,788 | |
| Interest expense as per the OEB trial balance | 850,049 | |
| | $ 636,739 | |
| Utility Tax rate | 15.50% | |
| Tax effect on interest expense | (98,695) | |
| | $ 538,045 | B |

| **Non-rate regulated items** | |
|---|---|
| USoA Acct No. 4375 | (331,697) |
| USoA Acct No. 4380 | - |
| USoA Acct No. 4385 | (30,000) |
| Non-LEAP Donation | 3,500 |
| | (358,197) |

**Rates of Return, Working Capital Allowance & Rate Base Calculations**

**WORKING CAPITAL ALLOWANCE FOR 2015 FORECAST**

| Distribution Expenses | |
|---|---|
| Distribution Expenses - Operation | 1,477,345 |
| Distribution Expenses - Maintenance | 380,464 |
| Billing and Collecting | 1,634,779 |
| Community Relations | - |
| Administrative and General Expenses | 2,970,925 |
| Taxes Other than Income Taxes | - |
| Less: Capital Taxes within 6105 | |
| **Total Eligible Distribution Expenses** | 6,463,513 |
| Power Supply Expenses | 59,633,107 |
| **Total Working Capital Expenses** | 66,096,620 |
| Working Capital Allowance rate of 15% | 9,914,493 |

**RATE BASE CALCULATION FOR 2015 - FORECAST**

| | |
|---|---|
| Fixed Assets Opening Balance 2014 | 49,081,455 |
| Fixed Assets Closing Balance 2015 | 52,917,495 |
| **Average Fixed Asset Balance for 2014** | 50,999,475 |
| Working Capital Allowance | 9,914,493 |
| **Rate Base** | 60,913,968 |

| | | | |
|---|---|---|---|
| Long-Term Debt | 56% | 4.21% | 1,436,108 |
| Short-Tern Debt | 4% | 2.08% | 50,680 |
| Return On Equity | 40% | 9.12% | 2,222,142 |
| **Regulated Return on Capital** | | | 3,708,930 |

| Weighted Average Interest Rate | | | | |
|---|---|---|---|---|
| Deemed S-TDebt | 2,436,559 | 2.08% | | $ 50,680 |
| Deemed L-TDebt | 34,111,822 | 4.21% | | $ 1,436,108 |
| | 36,548,381 | | 4.07% | $ 1,486,788 |
| | - | | | |

## 4-Staff-38

**Ref: Exh 4 pages 95-98**

The evidence indicates that HHHI has amended its tax returns for years 2011, 2012, 2013, and 2014. However, only the 2014 tax return has been filed.

a) Please file all tax returns that have been amended.
b) Please provide the Notice of Assessment and /or Re-assessment received from the CRA for all applicable years.
c) For each of the Tables on page 97 of the evidence, please provide the calendar year in the column headings.
d) Is HHHI expensing these costs only for income tax purposes?
e) What is the treatment of these costs for financial accounting purposes, i.e. are they being expensed or capitalized?
f) What is the treatment of these costs for regulatory purposes, i.e. are they being expensed or capitalized?

**Response:**

a) Corporate Tax Returns for the years 2011, 2012 and 2013 are shown in Appendix IRR - E

b) Corresponding Notice of Assessment or Re-Assessment (if applicable) for the years 2011, 2012 and 2013 are included in Appendix IRR - E.

c) The Tables on page 97 of the evidence are for illustrative purposes to highlight the impact of expensing costs for income taxes as opposed to capitalizing such amounts and claiming CCA.

d) Yes, HHHI is expensing these costs for only income tax purposes.

e) For Financial accounting purposes, these costs are being capitalized.

f) For Regulatory purposes, these costs are being capitalized.

## 4-Staff-39

**Ref: Revenue Requirement Workform (RRWF) and PILs Workform**

a) PILs Workform, Tab Taxable Income – Test Year shows "Other Deductions" of $2,950,000 on line 394, and for 2015 bridge year, there are "Other Deductions" of $2,248,880 on line 394. Please explain what these amounts pertain to.

b) RRWF, Tab Utility Income shows a negative PILs amount of $220,666. This amount was added to Utility Income before Income Taxes of $2,091,242, arriving at Utility Net Income of $2,311,908.

   i. Given that HHHI has calculated a regulatory taxable loss of $1,250,441 and is projecting a loss for tax purposes, why is any PILs being calculated?

   ii. Please explain the rationale for a negative PILs amount and for increasing the loss for tax purposes by the same amount for the test year, given the loss position resulting in no taxes being calculated.

## Response:

a) The amount of $2,950,000 of line 394 of the PILs Workform, Tab Taxable Income for the Test Year is consists of $2,000,000 for pole replacement and $950,000 of overhead burdens. The amount of $2,248,800 of line 394 for 2015 bridge consists of $1,099,701 for pole replacement, $940,000 of overhead burden and $209,179 of other deduction. These amounts are treated as capital expenditures for accounting and regulatory purposes but are treated as operating expenses for tax purposes.

b) See below.

   i. HHHI is projecting a taxable loss of $1,250,441 for rate making purposes in 2016. PILs were calculated because of a modelling issue and should be corrected to reflect no PILs for 2016.

   ii. Please refer to part (b)(i) above.

## 4-Energy Probe-21

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

Please confirm that there is no impact on OM&A of the move from RCGAAP in 2012 through 2014 to MIFRS in 2015 and 2016. If this cannot be confirmed, please indicate the change in OM&A in 2015 and/or 2016 as a result of this change.

**Response:**

The move from RCGAAP in 2012 through 2014 to MIFRS in 2015 and 2016 will cause OM&A to increase as a result of the Other Post-Employment Benefits costs. OM&A in 2015 and 2016 will increase by respectively $274,634 and $34,483. Revenue requirement will be updated to reflect the increase costs.

Please refer to 4-Staff-31 for more details.

## 4-Energy Probe-22

**Ref: Exhibit 4, Tab 1, Schedule 1**

Please provide the most recent year-to-date actual OM&A expenses for 2015 in the same level of detail as shown in Table 4-1. Please also provide the figures for the corresponding period in 2014 in the same level of detail.

**Response:**

Please refer to 4-Staff -24 part (c).

## 4-Energy Probe-23

**Ref: Exhibit 4, Tab 2, Schedule 1, Table 4-12**

Please confirm that the increases shown for various years in each of the following line items is a permanent increase in the level of costs and not a one-time increase in costs:
- contract labour,
- customer survey and communications,
- hardware software maintenance increase (ESRI, SCADA and ERP),
- IT security assessment & review,
- smart meter communication costs,
- control room, and
- health & safety.

If any of the above line items are not a permanent increase in the level of costs, please explain why there is no reduction shown in any of the years following the increases.

**Response:**

The cost drivers shown in Exhibit 4, Tab 2, Schedule 1, Table 4-12 for 2012 to 2015 year are both permanent and one time increase as they were the main cost drivers for those years. The cost drivers in 2016 are permanent increase.

## 4-Energy Probe-24

**Ref: Exhibit 4, Tab 2, Schedule 1, page 50, Table 4-12 &**
**Exhibit 1, page 44 &**
**Exhibit 4, Tab 1, Schedule 1, page 6**

Page 50 of Exhibit 4, Tab 2, Schedule 1 shows the cost increases associated with monthly billing of $226,000 consisting of $36,000 for AMI communications, $112,000 for postage and $78,000 for a new billing clerk.

Table 4-12 shows an incremental cost of $173,195 for month monthly billing, excluding the new billing clerk, but at page 44 of Exhibit 1, it is stated that the $173,195 in additional costs for monthly billing includes staffing, postage, etc.

Page 6 of Exhibit 4, Tab 1, Schedule 1 indicates that the cost of the additional billing clerk needed for monthly billing is $64,377.

a) Please reconcile all of the above cost increases quoted for monthly billing.

b) What is the total incremental cost for monthly billing in 2016?

c) When does HHHI forecast that it will begin to move customers to monthly billing, and when does HHHI forecast that it will finish moving all customers to monthly billing?

## Response:

a) Please refer to 4-Staff-35.

b) Please refer to 4-Staff-35.

c) HHHI will begin switching customers to monthly billing in March 2016 and expects to complete the transition to monthly billing by May 2016.

## 4-Energy Probe-25

Ref: Exhibit 4, Tab 2, Schedule 1, Table 4-12

The evidence discusses the $951,608 one-time recognition of smart meter OM&A costs.

a) Please confirm this amount is included in the 2012 actual OM&A figure of $5,812,477.

b) Please confirm that this amount was not included in the 2012 Board approved OM&A figure of $5,793,399.

c) Please confirm that with the removal of the one-time recognition cost of $951,608, the actual 2012 OM&A expense is $4,860,869, which was approximately 16% below the Board approved level.

**Response:**

a) Confirmed - $951,608 one-time recognition of smart meter OM&A costs is allocated to USoA #5175.

b) Confirmed. As noted in 4-SEC-28, in EB-2011-0271, the Board approved OM&A spending on its typical envelope approach, and HHHI manages all OM&A expenses within its control (while still meeting all obligations), to ensure that at a minimum it does not materially exceed the envelope amount.

c) HHHI manages all OM&A in-line with its annual budget. The Actual 2012 OM&A expense is $5,908,349 on an approved budget of $5,900,000.

## 4-Energy Probe-26

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

Please add two lines to Table 4-17 that shows for each of the years the amount of total employee costs that was expensed to OM&A and the amount that was capitalized.

## Response:

Below, labelled Table IRR - 56, is the updated Table 4-17 with the OM&A and capitalized employee costs for each year.

### Table IRR - 56 : Updated Board Appendix 2-K - Employee Costs

| | Last Rebasing Year - 2012- Board Approved | Last Rebasing Year - 2012- Actual | 2013 Actuals | 2014 Actuals | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|
| **Number of Employees (FTEs including Part-Time)** | | | | | | |
| Management (including executive) | 11 | 11 | 11 | 11 | 12 | 12 |
| Non-Management (union and non-union) | 40 | 38 | 38 | 39 | 40 | 42 |
| *Total* | 51 | 49 | 49 | 50 | 52 | 54 |
| **Total Salary and Wages including ovetime and incentive pay** | | | | | | |
| Management (including executive) | 1,110,359 | 1,208,951 | 1,252,806 | 1,284,966 | 1,262,030 | 1,376,395 |
| Non-Management (union and non-union) | 2,893,134 | 2,644,037 | 2,852,253 | 2,751,808 | 3,067,967 | 3,244,901 |
| *Total* | $ 4,003,493 | $ 3,852,988 | $ 4,105,059 | $ 4,036,774 | $ 4,329,997 | $ 4,621,296 |
| **Total Benefits (Current + Accrued)** | | | | | | |
| Management (including executive) | 274,705 | 330,397 | 323,748 | 342,367 | 320,413 | 349,719 |
| Non-Management (union and non-union) | 827,630 | 853,821 | 812,210 | 830,121 | 815,786 | 863,244 |
| *Total* | $ 1,102,335 | $ 1,184,218 | $ 1,135,958 | $ 1,172,488 | $ 1,136,199 | $ 1,212,963 |
| **Total Compensation (Salary, Wages, & Benefits)** | | | | | | |
| Management (including executive) | $ 1,385,064 | $ 1,539,348 | $ 1,576,554 | $ 1,627,333 | $ 1,582,443 | $ 1,726,114 |
| Non-Management (union and non-union) | $ 3,720,764 | $ 3,497,858 | $ 3,664,463 | $ 3,581,929 | $ 3,883,753 | $ 4,108,145 |
| Total | **$ 5,105,828** | **$ 5,037,206** | **$ 5,241,017** | **$ 5,209,262** | **$ 5,466,196** | **$ 5,834,259** |
| | | | | | | |
| Percentage Change | | | 4.0% | -0.6% | 4.9% | 6.7% |
| Expensed to OM&A | | **$ 3,031,124** | **$ 3,078,036** | **$ 2,796,402** | **$ 3,623,472** | **$ 3,890,206** |
| Capitalized | | **$ 2,006,082** | **$ 2,162,981** | **$ 2,412,860** | **$ 1,842,723** | **$ 1,944,053** |

## 4-Energy Probe-27

**Ref: Exhibit 4, Tab 3, Schedule 3, page 71 & Table 4-12**

a) Table 4-27 shows an increase of $211,840 in 2014 from $0 in 2013 associated with management services from HHCEC. However, Table 4-12 does not contain any cost driver associated with this new cost from HHCEC in 2014. Please explain and quantify what HHHI costs were reduced between 2013 and 2014 as a result of the new charge from HHCEC.

b) There is a significant increase in the HHCEC cost between 2014 and 2015 that is forecast to be charged to HHHI. What is the driver behind this increase and are there offsetting reductions in other HHHI costs? If not, please explain why not.

c) What is the actual cost incurred in 2015 for services to HHCEC?

d) Please explain the increase in the costs to HHCEC in 2016 compared to 2015 as shown in Table 4-27, when the evidence states at page 73, that the cost is $268,356 for both 2015 and 2016.

## Response:

a) Please refer to 4-Staff-32 part (a).

b) 2014 costs represent partial year.

c) The forecast to December 31, 2015 is $272,475.

d) The increase in 2016 Test Year compared to 2015 Bridge Year is $5,367 or 2.0%.

## 4-Energy Probe-28

**Ref: Exhibit 4, Tab 3, Schedule 3, page 72**

a) What is the cost to HHHI associated with service and products provided to SWE that results in the revenue to HHHI of $331,697 per year?

b) Are these costs included in OM&A expenses or are they netted off the revenues from non-utility operations?

**Response:**

a) The cost to HHHI associated with service provided to SWE that results in the revenue to HHHI of $331,697 relate to water and sewer billing consisting of:
   - Wages and benefits for billing rep. and customer care rep.
   - Postage and billing supplies.
   - Allocation of Accounting support and IT support.

b) These costs are included in OM&A expenses.

## 4-Energy Probe-29

**Ref: Exhibit 4, Tab 3, Schedule 3, page 73**

Please provide a detailed breakdown of the $268,356 forecast to be paid to HHCEC in the test year. Please include the methodology used to set the rates, and how time is allocated by HHCEC to HHHI functions.

**Response:**

The shared services are a concentration of executive resources performing activities across the organization in order to achieve lower costs and higher efficiency service levels. With reference to Appendix 4–C "Affiliate Services Agreements", the forecast cost of $268,356 is in accordance with the Services Agreement, between HHHI and HHCEC; specifically para 2.2 and the CEC Services listed on Schedule 'B'. There are three or fewer employees in this category and it is not possible to aggregate this type of transaction.

## 4-Energy Probe-30

**Ref: Exhibit 4, Tab 3, Schedule 6**

a) Please confirm that none of the costs shown for 2015 in Table 4-30B have been included in the 2015 figures shown in Table 4-1 but rather the 2015 amounts have been added to the 2016 amounts shown in Table 4-30B and amortized over 5 years beginning in 2016.

b) What is the basis for the forecast of $54,500 in OEB Section 30 costs for the current application?

## Response:

a) HHHI confirms that none of the costs shown for 2015 in Table 4-30B have been included in the 2015 figures shown in Table 4-1 but rather the 2015 amounts have been added to the 2016 amounts shown in Table 4-30B and amortized over 5 years beginning in 2016.

b) To estimate the OEB Section 30 costs for the current application, HHHI reviewed the costs from HHHI's 2012 Cost of Service. The calculation included the 2012 amount as a starting point with additional costs added. The additional costs added are attributed to new requirements for DSP 3rd party review at the Board, new publication of notices process, new requirements for issues list, presentations, and expected increases in Board staff time related to a complex application.

## 4-Energy Probe-31

**Ref: Exhibit 4, Tab 3, Schedule 7**

Please confirm that there are no donations included in the historical OM&A or bridge year forecasts shown in Table 4-1. If this cannot be confirmed, please indicate the amount of donations included in each year. Please note that donations do not include LEAP for purposes of this question.

**Response:**

Confirmed.

## 4-Energy Probe-32

**Ref: Exhibit 4, Appendix 4-F &**
**Exhibit 2, Tables 2-21 & 2-22**

a) Please reconcile the capital additions to rate base of $7,267,811 shown in Table 2-21 with the figure shown in the CCA schedule for the bridge year of $5,235,110. Other than the $933,000 for land shown in Table 2-21, please explain the difference in these figures.

b) Please reconcile the capital additions to rate base of $8,210,960 shown in Table 2-22 with the figure shown in the CCA schedule for the test year of $6,210,959. What is the $2 million difference related to?

**Response:**

a) The difference between the capital additions to rate base of $7,267,811 and the amount on CCA schedule for the bridge year of $5,235,110 is pole replacement costs for 2015 that HHHI will be expensing rather than capitalizing.

b) The $2 million difference in 2016 is pole replacement costs that HHHI will be expensing rather than capitalizing.

## 4-Energy Probe-33

**Ref: Exhibit 4, Appendix 4-G &**
**Exhibit 2, Table 2-20**

Please reconcile the capital additions to rate base of $8,290,836 shown in Table 2-20 for 2014 with the figure shown in the CCA Schedule 8 for 2014 of $5,909,162.

**Response:**

The difference of $2,381,774 between the capital additions to rate base of $8,290,836 for 2014 and figure shown in the CCA Schedule 8 for 2014 of $5,909,162 is consist of the following:

$1,439,197 - Pole replacement costs capitated for accounting purposes but expense for tax purposes.

$954, 246 - Overhead burden costs capitated for accounting purposes but expense for tax purposes.

$11,669 – Other capital items expense for accounting purposes but capitalize for tax.

## 4-Energy Probe-34

**Ref: Exhibit 4, Tab 5, Schedule 1, pages 96-99**

a) Please provide more details on the expensing of certain cost for PILs purposes while capitalizing the costs for accounting purposes.

b) Please provide the calculation of the reduction in CCA claim for 2016 as a result of the one-time tax recovery for both the 2013 timing difference and the prior year amended returns.

c) Please confirm that the net result of this tax recovery is that ratepayers continue to pay a return on capital on the amounts capitalized for accounting and regulatory purposes, as well as PILs on the return on equity component, but have lost the PILs reduction through the reduced CCA deduction now available. If this is not correct, please explain fully.

d) Please calculate the revenue requirement in 2016 if HHHI had not opted for the one-time tax recovery through the expensing of the costs, but maintained the balances in the UCC and continued to receive a CCA allowance for the amounts.

**Response:**

a) HHHI implemented MIFRS in the 2012 Cost of Service (EB-2011-0271) thus allowing HHHI the opportunity to expense amounts capitalized in non-statute barred taxation years in a manner consistent with MIFRS capitalization requirements. Please refer to Canada Revenue Agency (CRA) Interpretation Bulletin ***IT-128R – Capital Cost Allowance –Depreciable Property.***

b) Please refer to Exhibit 4, Tab 5, Schedule 1 page 98, for an illustration of the impact expensing costs for income tax purposes as oppose to capitalizing such amounts, and claiming CCA at an assumed CCA rate. It is important to note over time, the total income tax reduction in both scenarios is equal. The calculation is accounted for in the annual corporate tax returns on "T2 Schedule 1 – Net Income (Loss) for Income Tax Purposes" and "T2 Schedule 8 - Capital Cost Allowance (CCA).

c) This scenario, as presented in this interrogatory, is not correct. HHHI has incorporated this tax practice in this application. Please refer to Exhibit 4, Tab5, Schedule 1, Page 100, Table 4-42.

d) The revenue requirement in 2016 if HHHI had not opted for the one-time tax recovery through the expensing of the in 2016 costs but maintained the balances in the UCC and continued to receive a CCA allowance for the amounts is presented below in Table IRR - 57.

## Table IRR - 57 : Updated Revenue Requirement

| Description | 2015 Bridge Actual | 2016 Test Existing Rates | 2016 Test - Required Revenue |
|---|---|---|---|
| **Revenue** | | | |
| Revenue Deficiency | | | 2,466,140 |
| Distribution Revenue | 9,847,171 | 9,052,472 | 9,052,472 |
| Other Operating Revenue (Net) | 1,210,681 | 1,210,681 | 1,210,681 |
| **Total Revenue** | **11,057,851** | **10,263,153** | **12,729,293** |
| **Costs and Expenses** | | | |
| Administrative & General, Billing & Collecting | 4,501,910 | 5,013,007 | 5,013,007 |
| Operation & Maintenance | 1,606,363 | 1,729,772 | 1,729,772 |
| Donations - LEAP | 12,000 | 12,027 | 12,027 |
| Depreciation & Amortization | 2,119,419 | 2,356,442 | 2,356,442 |
| Property Taxes | 101,896 | 104,440 | 104,440 |
| Deemed Interest | 1,125,041 | 1,115,711 | 1,115,711 |
| **Total Costs and Expenses** | **9,466,630** | **10,331,399** | **10,331,399** |
| **Utility Income Before Income Taxes** | **1,591,221** | (68,246) | **2,397,894** |
| **Income Taxes:** | | | |
| Corporate Income Taxes | (256,455) | (256,589) | 113,332 |
| **Total Income Taxes** | (256,455) | (256,589) | 113,332 |
| **Utility Net Income** | **1,847,676** | **188,343** | **2,284,563** |
| **Income Tax Expense Calculation:** | | | |
| Accounting Income | 1,591,221 | (68,246) | 2,397,894 |
| Tax Adjustments to Accounting Income | (3,245,770) | (1,642,349) | (1,642,349) |
| **Taxable Income** | (1,654,549) | (1,710,595) | 755,545 |
| **Income tax expense before credits** | (256,455) | (256,589) | 113,332 |
| **Credits** | 0 | 0 | 0 |
| **Income Tax Expense** | (256,455) | (256,589) | 113,332 |
| **Tax Rate Refecting Tax Credits** | 15.50% | 15.00% | 15.00% |
| **Actual Return on Rate Base:** | | | |
| Rate Base | 62,201,443 | 62,148,061 | 62,148,061 |
| Interest Expense | 1,125,041 | 1,115,711 | 1,115,711 |
| Net Income | 1,847,676 | 188,343 | 2,284,563 |
| **Total Actual Return on Rate Base** | **2,972,718** | **1,304,054** | **3,400,274** |
| **Actual Return on Rate Base** | 4.78% | 2.10% | 5.47% |
| **Required Return on Rate Base:** | | | |
| Rate Base | 62,201,443 | 62,148,061 | 62,148,061 |
| **Return Rates:** | | | |
| Return on Debt (Weighted) | 3.01% | 2.99% | 2.99% |
| Return on Equity | 8.82% | 9.19% | 9.19% |
| Deemed Interest Expense | 1,125,041 | 1,115,711 | 1,115,711 |
| Return On Equity | 2,194,467 | 2,284,563 | 2,284,563 |
| **Total Return** | **3,319,508** | **3,400,274** | **3,400,274** |
| **Expected Return on Rate Base** | 5.34% | 5.47% | 5.47% |
| **Revenue Deficiency After Tax** | **346,790** | **2,096,219** | **-0** |
| **Revenue Deficiency Before Tax** | **410,403** | 2466140.425 | **-0** |

| Tax Exhibit | | | 2016 |
|---|---|---|---|
| Deemed Utility Income | | | 2,284,563 |
| Tax Adjustments to Accounting Income | | | (1,642,349) |
| **xable Income prior to adjusting revenue to PILs** | | | **642,213** |
| Tax Rate | | | 15.00% |
| Total PILs before gross up before tax credits | | | **96,332** |
| Tax Credits | | | **0** |
| Total PILs before gross up after tax credits | | | **96,332** |
| **Grossed up PILs** | | | **113,332** |

## 4-Energy Probe-35

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

**a)** Please confirm that HHHI has a PILs tax rate of 26.50%, as shown in the PILs workform because it has taxable capital in excess of $15 million. If this cannot be confirmed, please explain.

b) Please explain the use of the 15.50% tax rate in Table 4-42 and in the Revenue Requirement Workform.

**Response:**

a) HHHI has a tax rate of 15.50% based on the level of income (loss) for tax purposes.

b) The use of 15.50% tax rate is based on federal tax rate of 10.5% plus Ontario tax rate of 4.5%.

## 4-Energy Probe-36

**Ref: Exhibit 4, Appendix 4-F &**
**Exhibit 2, Tables 2-21 and 2-22**

a) Please explain why HHHI has included capital additions related to computer hardware ($121,500 in 2015 and $75,000 in 2016) in CCA class 10 rather than in CCA class 50?

b) Please update the CCA schedules in the PILs workform to reflect the computer hardware being place in CCA class 50.

## Response:

a) HHHI will update CCA schedules in the PILs workform to reflect the computer hardware being place in CCA class 50.

b) Please see part (a) above.

## 4-Energy Probe-37

**Ref: Exhibit 4, Appendix 4-F**

Please explain what the Other Deductions shown on line 394 for the bridge ($2,248,880) and test ($2,950,000) years on the Adjusted Taxable Income sheets of the PILs workform is related to and how it is calculated.

**Response:**

Please refer to 4-Staff-39 part (a).

## 4-SEC-27

**Ref: [4/1/1, p. 3]**

Please confirm that the 2012 Board-approved OM&A did not include the amount of $951,608 one-time recognition of Smart Meter OM&A. Please re-state Table 4-2 without the reduction for those costs.

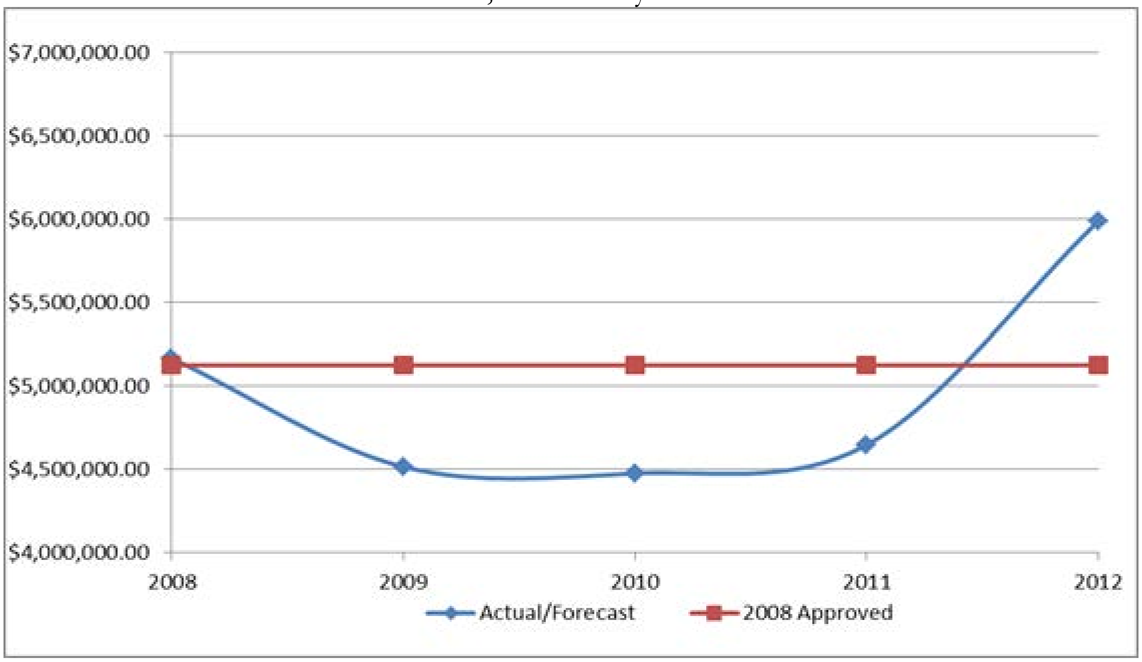
**Response:**

Please refer to 4-EnergyProbe-25 part (b).

## 4-SEC-28

**Ref: [4/1/1, p. 2]**

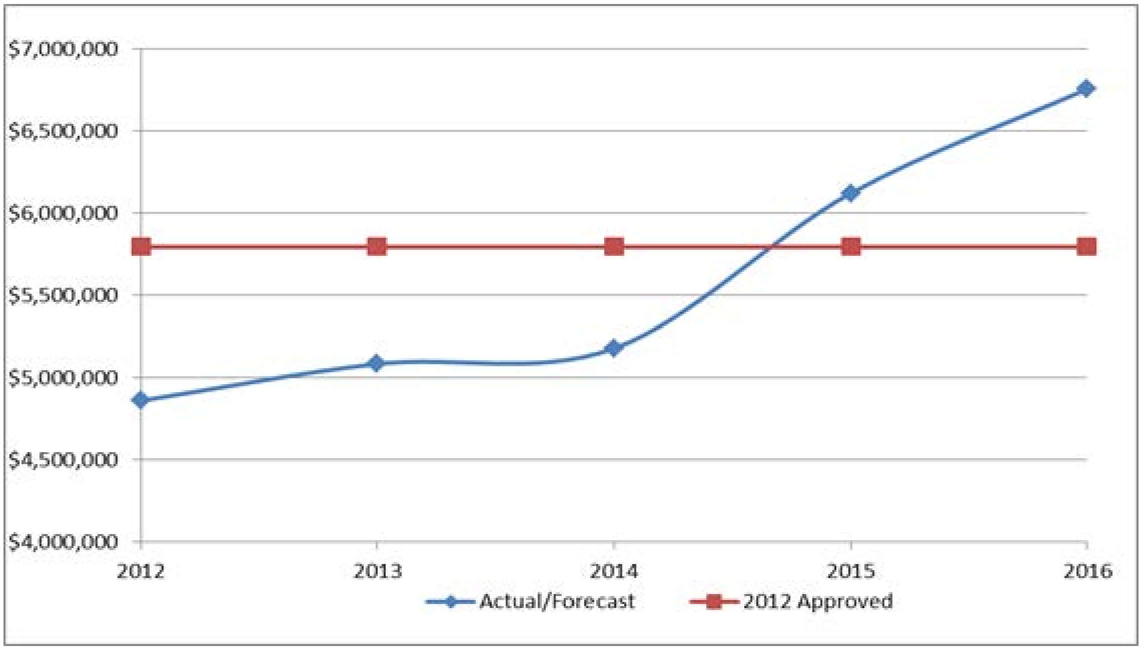
In EB-2011-0271, a chart that was similar to the following chart, detailed the Applicant's pattern of Board-approved and actual OM&A from 2008 to 2012, was filed by SEC:




The Board, in its Decision with Reasons in that proceeding, comments at page 17 as follows:

> *"However, the Board also notes that HHH's actual OM&A spending in 2008 to 2010 was significantly lower than 2008 Board approved spending. Such a pattern followed by a significant increase in the test year is a potential cause for concern."*

A similar table, for the period 2012 to 2016, and adjusting for the $951,608 one-time recognition of Smart Meter OM&A in 2012, shows the following:




Please explain why, once more, and despite the Board's stated concern, the Applicant continues to show a pattern of underspending on OM&A relative to Board-approved after rebasing, but then substantial increases at the time of rebasing.

**Response:**

Based on the most recent OEB Benchmarking report (July 2015 - Pacific Economics Groups Research – PEG Report) HHHI is in Group I and is considered to be one of the better cost performers.

HHHI continues to deliver a level of cost efficiency. It is important to look at all cost levels - OM&A and capital as it is very common for the allocation of resources to vary year over year. For example, HHHI's ERP implementation attracted the capitalization of certain direct wages and overhead costs that would normally be part of OM&A.

In EB-2011-0271, the Board approved OM&A spending on its typical envelope approach, and HHHI manages all OM&A expenses within its control (while still meeting all obligations), to ensure that at a minimum it does not materially exceed the envelope amount. In addition, see response to 4-Staff-24 part (b).

Through its creative and critical thinking approach, HHHI continuously revisits all OM&A costs with the objective to drive further efficiencies and cost savings. For example, in September 2013, HHHI along with Oakville Hydro Distribution Inc. (OHDI) set a new standard in the distribution industry by signing a Control Room Services Agreement. This agreement is just one example of the HHHI's creative and critical efficiencies that is customer centric by the "Cost Avoidance" of HHHI not having to staff a Control Room 24/7. In addition this collaborative approach delivers HHHI's customers a greater value while increasing system reliability, integrity and effectiveness of helping to reduce most outage duration(s).

Referring to Table 4-1 in the evidence filed, total OM&A for forecast 2015 Bridge Year is $6,222,169 compared to 2012 Actual $5,908,349 or 5.3% increase over the three year period. The OM&A costs in 2016 Test Year $6,859,246 or 10.2% over 2015 reflects the resourcing mix and investment required to meet customer and broader public policy requirements put forth by the OEB, such as transitioning to monthly billing, implementation of Ontario Energy Support Plan (OESP). Significant costs beyond the control of HHHI.

## 4-SEC-29

**Ref: [4/1/1, p. 10]**

Please provide the original business case for the ERP Software. Please provide details of any changes in the costs of the ERP project from the original approval of the spending, to the final actual total, and the reasons for those changes.

## Response:

HHHI's approach to selecting a new ERP system was based upon all department users having a role in the selection process. After several product demonstrations, staff was asked to complete a decision matrix in relation to their expertise on the job and in relation to how the software demo would meet the needs of HHHI.

A summary of the decision matrix evaluation is provided below in Table IRR - 58.

**Table IRR - 58 : ERP Decision Matrix**

| | | | | |
|---|---|---|---|---|
| ERP Demos | | | | |
| Summary Evaluations | | | | |
| | | Vendor #1 | Vendor #2 | Vendor #3 |
| 100.000 | General System Overview | | | |
| | | 70.69 | 82.27 | 46.60 |
| 200.000 | Reporting | | | |
| | | 70.87 | 81.42 | 69.86 |
| 300.000 | Budgeting | | | |
| | | 77.19 | 72.09 | 67.69 |
| 400.000 | Financials | | | |
| | | 51.23 | 81.50 | 62.79 |
| 500.000 | Procurement and Inventory | | | |
| | | 64.51 | 83.06 | 62.45 |
| 600.000 | Job Costing (Work Order Management) | | | |
| | | 40.31 | 82.31 | 65.73 |
| 700.000 | Asset Management | | | |
| | | 51.32 | 83.88 | 46.56 |
| 800.000 | Human Resources | | | |
| | | 77.11 | 76.34 | 63.67 |
| 900.000 | Payroll - Unionized | | | |
| | | 83.24 | 75.77 | 66.44 |
| 1100.000 | Interface with Existing Sungard Public Sector - CIS & Billing module | | | |
| | | 67.98 | 8.75 | 1.02 |
| | **Overall Average Rating** | **65.45** | **72.74** | **55.28** |

HHHI's 2012 Cost of Service (EB-2012-0271) included an ERP CapEx of $350,000. The implementation of the new ERP system was over a period of two fiscal years; starting in April 2013 with a planned 'Go-Live' date of September 30, 2014. The actual Go-Live Date was November 01, 2014.

A summary of actual cost versus budget is detailed in Table IRR - 59.

## Table IRR - 59 : Summary of Actual Cost versus Budget

| | EB-2011-0271 Approved | Budget | Actual | Variance Fav (Unfav) | |
|---|---|---|---|---|---|
| Hardware | $ 48,000 | $ - | $ - | $ - | |
| Software | 121,000 | 155,009 | 157,126 | (2,117) | |
| Contract Services | 181,000 | 191,000 | 192,500 | (1,500) | |
| | | | | | |
| Hardware | | - | | | |
| Integration - CIS | | 16,000 | 9,200 | 6,800 | |
| | | | | | |
| Disbursement costs | | | | | |
| 4.0% Project Lifecycle Administration | | 3,820 | 3,850 | (30) | |
| Mileage and incidentals | | 5,000 | 7,686 | (2,686) | |
| | | | | | |
| Additional Resources: | | | | | |
| IT Contractor | | 41,600 | 2,504 | 39,096 | |
| Other Resources | | 92,000 | 31,100 | 60,900 | |
| 2.0% unforeseen costs | | 10,089 | 15,935 | (5,846) | |
| | 350,000 | 514,518 | 419,901 | 94,617 | |
| | | | | | |
| OM&A Allocated to Capital | | 370,504 | 481,061 | (110,557) | |
| | | | | | |
| | $ 350,000 | $ 885,022 | $ 900,962 | (15,940) | -1.80% |
| | | | | | |

## 4-SEC-30

**Ref: [4/1/1, p. 17]**

With respect to the change in the capital allocations from 65% to 75% for Operations, and from 30% to 70% for Engineering,

a. Please provide the detailed calculations used to establish the new percentages.
b. Please provide all benchmarking or other comparisons the Applicant did to other LDCs or other businesses to validate the new percentages.
c. Please calculate the impact on revenue requirement in the Test Year of using the old percentages rather than the new percentages.

**Response:**

a) The capital allocation will vary year-over-year dependent upon the capital projects and other variables that may or may not be under management's control. HHHI develops a detailed labour budget for each employee to determine budget productive hours by employee. For example: An employee working a 40 hours per work week, adjusted for vacation, statutory days, sick time, inclement weather, monthly safety meetings and training may be available for approximately 1,650 productive hours.

   HHHI works with 2 4-Man Crews plus 1 2-Man Trouble Truck. The Trouble truck is essentially OM&A (or approx. 3,300 hours per year), while the 2 4-Man Crews work on capital projects (equivalent to 13,200 Hours). Any capital hours required beyond HHHI's available complement is contracted out.

b) HHHI's capital program is unique to HHHI. Benchmarking or other comparisons are not available.

c) Recalculating the revenue requirement based on the old percentages will be of no value; as it will not allow HHHI to successfully complete the capital program as budgeted.

## 4-SEC-31

**Ref: [4/2/1, p. 22, 27]**

Please provide all of the overhead rates set at the beginning of each year from 2011-2016, and for each completed year the overhead rates resulting from the true-up process. For each year's overhead rates, please provide the calculations used to establish those rates.

## Response:

Labour burden and overhead rates follow the Collective Agreement Year – April 1st to March 31st. Rates effective for April 1, 2016 will not be available until ratification of a new collective agreement, anticipated in April 2016. Overhead rates are provided in Table IRR - 60.

**Table IRR - 60 : Burden and Crew Rates**

| | Effective 1-Apr-11 | Effective 1-Apr-12 | Effective 1-Apr-13 | Effective 1-Apr-14 | Effective 1-Apr-15 |
|---|---|---|---|---|---|
| Hourly Labour Charge | $ 78.45 | $ 80.72 | $ 83.06 | $ 85.27 | $ 87.53 |
| Equipment Rates: | | | | | |
| Heavy Trucks & Equipment | $ 44.50 | $ 46.00 | $ 47.50 | $ 49.00 | $ 50.30 |
| Light Trucks, Vans | $ 24.00 | $ 25.00 | $ 26.00 | $ 27.00 | $ 27.72 |
| Trailers, other | $ 14.50 | $ 15.00 | $ 15.50 | $ 16.00 | $ 16.42 |
| Material Overhead Rate | 22% | 23% | 24% | 24% | 24% |
| Contractor Administration Rate | 10% | 12% | 14% | 14% | 14% |
| Payroll Burden | 67% | 67% | 67% | 67% | 67% |

## 4-SEC-32

**Ref: [4/2/1, p. 34]**

Please confirm that the total Executive and Management Salaries and Expenses (5605 and 5610) are expected to increase from $738,533 in 2012 to $1,171,906 in 2016, an increase of 58.7% over four years. Please provide a detailed explanation of this increase. Please specify, and provide details, of the extent if any to which the change in the management team in 2014, referred to elsewhere in the Application, caused this four year increase to be higher or lower than it otherwise would have been.

## Response:

With reference to Table IRR - 61, actual OM&A costs for Executive and Management Salaries and Expenses (5605 and 5610) will vary year-over-year resulting from the capital allocation for capital projects that the Executive and Management are directly involved in.

Other drivers for the increase in 2015 and 2016 are:

(i) Starting in 2015, certain payroll costs (i.e. CPP, EI, Group Benefits) reflected as OM&A costs under IFRS; formerly accounted for as burdens under CGAAP.
(ii) One new FTE (Business Analyst) is reflected in 2016

**Table IRR - 61 : OM&A costs for Executive and Management Salaries and Expenses**

| As per Table 4-6 | USofA | 2012 Board Approved | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| | 5605 | 424,576 | 386,771 | 409,712 | 551,799 | 615,289 | 628,891 |
| | 5610 | 502,870 | 351,762 | 435,644 | 224,091 | 446,326 | 543,015 |
| | | 927,446 | 738,533 | 845,356 | 775,890 | 1,061,615 | 1,171,906 |
| | | | | 14.5% | -8.2% | 36.8% | 10.4% |
| | | | | | | | 58.7% |
| **Executive Salaries and Expenses** | **5605** | 424,576 | 405,130 | 460,865 | 615,677 | 568,192 | 580,548 |
| **Management Salaries and Expenses** | **5610** | 502,870 | 351,762 | 455,878 | 333,860 | 364,593 | 440,922 |
| | | 927,446 | 756,892 | 916,743 | 949,537 | 932,785 | 1,021,470 |
| **Add: Payroll Costs-IFRS (formerly Burden under CGAAP)** | | - | - | - | - | 221,409 | 244,809 |
| **Less: Allocated to Capital** | | - | (18,359) | (71,387) | (173,646) | (92,579) | (94,373) |
| | | 927,446 | 738,533 | 845,356 | 775,890 | 1,061,615 | 1,171,906 |

## 4-SEC-33

**Ref: [4/2/1, p. 41]**

Please confirm that, prior to 2013, the cost of Health and Safety programs was zero.

**Response:**

Prior to 2013, the cost of Health and Safety programs was not zero.

## 4-SEC-34

**Ref: [4/2/1, p. 56]**

Please re-state Table 4-15 excluding connections from the Number of Customers line, and excluding from 2012 OM&A the one-time recognition of Smart Meters OM&A of $951,608.

## Response:

Re-stated Table 4-15, labelled as Table IRR - 62, excluding connections from the Number of Customers line, and excluding from 2012 OM&A the one-time recognition of Smart Meters OM&A of $951,608 is presented below:

**Table IRR - 62 : Revised Appendix 2-L – Recoverable OM&A Cost per Customer and per FTE**

| | Last Rebasing Year - 2012- Board Approved | Last Rebasing Year - 2012- Actual | 2013 Actuals | 2014 Actuals | 2015 Bridge Year | 2016 Test Year |
|---|---|---|---|---|---|---|
| Reporting Basis | CGAAP | CGAAP | CGAAP | CGAAP | MIFRS | MIFRS |
| Number of Customers [2,4] | 21,202 | 21,340 | 21,562 | 21,808 | 21,930 | 22,114 |
| Total Recoverable OM&A from Appendix 2-JB | $ 5,793,400 | $ 4,860,869 | $ 5,084,432 | $ 5,178,941 | $ 6,120,273 | $ 6,754,806 |
| OM&A cost per customer | $ 273.25 | $ 227.78 | $ 235.81 | $ 237.48 | $ 279.08 | $ 305.45 |
| Number of FTEs [3,4] | $51 | $50 | $49 | $50 | $51 | $53 |
| Customers/FTEs | 415.73 | 426.80 | 440.04 | 436.16 | 430.00 | 417.25 |
| OM&A Cost per FTE | 113,596.08 | 97,217.38 | 103,763.92 | 103,578.82 | 120,005.35 | 127,449.17 |

## 4-SEC-35

**Ref: [4/3/2, p. 60]**

For Table 4-17, please advise for each year the amount of total employee costs capitalized.

**Response:**

Please refer to 4-Energy Probe-26.

## 4-SEC-36

**Ref: [4/3/3, p. 71-3]**

Please provide details of all services provided to, and all services received from, SouthWestern Energy Inc. (SWE) Without limiting the generality of the foregoing, please explain what personnel of SWE provide the services to the Applicant, and what personnel (positions) of the Applicant provide the services to SWE. Please identify the independent website of SWE (i.e. other than the website www.haltonhillshydro.com), and provide copies of all agreements between SWE and the Applicant.

**Response:**

The website for SouthWestern Energy Inc. (SWE) is http://www.southwesternenergy.com/. Copies of the agreements between SWE and HHHI can be found in Appendix C of Exhibit 4 in the application. For all other requests in this interrogatory, please refer to 1-SEC-13.

## 4-SEC-37

**Ref: [4/5/1, p. 101 and Table 4-42]**

Please explain how the Applicant has no non-capital losses available, if every year from 2012 to 2016 it has a non-capital loss for tax purposes. Please provide full details on loss carryforwards and carrybacks for the losses in each of those years.

**Response:**

Non-capital losses were applied to prior years to reduce taxable income and shown in Table IRR - 63.

**Table IRR - 63 : Loss Carry Back**

| | |
|---|---|
| 2012 Loss Carry-back | $ 359,211 |
| 2013 Loss Carry-back | 2,114,700 |
| 2014 Loss Carryback | 755,568 |
| | $ 3,229,479 |

Appendix IRR - F shows copies of “Schedule 4” supporting the loss carry-back for the respective taxation years.

## 4-VECC-18

**Reference: E4/T1/S1, pg. 6**

a) Please provide a breakdown of the increase in billing cost in moving to monthly billing as between: (1) incremental labour costs; (2) postage costs; (3) incremental IT costs; (4) other costs – please identify.

b) Please describe the incremental processing required for monthly bills.

**Response:**

a) Please refer to 4-Staff-35.

b) The incremental processing required for monthly bills includes:

- ODS management
- VEE processing
- Exception report processing
- Bill printing
- Envelope stuffing

## 4-VECC-19

**Reference: E4/T1/S1, pg. 15**

a) HHH indicates the costs for OHDI shared services are $153,000. When did HHH begin incurring the costs for a shared SCADA control room?

b) What were these costs in each of 2012 through 2014?

**Response:**

a) HHHI began incurring costs for a shared control room October 01, 2013.

b) Control room costs were:

| | |
|---|---|
| 2012 | $0 |
| 2013 | $30,000 |
| 2014 | $120,750 |

## 4-VECC-20

**Reference: E4/T2/S1**

a) Please provide the overtime costs in each of 2012 through 2016.

## Response:

a) Table IRR - 64 shows the actual overtime cost from 2012 to 2015 and the forecast amount for 2016.

**Table IRR - 64 : Actual Overtime Time Costs**

| Year | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| | | | | | |
| Total | 242,853 | 256,082 | 210,652 | 204,481 | 144,500 |

## 4-VECC-21

**Reference: E4/T1/S1, pg. 6**

a) Please provide a breakdown of the increase in billing cost in moving to monthly billing as between: (1) incremental labour costs; (2) postage costs; (3) incremental IT costs; (4) other costs – please identify.

b) Please describe the incremental processing required for monthly bills.

**Response:**

a) Please refer to 4.0-VECC-18.

b) Please refer to 4.0-VECC-18.

## 4-VECC-22

**Reference: E4/T2/S1/pg.31**

a) Please provide the annual fees paid to the EDA in each of 2012 through 2016 (forecast).
b) Please provide the same for the Halton Hills Chamber of Commerce.

## Response:

a) Please see Table IRR - 65.

b) Please see Table IRR - 65.

**Table IRR - 65 : HHHI Annual Fees**

| | Annual EDA Membership Fees | Halton Chamber of Commerce |
|---|---|---|
| 2012 | $ 42,200 | $ 291 |
| 2013 | 44,300 | 335 |
| 2014 | 46,200 | 345 |
| 2015 | 47,800 | 345 |
| 2016 Test Year | 47,800 | 350 |
| | $ 228,300 | $ 1,316 |

## 4-VECC-23

**Reference: E4/T2/S1/pg.34**

a) Please explain why HHH continues to incur meter reading costs after the installation of smart meters.

b) Please explain when HHH expects all meters to be read remotely.

**Response:**

a) HHHI utilizes different types of meters for different rate classes. Smart meters are currently installed on most residential and General Service less than 50 kW customers. Customer in the General Service 1,000 to 4,999 kW class all have interval meters that are read through MV-90. The General Service 50 to 999 kW class includes interval meters that are read through MV-90, conventional demand meters that must be read and re-set manually and Meter Inside Settlement Timeline (MIST) demand meters that are read through the AMI system and may be re-set through the AMI system or re-set manually. In addition to the meter reading costs still incurred for manual reads and manual demand re-sets, on occasion, communication issues may prevent the electronic collection of data from meters. When communication issues occur, it is necessary to attend the meter and manually download the data, thus incurring meter reading costs.

b) As described in 4.0-VECC-23 (a), manual demand reads and re-sets in addition to communication issues can incur meter reading costs. With the installation of MIST meters for all customers in the General Service 50 to 999 kW class, it is expected that these costs will decrease. However, in relation to meter reading costs associated with communication issues and manual downloads and is the nature of both wired and wireless communication, meter reading costs are unlikely to be completely eliminated.

## 4-VECC-24

**Reference: E4/T3/S2**

a) Has HHH revised its capitalization policy since 2012? If yes, please provide the estimated adjustment to 2016 M&A that is due to the change in capitalization policies.

b) Please revise Table 4-17 by adding two rows which show the total compensation capitalized and the total compensation charged to OM&A in each of the years.

**Response:**

a) HHHI has not revised it capitalization policy since 2012. Please refer to Exhibit 4, Tab 4, Schedule 1, page 90, lines 13 and 14 in the application.

b) Please refer to 4-Energy Probe-26.

## 4-VECC-25

**Reference: E4/T3/S3/pg.71**

a) Please explain why the costs for water & sewer billing and IT services have virtually stay unchanged since 2012 as compared to 2016 (252k in 2012 and 253k forecast for 2016).

b) Please provide a breakdown of billing costs charge to SWE in 2012 as compared to 2016.

## Response:

a) Costs recovered for billing, customer service, IT, meter reading and other costs have increased; offset by the reduction in the recovery of occupancy (rent) as the affiliate no longer occupies warehouse space.

b) Please see Table IRR - 66.

**Table IRR - 66 : SWE Billing Costs**

| | 2012 | 2016 |
|---|---|---|
| Billing and customer service and IT | $ 136,411 | $ 176,485 |
| Meter reading, postage and supplies | 60,132 | 72,276 |
| Service fee - occupancy | 55,607 | 4,636 |
| | | |
| | $ 252,150 | $ 253,397 |

## 4-VECC-26

**Reference:** **E4/T2/S1/pg.84/Table 4-31**

a) Please explain why there are no capital contributions (account 1995) for 2015 and forecast for 2016.

**Response:**

a) Please refer Exhibit 2, Tab 1, page 20.

## 4-VECC-27

**Reference: E4/T6/S4, page 106**

a) Are the final 2011-2014 CDM results available from the IESO? If yes, please provide and update HHHI's LRAM claim.

b) With respect to Table 4-49 the values for Peak Demand Savings are the same as those for Net Energy Savings. Please provide a revised version that reports the Peak Demand savings by customer class for each year.

c) Please explain how, for demand billed classes, the peak demand savings as reported by the IESO were translated into billing demand savings for purposes of Table 4-50 and reconcile with the IESO (OPA) definition of peak.

## Response:

a) HHHI has updated its LRAM claim based on the 2011-2014 Final Report which included additional CDM savings. As a result, HHHI is requesting approval for the disposition of a credit balance of $20,105, a reduction of $26,445 from the amount claimed in the application. HHHI is proposing the credit balance be added to the Group 1 Deferral and Variance Accounts, as requested by OEB Staff in interrogatory 9-Staff-50, to be disposed of by way of a variable rate rider from May 1, 2016 to April 30, 2018. HHHI notes that it has updated the forecasted kWh and kW for the 2016 Test Year based on the revised load forecast provided in response to 3.0-VECC-9. The details of the revised LRAM claim are shown in Tables IRR - 67 to IRR - 69.

**Table IRR - 67 : Revised Net Energy Savings (kWh and kW)**

| Rate Class | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **Net Energy Savings - kWh** | | | | |
| Residential | 820,118 | 1,103,664 | 2,057,529 | 2,727,819 |
| General Service less than 50 kW | 117,340 | 139,660 | 202,207 | 240,920 |
| General Service 50 to 999 kW | 717,211 | 2,621,440 | 3,823,715 | 5,563,844 |
| General Service 1,000 to 4,999 kW | 628,707 | 529,893 | 646,217 | 1,350,124 |
| **Total Energy Savings - kWh** | **2,283,375** | **4,394,657** | **6,729,668** | **9,882,707** |
| **Net Peak Demand Savings - kW** | | | | |
| Residential | 333 | 573 | 594 | 777 |
| General Service less than 50 kW | 46 | 14 | 15 | 21 |
| General Service 50 to 999 kW | 182 | 485 | 373 | 530 |
| General Service 1,000 to 4,999 kW | 560 | 411 | 1,422 | 497 |
| **Total Net Peak Demand Savings - kW** | **1,121** | **1,483** | **2,405** | **1,825** |

## Table IRR - 68 : Revised Lost Revenue Calculations by Rate Class

| Rate Class | Units | CDM Savings in Load Forecast (kWhs) | Actual CDM Savings (kWhs) | Variance (kWhs) | Variable Rates ($) | Distribution Revenue ($) |
|---|---|---|---|---|---|---|
| **2011 Lost Revenue** | | | | | | |
| Residential | kWh | - | 820,118 | 820,118 | 0.0119 | 9,759 |
| General Service less than 50 kW | kWh | - | 117,340 | 117,340 | 0.0088 | 1,029 |
| General Service 50 to 999 kW | kW | - | 182 | 182 | 3.3885 | 617 |
| General Service 1,000 to 4,999 kW | kW | - | 560 | 560 | 3.6066 | 2,020 |
| **2011 Lost Revenue Total** | | | | | | **13,425** |
| **2012 Lost Revenue** | | | | | | |
| Residential | kWh | 2,396,997 | 1,103,664 | (1,293,333) | 0.0116 | (14,938) |
| General Service less than 50 kW | kWh | 619,006 | 139,660 | (479,346) | 0.0084 | (4,019) |
| General Service 50 to 999 kW | kW | 485 | 373 | (112) | 3.3298 | (373) |
| General Service 1,000 to 4,999 kW | kW | 411 | 1,422 | 1,011 | 3.1671 | 3,203 |
| **2012 Lost Revenue Total** | | | | | | **(16,126)** |
| **2013 Lost Revenue** | | | | | | |
| Residential | kWh | 2,396,997 | 2,057,529 | (339,468) | 0.0115 | (3,915) |
| General Service less than 50 kW | kWh | 619,006 | 202,207 | (416,799) | 0.0083 | (3,446) |
| General Service 50 to 999 kW | kW | 373 | 530 | 156 | 3.3350 | 521 |
| General Service 1,000 to 4,999 kW | kW | 1,422 | 497 | (925) | 3.0245 | (2,798) |
| **2013 Lost Revenue Total** | | | | | | **(9,637)** |
| **2014 Lost Revenue** | | | | | | |
| Residential | kWh | 2,396,997 | 2,727,819 | 330,822 | 0.0117 | 3,882 |
| General Service less than 50 kW | kWh | 619,006 | 240,920 | (378,086) | 0.0084 | (3,163) |
| General Service 50 to 999 kW | kW | 2,770 | 530 | (2,240) | 3.3826 | (7,579) |
| General Service 1,000 to 4,999 kW | kW | 607 | 497 | (110) | 3.1010 | (340) |
| **2014 Lost Revenue Total** | | | | | | **(7,200)** |
| **Total Lost Revenue 2011-2014** | | | | | | **(19,538)** |

## Table IRR - 69 : Revised LRAMVA Claim

| Rate Class | 2011 | 2012 | 2013 | 2014 | Sub-Total | Carrying Charges | Total |
|---|---|---|---|---|---|---|---|
| | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| Residential | 9,759 | (14,938) | (3,915) | 3,882 | (5,212) | (151) | (5,363) |
| General Service less than 50 kW | 1,029 | (4,019) | (3,446) | (3,163) | (9,599) | (279) | (9,877) |
| General Service 50 to 999 kW | 617 | (373) | 521 | (7,579) | (6,813) | (198) | (7,010) |
| General Service 1,000 to 4,999 kW | 2,020 | 3,203 | (2,798) | (340) | 2,086 | 61 | 2,146 |
| **Total** | **13,425** | **(16,126)** | **(9,637)** | **(7,200)** | **(19,538)** | **(567)** | **(20,105)** |

b) Please refer to 4.0-VECC-27 part (a).

c) The IESO's Evaluation, Measurement and Verification (EM&V) Protocols and Requirements defines peak demand as follows:

> *The concept of peak demand is not simply the highest demand for electricity in a 24 hour period. Instead, the concept relates to energy demanded over the course of pre-defined period of time (i.e., 1 pm-7 pm) during which the overall demand on the province's electricity grid tends to be higher, on average.*

For the purpose of calculating the demand savings, HHHI uses the peak demand as reported by the IESO.