**CANADIAN NIAGARA POWER INC.**

A FORTIS ONTARIO Company

July 13, 2016

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: CANADIAN NIAGARA POWER INC.,**
**2017 ELECTRICITY DISTRIBUTION RATE APPLICATION**
**EB-2016-0061**

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Canadian Niagara Power Inc. has received correspondence from the Ontario Energy Board dated June 30, 2016, identifying that certain sections of the evidence supporting the application do not comply with the OEB's Filing Requirements for cost of service applications and/or associated spreadsheets, models and workforms.

Please find attached CNPI's response for the listed required information. In addition, the following files have be submitted through the Board's Regulatory Electronic Submission System:

- 2017_Test_year_Income_Tax_PILs_Workform_DRAFT_CNPI_20160714.xlsm
- CNPI Dist 2016_Filing_Requirements_Chapter2_Appendices_Rev20160707.xlsm
- CNPI_E11_T1_S3_Appendix_B_20120427.pdf

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 871-0330 extension 3278.

Yours truly,

Gregory Beharriell
Manager, Regulatory Affairs

Enclosures

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**1. Chapter 2 Filing Requirement Reference (page #13)**

Annual Report and MD&A for Fortis Ontario, CNPI's parent company is not provided.

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**RESPONSE:**

The Filing Requirements require an Applicant to file "an annual report and MD&A for the most recent year of the parent company, **if applicable**." [emphasis added]

FortisOntario is not a reporting issuer, and therefore does not prepare an annual report.

In regard to an MD&A for CNPI's parent company FortisOntario, the only guidance the Board has provided on an MD&A is in the context of the scorecard, as set out in the Board's Scorecard Management Discussion and Analysis Guide dated May 22, 2015. FortisOntario is not a licensed distributor and therefore does not prepare or file a scorecard and MD&A with the Board. For these reasons, this filing requirement is not applicable to CNPI's rate application.

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**2. Chapter 2 Filing Requirement Reference (page #2 and 15)**

Deviations from Filing Requirements are not discussed. There is also no discussion of concerns with models or changes to them.

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**RESPONSE:**

CNPI made best efforts to identify deviations from Filing Requirements and changes to models within the relevant sections of the Application where such deviations or changes occurred. CNPI does however acknowledge that a discrete summary of all such deviations and changes was not provided. CNPI trusts that the lists below and the responses that follow provide an adequate response to this concern.

Deviations from Filing Requirements:

1. With respect to Low Voltage Costs (Page 60 of the Filing Requirements; Exhibit 8, Tab 1, Schedule 7 of the Application), CNPI described its unique characteristics with respect to Low Voltage Costs and proposed an alternate method for forecasting Test Year Low Voltage Costs. Additional information on historical costs and clarification of CNPI's proposed approach in Response #19.
2. With respect to Cost of Power data, CNPI filed the Application using October 15, 2015 RPP prices. Please see Response #4 for additional discussion of this decision based on timing, materiality, and CNPI's commitment to incorporate the anticipated October 2016 RPP update.

Concerns with or Changes to Models:

1. Appendix 2-BB – CNPI has completed this model to accompany Response #12 and a revised Chapter 2 Appendices model with the Appendix 2-BB completed has been filed in conjunction with these responses. CNPI has added rows for 'Overhead Service Wire' and for 'Software – SAP' to reflect the fact that these components have different depreciation rates than

'Overhead Conductor & Devices' and 'Software – Other'. For these added items, CNPI indicated 'N/A' in the Useful Life column.

2. Appendix 2-C – Schedules were completed as a stand-alone Excel worksheets for each year, with an accompanying explanation that the instructions laid out in the Chapter 2 appendices document did not align with CNPI's timing of accounting changes implemented. Please refer to Response # 13 for further discussion.
3. Appendix 2-I – The model was based on a 2016 test year – CNPI corresponded with Board Staff and received an update for 2017 test year on April 18, 2016.
4. Appendix 2-IA – An adjusted version of 2-IA was created to assist with variance explanation at Exhibit 3, Tab 3, Schedule 1, and was attached as an Appendix to that Schedule. A summary of adjustments made and the reasons for making them was provided. The un-adjusted version of 2-IA was filed in the Chapter 2 Appendices model for completeness.
5. Appendix 2-TB – As described at Page 12 of Exhibit 9, Tab 1, Schedule 1, disposition of the 1592 sub-account for HST/OVAT Input Tax Credits (ITCs) was requested in CNPI's 2013 cost of service application, and the account contains a $Nil balance. Accordingly, CNPI requested that the account be closed as of December 31, 2015, and as a result, Appendix 2-TB is not applicable and was not completed.
6. Appendix 2-W – As described at Exhibit 8, Tab 1, Schedule 11, as a result of previously non-harmonized rate riders, bill impacts are different for each of CNPI's service territories. Multiple versions of the Appendix 2-W model were completed to analyze 100 different bill impact scenarios, with various permutations of customer class, RPP/retailer, consumption levels, and service territory. Summary tables of the impacts were included at E8.T1.S11, with copies of the detailed Appendix 2-W output from each of the 100 scenarios included as an Appendix to Exhibit 8, Tab 1, Schedule 11. The as-filed version of the Chapter 2 Appendices model contained a single 2-W worksheet, with bill impact analysis for typical customers in the Residential

and General Service classes for each of CNPI's service territories (Fort Erie, EOP, and Port Colborne).

7. Income Tax/PILs Work Form – A completed model has been filed to accompany Response #14.

Additional Information, Clarifications Required, and/or Sections that are Not Applicable to CNPI's Circumstances:

Please refer to the following responses to all items identified in the Board's letter of June 30, 2016 to CNPI.

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**3. Chapter 2 Filing Requirement Reference (page #16 and 17)**

Organizational Structure shown is for Fortis Ontario, not CNPI.

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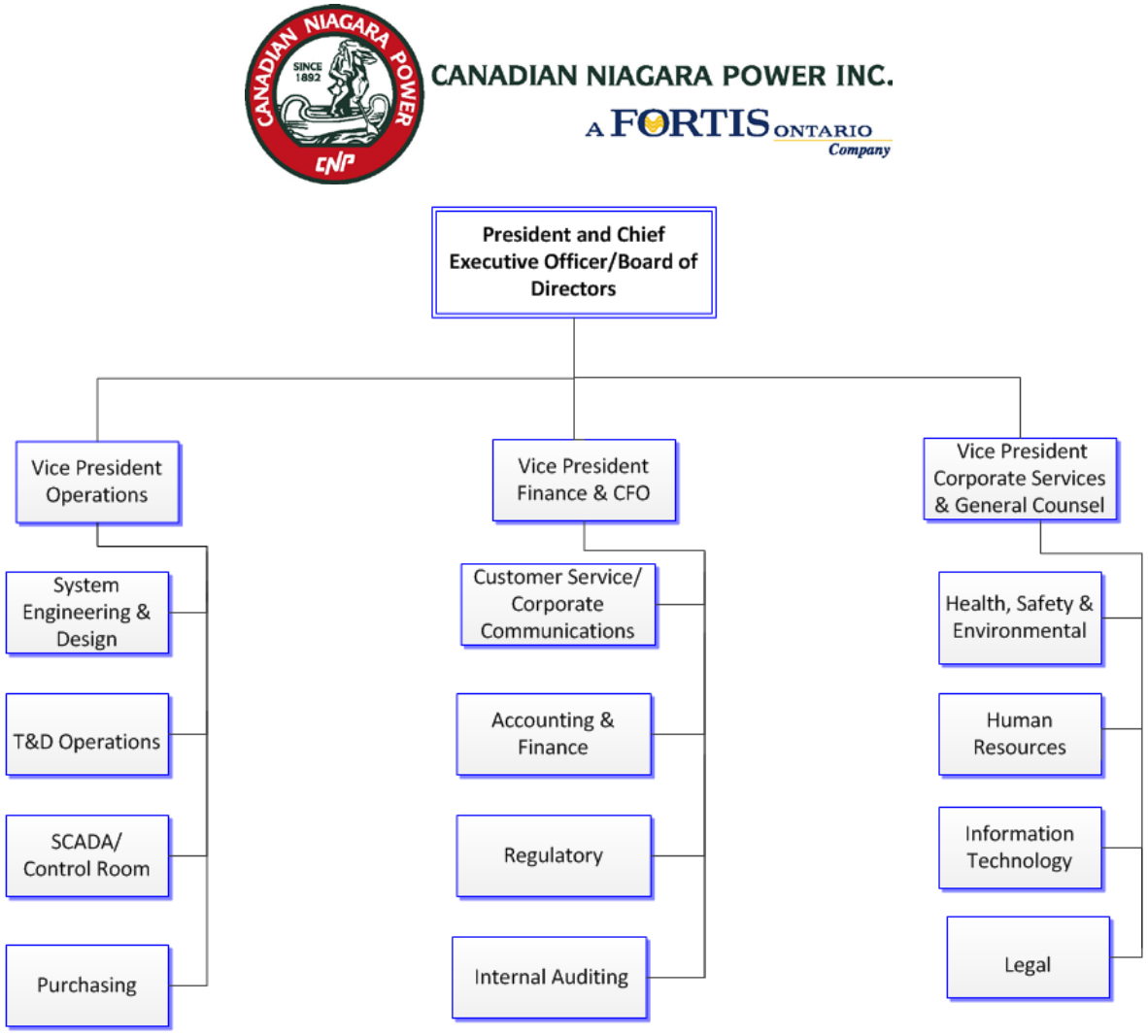
**RESPONSE:**

The organizational structure provided for CNPI contained an error in the title. The correct version is copied below.



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## 4. Chapter 2 Filing Requirement Reference (page #20)

Cost of power data used in the application is October 15/15 RPP prices. The most recent prices were established on April 14, 2016. The application was filed on April 29, 2016.

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**RESPONSE:**

The most recent prices were established only two weeks prior to CNPI's filing deadline, whereas overall work on the Application was initiated months in advance. The cost of power information is required as a precedent to many other components of the Application such as determination of Working Capital Allowance, calculation of Rate Base, calculation of Revenue Requirement, and subsequently Cost Allocation and Rate Design. Inputting the April 14, 2016 cost of power data would have impacted all of these other components of the Application, resulting in a delay in filing by at least one month. Given the de minimis impact of the updated cost of power data on revenue requirement (discussed in the next paragraph), CNPI does not believe it would have been prudent to delay its filing.

CNPI estimates that the change in commodity rates effective April 14, 2016 would result in an increase of approximately $1.34 million, or 2.15% to the total cost of power. When this change flows through the Working Capital Allowance calculation, Rate Base calculation, and ultimately the Return on Capital calculation, the actual impact to CNPI's Revenue Requirement (prior to tax adjustments) is estimated at $7200, or 0.11%.

CNPI has acknowledged at Exhibit 2, Tab 1, Schedule 7, on line 6 of page 1, that the Board may revise its Regulated Price Plan Report. Likewise, CNPI acknowledged in Exhibit 1, Tab 6, Schedule 1, that other factors such as Cost of Capital parameters, UTR's, etc. are likely to be updated and will ultimately impact the proposed Revenue Requirement and Tariff of Rates and Charges. CNPI hereby confirms its commitment to incorporate changes to rates, charges and

parameters set by the Board (including the anticipated October 2016 RPP price update) in the calculation of its final Revenue Requirement and Tariff of Rates and Charges.

Given that the costs incurred to revise the Application would have far exceeded the resulting increase in Revenue Requirement, and the commitment to incorporate anticipated October 2016 RPP price updates as confirmed above, CNPI submits that proceeding to hear the Application based on the originally filed October 15, 2015 RPP prices is prudent and in the best interests of its ratepayers.

## 5. Chapter 2 Filing Requirement Reference (page #24)

The accounting treatment for projects with a lifecycle greater than one year is missing.

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**RESPONSE:**

CNPI follows Article 410 b. of the Accounting Procedures Handbook in relation the accounting treatment for projects with a lifecycle greater than one year. Capital projects which remain under construction at year end are included in CWIP. When the project is put into service or when construction is substantially complete, the related items in CWIP are transferred to the appropriate PP&E or intangible asset accounts at which point they begin depreciating.

Multi-year projects or programs identified in the Application (e.g. wide-area voltage conversions or pole replacements) generally consist of discrete sub-projects (e.g. specific line segments or groups of poles) that are completed within a year or less of being initiated. Further, CNPI does not anticipate that any of the capital projects identified in the Application will meet the definition of a qualifying asset, which is defined as “an asset that necessarily takes a substantial period of time to get ready for its intended use or sale”. As such CNPI has forecasted that all borrowing costs will be expensed.

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## 6. Chapter 2 Filing Requirement Reference (page #24)

The evidence references cited on the checklist (E2.T2.S3/E2.T2.S4) for non-distribution activities discuss respectively, IT strategy and capital projects, not non-distribution activities.

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**RESPONSE:**

CNPI had interpreted "non-distribution activities" to mean General Plant investments (i.e. assets that are not part of its distribution system). The correct reference should have been Exhibit 1, Tab 4, Schedule 9, which states:

> "CNPI has transmission and distribution business units; both are regulated by the Ontario Energy Board. This Application has been prepared using accounting values attributable to the distribution division only; transmission has been appropriately excluded.
>
> CNPI is not engaged in any non-utility activities."

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## 7. Chapter 2 Filing Requirement Reference (page #26)

Possibility of filing an ICM during the next five years is discussed, but there is no ACM in the present application. A discrete project that may require ACM/ICM treatment is cited, but no further information is provided (E2.T6.S1):

"CNPI does not currently have any discrete committed capital projects within the five-year horizon that it believes would require this new policy option. However, as noted in Section 5.4.1.7(a) of CNPI's Distribution System Plan, there is a well- known proposal in Fort Erie; the Canadian Motor Speedway, which could proceed in 2017or 2018. The amount of capital investment required by CNPI would depend on the outcome of the economic evaluation performed in accordance with the DSC. Should this or a similar proposal proceed, CNPI may choose to file a related ICM application."

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**RESPONSE:**

The Canadian Motor Speedway project was included in the DSP as an example of a possible large and non-discretionary System Access project that may require significant capital investment during the upcoming Price Cap IR term. The magnitude of the investment could require a future ICM application and/or a re-prioritization of the projects within CNPI's DSP.

CNPI's interpretation of the Filing Requirements is that in order to qualify for ACM treatment, a project would have to be both committed in a year other than the Test Year, and would have to meet certain eligibility criteria, including materiality. At this time, CNPI is neither certain that the Canadian Motor Speedway project will proceed, nor that the investment required would meet the materiality requirement for ACM/ICM treatment.

A brief discussion of the project was included to identify the possibility of a future ICM application. CNPI confirms that it is not requesting ACM treatment of the project, and that should the project proceed, CNPI will evaluate whether or not to file a future ICM application independent of the current Cost of Service application. CNPI confirms the statement at Exhibit 2, Tab 6, Schedule 1 of the Application that

"CNPI does not currently have any discrete committed capital projects within the five-year horizon that it believes would require this new policy option." [Emphasis added]

## 8. Chapter 2 Filing Requirement Reference (page #33)

Other revenue variance analysis is only provided for the 2017 Test year versus 2015 Actual and 2013 Board Approved.

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## RESPONSE:

See table below for variances on Other Distribution Revenue Offset. In accordance with materiality discussed in Exhibit 1, Tab 5, Schedule 1, CNPI has analyzed any variances greater than $100,000 below.

**Appendix 2-H - Modified with Variances**
**Other Operating Revenue**

| USoA # | USoA Description | Board Approved | 2013 Actual | 2014 Actual | Actual Year | Bridge Year | Test Year | Variance | Variance | Variance | Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2013 | 2014 | 2015 | 2016 | 2017 | 2014 Actual vs 2013 Actual | 2015 Actual vs 2014 Actual | 2016 Bridge Year vs 2015 Actual | 2017 Test Year vs 2016 Bridge Year |
| | *Reporting Basis* | | | | | | | | | | |
| **4235** | **Specific Service Charges** | $ 151,355 | $ 151,022 | $ 160,714 | $ 159,803 | $ 156,539 | $ 158,264 | $ 9,693 | -$ 911 | -$ 3,264 | $ 1,725 |
| **4225** | **Late Payment Charges** | $ 361,102 | $ 397,363 | $ 391,595 | $ 373,070 | $ 340,573 | $ 354,100 | -$ 5,767 | -$ 18,525 | -$ 32,497 | $ 13,527 |
| **4082** | **Retail Services Revenues** | $ 33,500 | $ 23,310 | $ 25,190 | $ 21,397 | $ 24,250 | $ 24,600 | $ 1,880 | -$ 3,793 | $ 2,853 | $ 350 |
| 4084 | Service Transaction Requests (STR) Revenues | $ 1,400 | $ 791 | $ 821 | $ 579 | $ 806 | $ 800 | $ 30 | -$ 242 | $ 227 | -$ 6 |
| 4086 | SSS Administration Revenue | $ 79,562 | $ 80,385 | $ 80,807 | $ 81,576 | $ 80,841 | $ 81,035 | $ 422 | $ 769 | -$ 734 | $ 194 |
| 4210 | Rent from Electric Property | $ 317,100 | $ 320,462 | $ 328,193 | $ 322,464 | $ 324,327 | $ 327,500 | $ 7,732 | -$ 5,730 | $ 1,864 | $ 3,173 |
| 4220 | Other Electric Revenues | $ 9,873 | -$ 946,693 | $ 26,048 | $ 78,960 | $ 15,541 | $ 15,700 | $ 972,741 | $ 52,912 | -$ 63,420 | $ 159 |
| 4325 | Revenues from Merchandise, Jobbing, Etc. | $ 556,692 | $ 383,707 | $ 575,419 | $ 773,569 | $ 437,084 | $ 432,852 | $ 191,712 | $ 198,151 | -$ 336,486 | -$ 4,232 |
| 4330 | Costs and Expenses of Merchandising, Jobbing, Etc. | $ (137,400) | -$ 143,740 | -$ 235,995 | -$ 166,989 | -$ 108,235 | -$ 109,623 | -$ 92,256 | $ 69,006 | $ 58,754 | $ (1,389) |
| 4360 | Loss on Disposition of Utility and Other Property | $ - | -$ 19,692 | $ 74,502 | $ 46,779 | $ - | $ - | $ 94,193 | -$ 27,723 | -$ 46,779 | $ - |
| 4375 | Revenues from Non-Utility Operations | $ - | $ - | $ - | $ - | $ - | $ 1,139,217 | $ - | $ - | $ - | $ 1,139,217 |
| 4398 | Foreign Exchange Gains and Losses, Including Amortization | $ - | $ 3,713 | $ (11,746) | $ (28,155) | $ - | $ - | -$ 15,459 | -$ 16,408 | $ 28,155 | $ - |
| 4405 | Interest and Dividend Income | $ 30,000 | $ (54,940) | $ 76,421 | $ 72,103 | $ - | $ - | $ 131,360 | -$ 4,318 | -$ 72,103 | $ - |
| **Total** | | $ 1,403,185 | $ 195,687 | $ 1,491,968 | $ 1,735,157 | $ 1,271,727 | $ 2,424,445 | $ 1,296,281 | $ 243,189 | -$ 463,430 | $ 1,152,718 |

## 2014 Actual vs 2013 Actual

### Other Electric Revenue (OEB Account 4220)

In 2013, as per OEB FAQ dated July 2012, CNPI disposed of its smart meter and ROE on smart meter debit balance to account 4220 in the amount of $1,004,322.

### Revenues from Merchandise, Jobbing, etc. (OEB Account 4325)

CNPI provides Information Technology-based services to two associated companies. These services are divided into fixed and variable components which

are charged in accordance with IT Services Agreements. The fixed component is in respect of hardware and applications provided to the companies for the purpose of running their respective business, and is generally consistent from year to year. The variable component captures ad hoc requests for IT based effort related to these companies specific business requirements and can vary up or down over a given period. The increase from 2013 to 2014 was $ 138,000 for one of the associated companies, and was related to a larger variable component from a greater number of requests which ultimately generated a larger revenue for that period.

**Interest and Dividend Income (OEB Account 4405)**

In 2013, as per OEB FAQ dated July 2012, CNPI disposed of its smart meter regulatory interest debit balance of $130,338.

**2015 Actual vs 2014 Actual**

**Revenues from Merchandise, Jobbing, etc. (OEB Account 4325)**

In CNPI's 2015 Actual Year, a significant and non-recurring job with revenue of $250,000 was recorded.

**2016 Bridge Year vs 2015 Actual**

**Revenues from Merchandise, Jobbing, etc. (OEB Account 4325)**

In CNPI's 2015 Actual Year, a significant and non-recurring job that pertained to Information Technology-based services with revenue of $250,000 was recorded. 2016 revenue is down $250,000 as a result of this non-recurring work.

## 2017 Test Year vs 2016 Bridge Year

### Revenues from Non-Utility Operations (OEB Account 4375)

The amount of $1,139,217 for the 2017 Test Year, is the resultant of a change in accounting for shared assets as proposed in the Application at Exhibit 2, Tab 1, Schedule 1.

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## 9. Chapter 2 Filing Requirement Reference (page #36)

For program delivery costs information is not provided for each significant change within the applicant's control, the business decision that was made to manage the cost increase/decrease and the alternatives.

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**RESPONSE:**

Please refer to Appendix A to these Reponses for a supplemental discussion of program delivery costs. For each variance explained in Exhibit 4, Tab 3, Schedule 1 of the Application, this supplemental discussion provides explicit statements identifying whether or not costs are within CNPI's control. Where costs are identified as within CNPI's control, further information has been provided in support of the business decisions made, as well as CNPI's consideration of alternatives, where applicable.

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# APPENDIX A

## Supplemental Discussion on Program Delivery Costs

### Variance Analysis 2017 Test Year budget vs. 2013 Board Approved budget

Operations: Overhead

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test year vs. 2013 Board Approved) |
|---|---|---|
| 90,368 | 202,592 | 112,224 |

These costs were all within CNPI's control.

Approximately $45,000 of the variance is related to the Power Quality Program initiated in 2014. During the development of this program, a review of internal processes was conducted to identify and ensure the cost effectiveness and efficiencies of deployed CNPI resources. During this review, it was determined that the most cost effective and comprehensive methodology would see initial investigation of customer inquiries completed by Meter department staff as opposed to Line department staff. This initial investigation includes all diagnostic testing; including inspection of equipment condition, instantaneous voltage testing, current testing and data logging, providing CNPI with a complete overview of the inquiry. All collected data is recorded and stored within CNPI's SAP database and is provided to the customer, detailing any CNPI equipment repair or customer equipment deficiency as identified. This response and encompassing approach mitigates further customer inquiries, ensuring customer satisfaction and one call resolution. Alternatively, CNPI could have maintained its previous approach to responding to customer power quality inquiries, however that approach was more reactive, and at times allowed for duplication of effort and inconsistent methodologies. Due to the ad-hoc nature of response to power quality concerns prior to the initiation of this program in 2014, costs in 2013 and prior years would have been distributed across a variety of departments, including Lines, Metering and Customer Service. As a result, CNPI cannot identify discrete costs for comparison of alternatives, however

CNPI believes that the current program is optimal in terms of cost-effectiveness and customer service.

Approximately $20,000 of the variance is related to labour efforts previously allocated to Maintenance of Line Transformers to Overhead Distribution Transformers – Operations. As this was a simply a change is labour allocation following a review of activities compared to account descriptions, no review of alternatives was performed.

The Insulator Washing and Infrared Scanning programs initiated in 2014 contributed approximately $13,000 to the variance. As a result of visual inspection of contaminated insulators, critical components and a number of failures experienced, CNPI determined that insulator washing and infrared scanning would improve the expected useful life of insulators within its system and identify potential points of failure. The program would also ensure that any contamination identified would be addressed prior to unplanned outage situations as a result of failure, improving system safety and reliability.

A cost/benefit analysis was conducted based on the annual expense of insulator washing versus the reactive replacement of 24 insulators, 18 of which were calculated with consideration of overtime premiums and 6 during regular working hours. The following is a representation of CNPI's cost/benefit analysis:

| **Insulator Washing Annual Expense: $7500** | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Annual Reactive Insulator Replacement Costs** | | | | | |
| | **Rate** | **# Insulators** | **# Line Crew** | **# Hours/Insulator/Crew Member** | **Total Cost** |
| **Reactive Replacement (Regular Time)** | $ 99 | 6 | 3 | 2 | $ 3,564 |
| **Reactive Replacement Overtime (double time)** | $ 142 | 18 | 3 | 2 | $ 15,336 |
| | | | | | **$ 18,900** |
| | | | | | |
| **Planned Replacement (Regular Time)** | $ 99 | 24 | 3 | 2 | **$ 14,256** |

Additionally a cost/benefit analysis was conducted based on the annual expense of infrared scanning versus the reactive replacement of 20 critical components, 15 of which were calculated with consideration of overtime premiums and 5 during regular working hours. The following is a representation of CNPI's cost/benefit analysis:

| **Infared Scanning Annual Expense: $5500** | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Annual Reactive Costs of Critical Component Replacement** | | | | | |
| | **Rate** | **# Components** | **# Line Crew** | **# Hours/Components/ Crew Member** | **Total Cost** |
| **Reactive Replacement (Regular Time)** | $ 99 | 5 | 3 | 3 | $ 4,455 |
| **Reactive Replacement Overtime (double time)** | $ 142 | 15 | 3 | 3 | $ 19,170 |
| | | | | | **$ 23,625** |
| | | | | | |
| **Planned Replacement (Regular Time)** | $ 99 | 20 | 3 | 3 | $ 17,820 |
| | | | | | **$ 17,820** |

Operations: Meters

| **Last Rebasing Year (2013 BA)** | **2017 Test Year** | **Variance (Test year vs. 2013 Board Approved)** |
|---|---|---|
| 324,504 | 484,963 | 160,459 |

The majority of cost increases in this area are generally outside of CNPI's control and are due to a combination of the following factors:

- $77,000 of increases in communications and settlement expenses related in MIST metering and increase interval customer counts; and
- $40,000 of anticipated increase in customer disconnections as a result of local economic conditions.

Additionally, approximately $12,000 of the variance can be attributed to labour rate increases within CNPI's control. Employee compensation is discussed further in Exhibit 4, Tab 4 of the Application.

Operations: Miscellaneous Distribution Expenses

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test Year vs. 2013 Board Approved) |
|---|---|---|
| 216,778 | 373,291 | 156,513 |

Costs increases in this area are generally within CNPI's control, however as described in E4.T3.S1 of the Application, the majority of the variance can be attributed to a review and reallocation of costs between accounts. Increases to this area are generally offset by reductions to other areas such as Maintenance – Supervision and Engineering, Customer Service – Billing and Collections, and other programs to a lesser degree.

Maintenance: Overhead

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test Year vs. 2013 Board Approved) |
|---|---|---|
| 1,060,695 | 1,504,565 | 443,870 |

Cost increases are related to a number of items that are generally within CNPI's control:

- $100,000 related to the Emerald Ash Borer (EAB) Program (the impact of the EAB is outside of CNPI's control, however CNPI's decision to initiate a proactive response to mitigate impacts on its distribution system was within its control);
- $75,000 related to a proactive wood pole inspection and testing program;
- $75,000 related to priority repairs that are identified through the wood pole inspection and testing program;
- $100,000 related to labour rate increases; and
- $30,000 related to a review and reallocation of costs between accounts.

CNPI's understanding of the impact the Emerald Ash Borer (EAB) would have on the distribution system prompted a review of current vegetation management strategies. It was determined that a sample study of impacted vegetation and risk to CNPI assets would be completed. Resulting data demonstrated a significant risk not only to CNPI assets, but also public safety and system reliability. By selecting a proactive approach versus a reactive approach, CNPI expects to mitigate risks associated with EAB in a cost effective manner through scheduled efforts rather than unscheduled efforts that may also require repairs to the distribution system and may occur after regular business hours.

As presented in Section 5.4.6.17 of its DSP, and Section 6.3.2 of its DAMP, CNPI will have to continue to increase its annual number of pole replacements in order to reach a long term sustaining replacement level of 508 poles per year (2.25% of pole population). As with any proactive asset management strategy, the detailed wood pole inspection and testing program will provide data necessary to better manage asset replacement investments, resulting in improved system safety, reliability and cost mitigation associated with unplanned failures. The alternative would be to prioritize pole replacements on the basis of factors such as age or visual inspections, rather than detailed asset condition and overall risk. CNPI cannot quantify the cost impact of this alternative in the absence of detailed condition-based assessments, however it expects that a risk-based replacement strategy will result in lower overall costs due to a decrease in both reactive replacements and pre-mature replacements that would result from a replacement program based solely on age and/or visual inspections.

Approximately $100,000 of the variance can be attributed to labour rate increases within CNPI's control. Employee compensation is discussed further in Exhibit 4, Tab 4 of the Application.

Approximately $30,000 of the variance is related to labour efforts previously allocated to a variety of other accounts. As this was a simply a change is labour allocation following a review of activities compared to account descriptions, no review of alternatives was performed.

Administrative: Salaries and Related Expenses

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test Year vs. 2013 Board Approved) |
|---|---|---|
| 1,147,470 | 1,499,684 | 352,214 |

These costs were all within CNPI's control.

The creation of the Niagara operating center which resulted in an increase of $186,000 in Salaries and Related Expenses was a reclassification of costs; $133,000 was reduced in Rent and Maintenance of Property and the remaining $53,000 was reduced in Regulatory Expenses.

The remaining $166,000 increase was primarily due to general salaries and related expense increases year-over-year. Employee compensation is discussed further in Exhibit 4 Tab 4 of the Application. Management's decision to offer market competitive salaries to its employees is intended to attract and retain qualified personnel.

Administrative: General Admin

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test Year vs. 2013 Board Approved) |
|---|---|---|
| 1,208,049 | 1,054,361 | (153,688) |

A $209,000 decrease in IT related maintenance agreement costs were within CNPI's control, while general inflationary and other related increases were not, netting out to an overall decrease of $153,688. In 2013, a review of the IT related agreements with 3rd parties was conducted and based on this review, it was concluded that certain agreements contained components that met the criteria of being capital in nature.

Administrative: Rent and Maintenance of Property

| Last Rebasing Year (2013 BA) | 2017 Test Year | Variance (Test Year vs. 2013 Board Approved) |
|---|---|---|
| 1,082,478 | 952,915 | (129,563) |

The $133,000 decrease relating to the creation of the Niagara operating center and the $35,000 decrease relating to the closure of the Port Colborne service center were both within CNPI's control, while general inflationary and other related increases were not.

See Administration – Salaries and Related Expenses variances above for discussion about reclassification of costs with the creation of the Niagara operating center.

In assessing whether to keep the Port Colborne service center open in 2013, management considered both quantitative and qualitative costs. The closure of the service center resulted in an annualized decrease in center operating costs of approximately $55,000. Although the service center closure meant that there would no longer be a customer facing office located in the Port Colborne service territory (nearest service center located in Fort Erie which is 25km away), CNPI took steps to ensure a smooth transition including: providing bill inserts leading up to the closure and allowing customers to drop off cheques in a lockbox located on Port Colborne city property until March 31, 2016. Additionally, with the closure of the Port Colborne office, CNPI continued to stay engaged with its customers by: maintaining a local customer service calling number, creating a public email address (customer.service@cnpower.com), keeping CNPI's website regularly updated with customer service specific information, communicating information to customers via Facebook and Twitter, attending road shows and city of Port Colborne board/council meetings, communicating important relevant information in local newspapers and in bill inserts, and distributing a bi-annual newsletter.

**Variance Analysis 2017 Test Year vs. 2015 Actuals**

Operations: Meters

| 2015 Actuals | 2017 Test Year | Variance (Test Year vs. 2015 Actuals) |
|---|---|---|
| 359,287 | 484,963 | 125,676 |

The majority of cost increases in this area are generally outside of CNPI's control and are due to a $77,000 increase in communications and settlement expenses related in MIST metering and increase interval customer counts.

Additionally, CNPI's meter department charges to this area in 2017 represent an increase of approximately $30,000 over 2015, resulting from CNPI's decision in 2015 to use internal resources for portions of the MIST meter capital project.

Maintenance: Overhead

| 2015 Actuals | 2017 Test Year | Variance (Test Year vs. 2015 Actuals) |
|---|---|---|
| 1,145,709 | 1,504,565 | 358,856 |

Cost increases are related to a number of items that are generally within CNPI's control:

- $100,000 related to the Emerald Ash Borer (EAB) Program (the impact of the EAB is outside of CNPI's control, however CNPI's decision to initiate a proactive response to mitigate impacts on its distribution system was within its control);
- $75,000 related to a proactive wood pole inspection and testing program;
- $75,000 related to priority repairs that are identified through the wood pole inspection and testing program; and
- Approximately $91,000 in O&M reductions in the Gananoque service territory in 2015 as a result of requiring internal resources to complete capital projects.

CNPI's understanding of the impact the Emerald Ash Borer (EAB) would have on the distribution system prompted a review of current vegetation management strategies. It was determined that a sample study of impacted vegetation and risk to CNPI assets would be completed. Resulting data demonstrated a significant risk not only to CNPI assets, but also public safety and system reliability. By selecting a proactive approach versus a reactive approach, CNPI expects to mitigate risks associated with EAB in a cost effective manner through scheduled efforts rather than unscheduled efforts that may also require repairs to the distribution system and may occur after regular business hours.

As presented in Section 5.4.6.17 of its DSP, and Section 6.3.2 of its DAMP, CNPI will have to continue to increase its annual number of pole replacements in order to reach a long term sustaining replacement level of 508 poles per year (2.25% of pole population). As with any proactive asset management strategy, the detailed wood pole inspection and testing program will provide data necessary to better manage asset replacement investments, resulting in improved system safety, reliability and cost mitigation associated with unplanned failures. The alternative would be to prioritize pole replacements on the basis of factors such as age or visual inspections, rather than detailed asset condition and overall risk. CNPI cannot quantify the cost impact of this alternative in the absence of detailed condition-based assessments, however it expects that a risk-based replacement strategy will result in lower overall costs due to a decrease in both reactive replacements and pre-mature replacements that would result from a replacement program based solely on age and/or visual inspections.

In 2014, CNPI experienced considerable difficulty in obtaining qualified services from third-party contractors in its Gananoque service territory. In 2015, CNPI made a business decision to redirect internal resources from certain planned O&M activities in order to complete priority pole replacements that were deferred from 2014. As a result of this decision, 2015 O&M costs were reduced by approximately $91,000. CNPI believes that this was a prudent decision to manage overall costs as the alternative would have been to mobilize contractors from other areas, which would have incurred significant costs related to mobilization, lodging and meals.

Administrative: Salaries and Related Expenses

| 2015 Actuals | 2017 Test Year | Variance (Test Year vs. 2015 Actuals) |
|---|---|---|
| 1,373,995 | 1,499,684 | 125,689 |

The $40,000 decrease in 2015 relating to a vacant IT position was within CNPI's control, while the $28,000 decrease in operating expenses due to increased IT billable support work and general inflationary and other related increases were not.

The vacant IT position was within CNPI's control, and although management could have considered not filling the vacant position, the position was deemed to be required based on IT operational needs. As such, the position is expected to be filled in 2016.

The IT billable support work was not considered within CNPI's control as CNPI is expected to provide this support in accordance with its IT Services Agreements with its associated companies (see Exhibit 3 Tab 4 Schedule 2 of the Application).

Administrative: General Admin.

| 2015 Actuals | 2017 Test Year | Variance (Test Year vs. 2015 Actuals) |
|---|---|---|
| 926,846 | 1,054,361 | 127,514 |

These costs were all within CNPI's control. See explanations provided within Exhibit 4, Tab 3, Schedule 1, of the Application indicating that the 2017 Test Year forecast reflects a normalized average of the 3 historical years plus estimated inflationary and other related increases year-over-year.

## 10. Chapter 2 Filing Requirement Reference (page #37)

With respect to the identification of all shared services among the affiliated entities, it is stated that CNPI is not engaged in any non-utility activities and that the application "has been prepared using accounting values attributable to the distribution division only; transmission has been appropriately excluded." There is insufficient detail in the application as to how transmission has been appropriately excluded.

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**RESPONSE:**

CNPI maintains a separate set of financial records between its distribution and transmission divisions and this ensures that transmission is appropriately excluded. Exhibit 4, Tab 5 outlines the allocation of shared services and Appendix 2-N within Tab 5 shows that certain shared services have been allocated to CNPI's related companies, including its transmission business.

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## 11. Chapter 2 Filing Requirement Reference (page #41)

One page summary of depreciation policy is provided with no discussion of changes since CNPI's last cost of service application.

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**RESPONSE:**

Please see Exhibit 4, Tab 11, Schedule 1. In addition, CNPI has not made any changes to the depreciation policy, since the last cost of service application.

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## 12. Chapter 2 Filing Requirement Reference (page #41 and 42)

With respect to the requirement that for Depreciation, Amortization and Depletion a list should be provided detailing all asset service lives tied to USoA, differences in TUL for Kinectrics and explanation of differences outside of minimum and maximum TUL range from Kinectrics, there is no discussion of this, just a statement that the depreciation rates used are the depreciation rates that were approved within the 2013application.

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**RESPONSE:**

At Exhibit 4, Tab 11, Schedule 1, CNPI referenced the fact that its depreciation rates were updated at the time of its 2013 Cost of Service application, using guidance from the Kinectrics Report. CNPI also confirmed that the depreciation rates used in the current Application are the same depreciation rates approved in the 2013 application. While the depreciation rates by account are provided in Appendix 2-C at Exhibit 4, Tab 11, Schedule 2, CNPI acknowledges that no explicit evidence was provided comparing these rates to the TUL rage in the Kinectrics Report. A revised version of the Chapter 2 Appendices containing a completed Appendix 2-BB as well as a copy of CNPI's Componentization and Depreciation Accounting Policy from the 2013 application have been filed in conjunction with this response.

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## 13. Chapter 2 Filing Requirement Reference (page #41 and 42)

Appendix 2-CA to 2-CK was not filed. CNPI has been on ASPE since January 1, 2011. However, there are statements in the application that MIFRS was adopted effective January 1, 2013 and it appears that in CNPI's 2012 application, capitalization and depreciation policies were updated to mirror IFRS, but CNPI has used ASPE in preparing its application. Additional clarity is needed with respect to the applicability of ASPE-MIFRS and appendices 2-CA to 2-CK have not been completed, which are required if CNPI's capitalization and depreciation policies have been done according to MIFRS.

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**RESPONSE:**

In CNPI's previous cost of service application (EB-2012-0112), capitalization and depreciation policies were updated for rates effective January 1, 2013. For 2013 actuals, CNPI implemented these accounting changes and the values within this application are reflective of those changes. Throughout the current application, CNPI has referred to the 2013 adopted accounting changes as MIFRS accounting changes. CNPI continues to report to the OEB under ASPE with the MIFRS accounting changes noted above incorporated into its reporting so as to comply with the Board's requirements. In preparing CNPI's depreciation and amortization expense schedules within this application (labelled as 2-$C_{2013}$, 2-$C_{2014}$, etc. in Exhibit 4, Tab 11, Schedule 2), it was noted that the instructions laid out in the Chapter 2 Appendices document did not align with CNPI's timing of accounting changes implemented. As such, a modified set of appendix 2-C tables was created that were intended to show virtually the same information as required within the Chapter 2-CA to 2-CK appendices. Exhibit 4, Tab 11, Schedule 2, shows the complete 2-C appendices and the document titled CNPI_Appendix 2-C_xlsx_21060429 was submitted on the Regulatory Electronic Submission System on April 29, 2016 as part of CNPI's initial application submission.

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## 14. Chapter 2 Filing Requirement Reference (page # 42)

A PILs model is stated as not filed because PILs are not applicable to CNPI, though the reason for this is not stated. An income tax model is said to be provided, but this is a one-page Excel spreadsheet of tax calculations. No explanation is provided as to why this model as adequate.

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**RESPONSE:**

PILs are not applicable to CNPI because it is a privately owned distributor and therefore does not remit PILs pursuant to Section 93 of the Electricity Act, 1998. Rather, CNPI pays taxes in accordance with the Income Tax Act. Please refer to the Board's Decision and Order dated November 22, 2012 (EB-2012-0112) for information on the applicability of PILs to CNPI.

In prior cost of service applications, CNPI had not submitted the Income Tax/PILs work form provided by the OEB because the form did not accommodate the unique status of CNPI being privately owned. In lieu of using the OEB's work form, manual worksheets had been submitted in past applications and these had been accepted by the Board.

CNPI has re-entered the tax data submitted in the current application into the Income Tax/PILs Work Form - version 1.0 posted to the OEB website in July 2015 and noted that the resulting grossed up taxes calculated of $530,037 for the 2017 Test Year is not significantly different than the $526,758 provided in the original submission. CNPI has provided the completed model as part of this submission.

Given that the costs incurred to revise the application would have far exceeded the resulting increase in Revenue Requirement, CNPI submits that proceeding to hear the application based on the originally filed grossed up taxes of $526,758 is prudent and in the best interests of its ratepayers.

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## 15. Chapter 2 Filing Requirement Reference (page # 42)

Calculation of Tax Credits is not provided.

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**RESPONSE:**

See table provided on page 2:

## Tax Credits - Historical, Bridge, and Test Years

Historical Year:

| 2015 | Total | Distribution |
|---|---|---|
| ITC from Apprenticeship Job Creation | 1,000 | 869 |
| Ontario Co-operative Education Tax Credit | 9,800 | 8,514 |
| Ontario Apprenticeship Training Tax Credit | 5,000 | 4,344 |
| | **15,800** | **13,727** |

Bridge Year:

| 2016 | Total | Distribution |
|---|---|---|
| ITC from Apprenticeship Job Creation | 2,000 | 1,738 |
| Ontario Co-operative Education Tax Credit | 3,800 | 3,301 |
| Ontario Apprenticeship Training Tax Credit | 10,000 | 8,688 |
| | **15,800** | **13,727** |

Test Year:

| 2017 | Total | Distribution |
|---|---|---|
| ITC from Apprenticeship Job Creation | 1,000 | 852 |
| Ontario Co-operative Education Tax Credit | 4,800 | 4,089 |
| Ontario Apprenticeship Training Tax Credit | 10,000 | 8,519 |
| | **15,800** | **13,460** |

## 16. Chapter 2 Filing Requirement Reference (page # 42)

For the requirement to provide supporting schedules, calculations and explanations for other additions and deductions, only summarized calculations are provided.

---

**RESPONSE:**

CNPI has provided a completed Income Tax/PILs Work Form as part of this submission. The significant "other addition" or "other deduction" included in the work form is the pension addition of $4,309,833 ($3,744,299 distribution only) in the 2015 historic year. Per decision in EB-2013-0369, the establishment of specific deferral and variance accounts ("DVAs") related to 4 pension and other post-employment benefits ("P&OPEB") was approved, retroactive to January 1, 2013. From an accounting perspective, CNPI commenced recording the expense variances between Section 3461 and 3462 accounting methods into the DVA accounts created. From a tax perspective, the other addition balance of $4,309,833 reflects the cumulative adjustment of Section 3462 pension accounting being adjusted out of the tax return ending pension reserve balance. This adjustment was created such that on a go forward basis, the reserve additions and deductions, and opening and closing pension reserve balances reflects Section 3461 accounting, resulting in only the net amount posted to the Profit and Loss statement related to pension reserves being added back / deducted from taxable income.

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## 17. Chapter 2 Filing Requirement Reference (page # 42)

There is no explanation of how property tax amounts are derived is provided.

---

**RESPONSE:**

Property tax amounts for the 2016 Bridge and 2017 Test years have been derived based on CNPI's review of historical actuals. Please see Exhibit 4, Tab 12, Schedule 5, in the application.

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## 18. Chapter 2 Filing Requirement Reference (page # 45)

Regarding the LRAMVA disposition of balance, no statement indicating the use of most recent input assumptions when calculating lost revenue is provided.

---

**RESPONSE:**

CNPI used the most recent input assumptions when calculating its LRAMVA for the period of 2013 through 2014.

*(page left blank intentionally)*

## 19. Chapter 2 Filing Requirement Reference (page # 60)

Low Voltage Cost (historical, bridge, test), variances and explanations for substantive changes are not provided.

---

**RESPONSE:**

Low Voltage costs for the historical, bridge and test years are:

| | |
|---|---|
| 2013 | $100,140 |
| 2014 | $89,896 |
| 2015 | $141,832 |
| 2016* | $141,144 |
| 2017** | $141,832 |

* 2016 forecast is based on actual costs of $70,572 for the period of January-June 2016, prorated for the entire year.

** 2017 forecast is based on the most recent actual costs (2015), as described at Exhibit 8, Tab 1, Schedule 7, of the Application.

Year-over-year variances are:

| | |
|---|---|
| 2014 vs 2013 | ($10,244) |
| 2015 vs 2014 | $51,936 |
| 2016 vs 2015 | ($688) |
| 2017 vs 2016 | $688 |

The explanation for variances and substantive changes is provided in CNPI's overview of its low voltage charges at Exhibit 8, Tab 1, Schedule 7. The explanation has been clarified below to assist with understanding CNPI's unique circumstances, and why typical methods of forecasting Low Voltage costs in accordance with the Filing Requirements would not be a reasonable basis for

forecasting CNPI's Low Voltage costs.

Unlike most embedded distributors, whose Low Voltage costs are largely based on forecast volumes and the host distributor's rates, CNPI's actual Low Voltage costs are independent of the amount of energy purchased in any given month.

CNPI pays fixed charges related to a Monthly Service Charge and a Meter Charge, however the major component of CNPI's total Low Voltage costs is the Common ST Line Charge which is a demand (KW) based charge. Therefore, CNPI's Low Voltage costs are largely dependent on the coincidence of generation capacity with distribution system demand. Simply stated, the amount of monthly Low Voltage costs from Hydro One is primarily dependent upon the presence of generation capacity coincident with the monthly distribution system peak.

The combined capacity of embedded generation is significant relative to system peak load in the EOP service area. In addition, the third-party run-of-the-river style generators are not suited to any form of scheduled dispatch. As a result, the net EOP peak demand upon which the Common ST Line Charge is based is both highly variable and outside of CNPI's control.

## 20. Chapter 2 Filing Requirement Reference (page # 71)

There is a requirement to identify all accounts for disposition and to identify DVAs for which disposition is not sought and the reasons why. For the various 1508 sub accounts for which disposition is not being requested, no supporting explanation is provided.

---

**RESPONSE:**

Assuming the reference to 1508 sub accounts is with respect to the pension and other post-employment benefits sub accounts.

The OEB has an ongoing generic proceeding on the regulatory treatment of pension and other post-employment benefit costs (EB-2015-0040). CNPI is a registered intervenor in the proceeding. CNPI has chosen to wait for the outcome of that proceeding before requesting disposition of those accounts.

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## 21. Chapter 2 Filing Requirement Reference (page # 71)

For Deferral and Variance Accounts and the requirement to show relevant calculations: the rationale for allocation of each account, proposed billing determinants and length of disposition period, no rationale for allocators used is provided.

---

**RESPONSE:**

For the Group 1 DVA balances being requested for disposition within this application, the allocators used are consistent with the allocators approved in previous IRM and CoS proceedings.

For OEB 1508, sub account Financial Assistance Payment and Recovery Variance - Ontario Clean Energy Benefit and OEB 1592 PILs and Tax Variance for 2006 and Subsequent Years, the kWh allocator was chosen so as to allocate residual balances as CNPI concluded that this was the most appropriate allocator based on the available options within the DVA continuity model. Given that individually the balances requested for these accounts are not material, CNPI is open to changing these allocators if during the application process another methodology is deemed more appropriate.

For the OEB 1568 LRAM balance, please see the Burman report in Exhibit 9, Tab 6, Schedule 1, Appendix A, of the application for allocation of balance by class.

*(page left blank intentionally)*

## 22. Chapter 2 Filing Requirement Reference (page # 73)

With respect to the requirement to identify the number of Class A customers served in 2014 and on July 1, 2015 and to provide the combined peak demand factor for each period, no peak demand factor is provided for2014.

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**RESPONSE:**

The Class A customer served in 2014 was only a Class A for the consumption period up to June 30, 2014. As of July 1, 2014, the peak demand factor in CNPI was nil as there were no Class A customers.