

Ottawa River Power Corporation
Exhibit 9
Response to Interrogatories

Deferral and Variance Accounts

9-Staff-76 Stranded Meters

Ref: Exhibit 2, pp. 43 – 45

In table 2.30a) – Summary of Proposed Charge Parameters, ORPC shows a net book value of \$398,964 as of December 31, 2011, which is the amount requested for recovery. ORPC did not apply any further amortization to the net book value of stranded meters.

- a) Please confirm that amortization expenses related to stranded meters continue to be embedded in ORPC's rates until the effective date of 2016 rates.

Response:

Ottawa River Power confirms that amortization expenses related to stranded meters continue to be embedded in its rates until the effective date of 2016 rates.

- b) If yes to a), please explain why the net book value request for recovery has not been reduced by the accumulated amortization for the 2012, 2013, 2014 and 2015 rate years.

Response:

Ottawa River Power made an accounting error in not continuing the depreciation of the stranded meters.

- c) If no to a), please explain.

Response:

N/A

- d) Please update table 2.30a to include accumulated amortization up to December 31, 2015 and re-calculate the residual net book value accordingly.

Response:

Ottawa River Power provides the following amended table 2.30a:

Year	Notes	Gross Asset Value	Accumulated Amortization	Contributed Capital (Net of Amortization)	Net Asset	Proceeds on Disposition	Residual Net Book Value
		(A)	(B)	(C)	(D) = (A) - (B) - (C)	(E)	(F) = (D) - (E)
2009		\$ 314,617	\$ 186,632		\$ 127,985		\$ 127,985
2010		\$ 902,724	\$ 570,719		\$ 332,005		\$ 332,005
2011		\$ 942,456	\$ 624,824		\$ 317,631		\$ 317,631
2012		\$ 942,456	\$ 648,751		\$ 293,705		\$ 293,705
2013		\$ 942,456	\$ 671,458		\$ 270,998		\$ 270,998
2014		\$ 942,456	\$ 694,164		\$ 248,291		\$ 248,291
		\$ 942,456	\$ 715,270		\$ 227,185		\$ 227,185

- e) Please recalculate the stranded meter rate rider based on the net book value as of December 31, 2015.

Response:

Ottawa River Power has recalculated the stranded meter rate rider.

- f) ORPC did not show any proceeds on disposition. Where any of these assets sold for scrap metal? If so, please provide the proceeds from the sale and apply towards the amount requested for recovery.

Response:

Ottawa River Power was unable to sell its stranded meters for scrap metal.

9-Staff-77 Smart Meters

Ref: Smart Meter Model, Tab 3 – Cost of Capital Parameters

ORPC used the 2010 cost of capital parameters for the years 2010 – 2014. For the bridge and test years ORPC used the following short-term (ST) debt rate 2.07% and a return on equity (ROE) of 8.98%. On October 15, 2015 the OEB issued a letter updating the cost of capital parameters for the 2016 rate year as follows:

Cost of Capital Parameter	Value for Applications for rate changes in 2016
ROE	9.19%
Deemed LT Debt rate	4.54%
Deemed ST Debt rate	1.65%

- a) Please justify the cost of capital parameters use for the 2015 bridge year.

Response:

The utility used the Cost of Capital as approved in its 2010 Cost of Service application (EB-2009-0165)

A print screen of the RRWF filed as part of the utility's draft rate order is presented at the next page.



REVENUE REQUIREMENT WORK FORM

Name of LDC: Ottawa River Power Corporation

File Number: EB-2009-0165

Rate Year: 2010

		Data Input		(1)
		Application	Adjustments	Per Board Decision
1	Rate Base			
	Gross Fixed Assets (average)	\$24,712,092	(4)	\$24,712,092
	Accumulated Depreciation (average)	(\$16,005,790)	(5)	(\$16,005,790)
	Allowance for Working Capital:			
	Controllable Expenses	\$2,570,853	(6)	\$2,570,853
	Cost of Power	\$16,212,879		\$16,212,879
	Working Capital Rate (%)	15.00%		15.00%
2	Utility Income			
	Operating Revenues:			
	Distribution Revenue at Current Rates	\$3,554,741		
	Distribution Revenue at Proposed Rates	\$3,955,284		
	Other Revenue:			
	Specific Service Charges	\$47,325		
	Late Payment Charges	\$45,000		
	Other Distribution Revenue	\$84,643		
	Other Income and Deductions	\$191,000		
	Operating Expenses:			
	OM+A Expenses	\$2,600,768		\$2,600,768
	Depreciation/Amortization	\$791,805		\$791,805
	Property taxes	(\$29,915)		(\$29,915)
	Capital taxes	(\$27,750)		
	Other expenses			
3	Taxes/PILs			
	Taxable Income:			
	Adjustments required to arrive at taxable income	(\$155,352)	(3)	
	Utility Income Taxes and Rates:			
	Income taxes (not grossed up)	\$47,790		
	Income taxes (grossed up)	\$56,893		
	Capital Taxes	(\$27,750)	a	
	Federal tax (%)	11.00%		
	Provincial tax (%)	5.00%		
	Income Tax Credits	\$ -		
4	Capitalization/Cost of Capital			
	Capital Structure:			
	Long-term debt Capitalization Ratio (%)	56.0%		
	Short-term debt Capitalization Ratio (%)	4.0%	(2)	(2)
	Common Equity Capitalization Ratio (%)	40.0%		
	Preferred Shares Capitalization Ratio (%)	0.0%		
				Capital Structure must total 100%
	Cost of Capital			
	Long-term debt Cost Rate (%)	7.25%		
	Short-term debt Cost Rate (%)	2.07%		
	Common Equity Cost Rate (%)	9.85%		
	Preferred Shares Cost Rate (%)	0.00%		

- b) Please update the smart meter model for 2016 test year cost of capital parameters for 2016 and historic cost of capital parameter for the 2015 bridge year.

Response:

Ottawa River Power has updated the smart meter model for the 2016 and 2015 cost of capital parameters.

9-Staff-78 Smart Meter

Ref: Smart Meter Model, Tab 3 – Cost of Capital Parameters

Row 40 of the Tab 3 of the smart meter model provides instructions to enter the effective tax rate for any given year, including the rates used in the IRM Tax sharing model, i.e. a rate of 15.5% for the 2014 rate year.

Please update the smart meter model to input the correct tax rates for the 2010 rate years of 16%, 2013 and 2014 of 15.5% and 20.35% for the 2016 test year. Please confirm the accuracy of all other inputs in row 40.

Response:

Ottawa River Power has corrected the tax rates found in Row 40 Tab 3 of the Smart Meter Model as stated above and confirms the accuracy of all other inputs.

9-Staff-79

Ref: Smart Meter Model, Tab 8 – Interest rates

On tab 8 of the smart meter model ORPC provided for interest revenue on the smart meter funding adder up until September 2015.

- a) Please explain why ORPC did not calculate interest up until April 30, 2016 since the SMDR will be effective as of May 1, 2016.

Response:

Ottawa River Power confirms that it should have calculated interest until April 30, 2016.

- b) Please update the smart meter model accordingly.

Response:

The smart meter model has been updated and is resubmitted with these responses.

9-Staff-80

Ref: Smart Meter Model, Tab 9 – Average number of customers

In cell AA46 on tab 9 of the smart meter model, ORPC has input 1000 for the average number of customers. OEB staff notes that ORPC shows a customer count of 9,463 for the residential and 1,281 for the GS<50 kWh customer classes. Please justify the input and update the model, if necessary.

Response:

Ottawa River Power has corrected the input in cell AA46 updating the model.

9-Staff-81

Ref: Smart Meter Model, Tab 10A

ORPC proposed a disposition period of 2 year to recovery a net deferred revenue requirement of \$1,019,716.92 through a Smart Meter Disposition Rate Riders (SMDRs). Please provide two scenarios of a 3 and 4 year disposition period for the SMDRs.

Response:

Ottawa River Power has submitted the Smart Meter Models using the two scenarios of a 3 and 4 year disposition.

9-Staff-82 Smart Meters

Billing systems of electricity distributors should not be duplicating functions provided by the MDM/R. Please confirm that none of the projects included in information system investment or miscellaneous projects over the DSP term do not duplicate the functions provided by the IESO's MDM/R in any way.

Response:

Ottawa River Power confirms that none of the investments in its information system duplicate any of the functions provided by the IESO's MDMR in any way.

9-Staff-83

Ref: Exhibit 9, p. 4 of 45

On line 13, ORPC stated that it used an interest rate of 0% to calculate the interest on balances for the period of January 1, 2014 to April 30, 2016. Please update the application and include the actual interest rate.

Response:

Ottawa River Power corrects the statement that it used an interest rate of 0%. ORPC used the prescribed interest rates as set by the OEB on principle balances of December 31, 2014 for the period January 1, 2015 until April 30, 2016.

Ottawa River Power has updated the model and included the appropriate interest.

9-Staff-84 Account 1592

Ref: Exhibit 9, p. 15 of 45 and RRR 2.1.7 Trial Balance

In Exhibit 9, on page 15, ORPC shows a balance of \$32,159 in account 1592 for disposition. On page 17, ORPC states that "Ottawa River Power has not amounts in account 1592 Tax Variance". The RRR 2.1.7 – Trial Balance shows an account balance of \$(686,317) as of December 31, 2014. Please explain the balance in light of the statement above.

Response:

Ottawa River Power's balance of \$32,159 in account 1592 in Exhibit 9 of page 15 is correct.

Ottawa River Power corrects the statement on page 17. This should state that Ottawa River Power has an amount of \$32,159.

Ottawa River Power has incorrectly posted Deferred Taxes to account 1592 in RRR2.1.7. Account 1592 should be a debit \$32,159 and Account 3081 should have a credit balance of \$718,476.

9-Staff-85 Interest
Ref: Exhibit 9, p. 22 – 24 of 45

On page 22, ORPC stated that it has used the latest OEB prescribed interest rates and shows closing interest balances of December 31, 2014 adjusted for disposition during 2015. The EDDVAR continuity schedule does not show any entries for interest amounts in 2015 and 2016.

OEB prescribed rates can be found by clicking to the link below or shown in the table below:

<http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Rules+Codes+Guidelines+and+Forms/Prescribed+Interest+Rates>

<u>Quarter by Year¹</u>	<u>Approved Deferral and Variance Accounts</u>	<u>CWIP Account</u>
	<u>Prescribed Interest Rate (per the Bankers' Acceptances-3 months Plus 0.25 Spread)</u>	<u>Prescribed Interest Rate (per the FTSE TMX Canada (formerly DEX) Mid Term Bond Index All Corporate Yield ²⁾</u>
Q1 2016	1.10	2.92
Q4 2015	1.10	2.55
Q3 2015	1.10	2.55
Q2 2015	1.10	2.28
Q1 2015	1.47	2.89

Please update the application to apply interest on principle balances up until April 30, 2016.

Response:

Ottawa River Power Corporation had updated the application by applying interest on principle balances up until April 30, 2016.

9-Staff-86

Ref: Exhibit 9, Table 9.2, and Table 9.3, Appendix 2-EC Fixed Asset Continuity Schedule_20150828 and Appendix 2-BA)

Ottawa River has calculated the WACC component of Account 1576 for one year. However, the proposed rate rider term is two years. Please update and file the amount to be returned to the customers in Table 3, as well as the rate rider calculation.

Response:

The revised Appendix 2-EC, including updates to the WACC and calculated over 2 years is presented at the next page.

File Number: #NAME?
 Exhibit:
 Tab:
 Schedule:
 Page:
 Date:

Appendix 2-EC
Account 1576 - Accounting Changes under CGAAP
2013 Changes in Accounting Policies under CGAAP

For applicants that made capitalization and depreciation expense accounting policy changes under CGAAP effective January 1, 2013

Reporting Basis	#NAME?	2011	2012	2013	2014	2015
	CGAAP	IRM	IRM	IRM	IRM	MIFRS
	Forecast	Actual	Actual	Actual	Forecast	Forecast
					\$	\$
PP&E Values under former CGAAP						
Opening net PP&E - Note 1				7,921,309	8,477,877	8,718,594
Net Additions - Note 4				1,339,022	1,049,402	711,246
Net Depreciation (amounts should be negative) - Note 4				-782,454	-808,685	-904,033
Closing net PP&E (1)				8,477,877	8,718,594	8,525,807
PP&E Values under revised CGAAP (Starts from 2013)						
Opening net PP&E - Note 1				7,921,309	8,518,628	8,518,628
Net Additions - Note 4				1,339,022	1,049,402	711,246
Net Depreciation (amounts should be negative) - Note 4				-741,703	-768,201	-848,911
Closing net PP&E (2)				8,518,628	8,799,829	8,380,963
Difference in Closing net PP&E, former CGAAP vs. revised CGAAP				-40,751	-81,235	144,844

Effect on Deferral and Variance Account Rate Riders

Closing balance in Account 1576	144,844
Return on Rate Base Associated with Account 1576 balance at WACC - Note 2	- 12,673
Amount included in Deferral and Variance Account Rate Rider Calculation	132,171

WACC	7.80%
# of years of rate rider disposition period	2

Notes:

- For an applicant that made the capitalization and depreciation expense accounting policy changes on January 1, 2013, the PP&E values as of January 1, 2013 under both former CGAAP and revised CGAAP should be the same.
- Return on rate base associated with Account 1576 balance is calculated as:
 the variance account opening balance as of 2015 rebasing year x WACC X # of years of rate rider disposition period
 * Please note that the calculation should be adjusted once WACC is updated and finalized in the rate application.
- Account 1576 is cleared by including the total balance in the deferral and variance account rate rider calculation.
- Net additions are additions net of disposals; Net depreciation is additions to depreciation net of disposals.

9-Staff-87

Ref: Exhibit 9, Table 9.2, and Table 9.3, Appendix 2-EC Fixed Asset Continuity Schedule_20150828 and Appendix 2-BA)

- a) Appendix 2-EC Ottawa River has calculated Appendix 2-EC for differences in PP&E for years 2013 and 2014, but not for 2015. Please update Appendix 2-EC and all other schedules necessary to reflect the PP&E differences for 2015 (e.g. rate rider calculation).

Response:

See revised table presented at our response to 9-Staff-86

- b) Appendix 2-EC does not match the Appendices 2-Bas. It appears that the Opening Net PP&E for 2013 and 2014 is incorrect for both, former CGAAP and revised CGAAP. Ottawa River has used the Gross beginning PP&E number instead of the net. Please re-file a corrected schedule.

Response:

Ottawa River Power has corrected Appendix 2-EC to match Appendix 2-BA and is re-filing the model along with these responses.

- c) The Accumulated Depreciation opening balance per 2014 Appendix 2-BA does not match the closing balance for Accumulated Depreciation per Appendix 2-BA for 2013. Closing balance in 2013 is -\$18,056,150, and the opening for 2014 is -\$18,015,400. Please explain and re-file the necessary schedules.

Response:

Ottawa River Power has corrected the Appendices and is re-filing them along with these responses.

- d) Appendix 2-BA for 2015 under IFRS has a different depreciation expense for the year than the Depreciation Expense schedule on file.
- Appendix 2-BA filed October 5, 2015 shows Depreciation expense to be \$763,303
 - Appendix 2-CD shows the depreciation expense to be \$868,028.
- Please update the schedules as necessary.

- e) Please update 2015 forecast figures for Account 1576 if necessary and provide the reasons of the update (i.e. adjustments identified, audited by external auditor).

Response:

Please see table at Staff 9-86.

Ref: Exhibit 9, Table 9.2, and Table 9.3, Appendix 2-EC Fixed Asset Continuity Schedule_20150828 and Appendix 2-BA)

Ottawa River has calculated a balance of zero for Account 1575 as of the changeover date of January 1, 2015. OEB staff notes that Ottawa River had a credit of approximately \$1.6 Million in Account 1995 – Customer Contributions as of the changeover date. According to APH Article 510, under IFRS, customer contributions received subsequent to the transition date are recognized as deferred revenue. Customer contributions recognized prior to the transition date are not reclassified to deferred revenue as a result of electing the optional exemptions (emphasis added).

- a. Please confirm that Ottawa River has reviewed Article 510 in determining that account 1575 should have a zero balance as of the changeover date of January 1, 2015.

Response:

Ottawa River Power can confirm that it has read Article 510 and have been following recent applications looking for clarification on the accounting treatment on the transition to IFRS. ORPC has also relied on third party resources for further clarification. ORPC can also confirm that this has been a topic of lengthy discussion through CHEC meetings and electronic communication. ORPC will need further documented clarification on this matter to comment on the above.

- b. If confirmed, please explain why there is a zero balance. If the balance is to be revised, please provide the calculation. While OEB staff has not identified any other impacts that should be captured in account 1575, for customer contributions, there may need to be an amount for the difference between Ottawa River's revised CGAAP based amount for customer contributions as of the changeover date, and the MIFRS based amount for customer contributions as of the same date.

Response:

Based on the question above; is Board staff suggesting that Ottawa River Power reclassify all Contributed Capital prior to the transition date to account 1575? ORPC did speak to a member of the Board accounting staff when completing the Fixed Asset continuity schedules and was told to move the capital contributions to Deferred Revenue. Further clarification will be required.

Ref: Exhibit 9, page 4, EDDVAR model

OEB staff notes that Ottawa River has calculated a volumetric rate rider for its Group 2 balances and for the 1576 rate rider. According to the April 2, 2015 OEB report *Board Policy: A New Distribution Rate Design for Residential Electricity Customers*, which was reiterated in the 2016 Chapter 2 Filing Requirements, distributors are expected to propose changes to residential rates consistent with this policy. Generally speaking, distributors must propose a fully fixed rate design for charges applicable to the residential class provided that those charges are specifically related to distribution of electricity. Examples of distribution-specific charges include: Group 2 Deferral and Variance Accounts including balances in accounts 1575/1576.

- a. Please calculate and update the Group 2 rate riders and 1576 rate riders in compliance with the OEB policy.

Response:

ORPC has used the OEB's EDDVAR model to calculate its rate riders which is locked to prevent any changes. These changes need to be made by the OEB.

9-Staff-86

Ref: Exhibit 9, page 4, EDDVAR model

Please note that Account 1592 appears to have been missed from the rate rider calculations. Please make the appropriate changes and re-file schedules as necessary.

Response:

ORPC has used the OEB's EDDVAR model to calculate its rate riders which is locked to prevent any changes. The model does not seem to calculate a rate rider for account 1562. The OEB needs to update their model to include a rate rider for 1592.