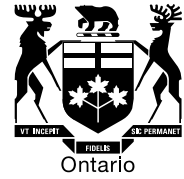


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BY E-MAIL

November 7, 2018

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Whitby Hydro Electric Corporation
Application for Rates
OEB File Number EB-2018-0079**

In accordance with Procedural Order No.1, please find attached OEB staff interrogatories in the above proceeding.

Whitby Hydro Electric Corporation's responses to interrogatories are due by November 14, 2018.

Yours truly,

Original Signed By

Kelli Benincasa
Acting Advisor, Incentive Rate-Setting & Accounting

Encl.

**OEB Staff Interrogatories
Whitby Hydro Electric Corporation (Whitby Hydro) 2019 IRM
Application (EB-2018-0079)**

Staff-IR 1

Ref: Managers Summary Page 6 and 21

Whitby Hydro provided a bill impact summary table on page 6 of the Managers Summary and also stated on page 21 of the Managers Summary “Whitby Hydro prepared an Excel model (outside of the 2019 Rate Model)) to review bill impacts and as such, did not rely on the bill impact templates generated in the Board issued model (sheet 20).”

Please provide the Excel version of the bill impacts model that Whitby Hydro prepared.

Staff-IR 2

Ref: Tab 3 Continuity Schedule of the Rate Generator Model Column BQ

BQ
Projected Interest from Jan 1, 2018 to Dec 31, 2018 on Dec 31, 2017 balance adjusted for disposition during 2018 ²

Please fill out column BQ on Tab 3 of the Continuity Schedule for projected interest from Jan 1, 2018 to Dec. 31, 2018 on Dec, 31, 2017 balance adjusted for disposition during 2018.

Staff-IR 3

Ref: Managers Summary Page 12 Global Adjustment (GA) for 11 Transition Customers from Class B to A in 2017

Whitby Hydro stated in the Managers Summary Page 12 “Whitby Hydro has followed the approach identified by the OEB in the 2019 Filing Requirements (Section 3.2.5.2) and the approach used in Tab 6.1a of the Rate Generator Model and proposed the \$95,990 be approved for disposition in 2019.”

Please provide the Excel spreadsheet that allocates the GA amount of \$95,990 to the 11 customers that transitioned from Class B to Class A in 2017.

Staff-IR 4

Ref: Tab 3 Continuity Schedule Column BN of the Rate Generator Model, Managers Summary Page 10, Settlement Agreement EB-2017-0085/EB-2017-0292 and Decision and Rate Order EB-2015-0113/EB-2015-0251

From Tab 3 Continuity Schedule

Interest Disposition during 2018 - instructed by OEB
21,333
163
(66,137)
6,585
(12,999)
1,795
617
20,793
0
(39,962)
(1,571)

Taken from Settlement Agreement Page 18

Group 1 Deferral and Variance Account Balances: The Parties agree that the following table accurately describes Whitby Hydro's principal and interest amounts for disposition.

Account Name	Account Number	Principal Balance (\$) A	Interest Balance (\$) B	Total Claim (\$) C=A+B
LV Variance Account	1550	979,715	20,352	1,000,067
Smart Meter Entity Variance Charge	1551	13,799	154	13,953
RSVA - Wholesale Market Service Charge	1580	(2,686,018)	(63,450)	(2,749,468)
Variance WMS - Sub-account CBR Class B	1580	168,263	6,414	174,677
RSVA - Retail Transmission Network Charge	1584	(549,528)	(12,453)	(561,981)
RSVA - Retail Transmission Connection Charge	1586	140,671	1,656	142,327
RSVA - Power	1588	(181,636)	803	(180,833)
RSVA - Global Adjustment	1589	411,200	20,364	431,564

Whitby Hydro stated in their Managers Summary Page 10 "The write off of carrying charges represents the difference between the carrying charges that were approved for disposition in 2018 rate application and the actual carrying charges incurred on the balances. This was due to a change in the prescribed rates."

The interest balances in column BN of the continuity schedule have been adjusted for actual interest rates vs forecast interest and therefore do not agree with balances approved for disposition in the Settlement Agreement EB-2018-0085/EB-2018-0292.

In Decision and Order EB-2015-0113 and EB-2015-0251 the OEB found that the amount should be removed from the 1595 account and stated "The OEB has no true-up process for the forecast vs actual interest rates and there has been no precedent for disposing of them through 1595."

Please provide an explanation as to why Whitby Hydro is adjusting previously disposed of balances.

Please update the DVA continuity schedule to reflect the OEB approved DVA account balances.

Staff-IR 5

Ref: Tab 3 Continuity Schedule Column BM and Row 29 account 1589 of the Rate Generator Model and Settlement Agreement EB-2017-0085/EB-2017-0292 Page 18

Please provide an explanation as to why the amount of \$440,320 entered in Column BM Row 29 account 1589 does not match the amount of \$411,200 approved for disposition in the Settlement Agreement EB-2017-0085/EB-2017-0292 Page 18.

Staff-IR 6 Whitby Hydro LRAMVA Questions

Whitby Hydro applied for a debit balance of \$339,536 in lost revenues associated with new CDM program savings for 2016, persisting savings from 2011 to 2015 in 2016 and carrying charges. The full impact of lost revenues is claimed as there were no CDM adjustments made to the load forecast since its 2010 cost of service application (EB-2009-0274). This was later confirmed by the OEB in the 2013 rates decision (EB-2012-0077).

Ref: Tab 8 of LRAMVA workform (streetlighting projects)

- a. Please confirm whether any funding from the IESO was received when Whitby undertook the LED upgrade for the streetlighting projects.
- b. Please confirm whether the streetlight savings are consistent with the Board approved load profile for streetlights, and whether a conversion factor was used to convert energy to demand savings.
- c. Please explain how the gross kW reduction was calculated for every month in the 2015 program year. Is this referring to the changes in billed demand, and what data was used to determine this? Please show detailed calculations in excel format to demonstrate how the baseline was estimated.
- d. It appears that 3,727 kW of demands savings from 2015 into 2016 are requested for recovery at cell S27 in tab 8.
 - i. Please explain appropriateness of the approach used to determine persisting streetlighting savings in 2015 and 2016 (columns G to S).
 - ii. Please discuss whether any alternative approach to determining savings persistence has been considered by Whitby?
 - iii. Please discuss what persistence factor is assumed in the calculations and whether the persistence rate is consistent with the assumptions applied by the IESO for similar projects.
- e. It appears that 2,618 kW of savings is claimed in 2016.
 - i. Please explain the significant increase in gross kW reduction from February 2016 to March 2016.
 - ii. Please confirm that net additions have been excluded from 2016 gross billed demand.

- iii. Please explain how the gross kW reduction was calculated for every month in the 2016 program year.
- iv. Please discuss what persistence factor is assumed in the calculations and whether the persistence rate is consistent with the assumptions applied by the IESO for similar projects.
- f. In Tab 5 (2015-2020) of LRAMVA workform:
 - i. Confirm whether the 2015 retrofit program deducted 31,610.91 kWh to account for energy savings from streetlight upgrades?
 - ii. Confirm whether the 2016 retrofit program deducted 2,102,854 kWh to account for energy savings from streetlight upgrades?

Staff-IR 7 Accounting Related Questions

Ref: Calculation of Account 1576 per Appendices 2-EC (revised CGAAP/MIFRS values), Appendix 2-BA (revised CGAAP/MIFRS values), RRR 2.1.13 filings as of December 31 for years 2013 to 2017, and Whitby Hydro's Audited Financial Statements from 2013 to 2017

Whitby Hydro has requested final disposition of Account 1576 balance which has been calculated in Appendix 2-EC.

OEB staff notes material differences in the net book values of PP&E per Whitby Hydro's Chapter 2 Appendices (Appendix 2-EC & 2-BA) and its Audited Financial Statements (AFS) and 2.1.13 reporting for years 2013 to 2017.

OEB staff notes that there were only small discrepancies, which were explained, per the 2.1.13 reporting between the regulatory and the AFS net PP&E numbers for years 2013 to 2017. Additionally, the net PP&E per 2.1.13 reportings for regulatory are consistent with the AFS numbers.

However, the Appendices 2-BA and 2-EC filed in the current proceeding are materially different from 2.1.13 reporting as well as the AFS. Below are the relevant amounts for net PP&E:

		Net PP&E					
		2013	2014	2015	2016	2017	
AFS	\$	68,230,000	\$ 70,362,000	\$ 84,288,000	\$ 90,601,000	\$ 96,290,000	
2-EC	\$	68,625,082	\$ 70,419,512	\$ 72,311,421	\$ 77,176,754	\$ 81,594,285	
Difference	\$	(395,082)	\$ (57,512)	\$ 11,976,579	\$ 13,424,246	\$ 14,695,715	

- a) Please reconcile and explain the differences between values for the net PP&E per Whitby Hydro's AFS and Appendix 2-EC.

- b) Please recalculate the balance in Account 1576 and refile Appendix 2-EC with the numbers that are consistent with Whitby Hydro's AFS and 2.1.13 reportings, as required.

Staff-IR 8

Ref: Appendix B Account 1576

On page 11, Whitby Hydro mentioned that due to a restatement in 2016 and 2017, Account 1576 reflects minimal net changes; and these changes/corrections/catch-ups were identified as a result of internal review/analysis of Account 1576.

- a) Please provide an analysis showing the components of Account 1576 (excluding recoveries through rate riders) that Whitby Hydro journalized for each year from 2013 to 2017 including:
- i. depreciation expense differences,
 - ii. capitalization differences,
 - iii. derecognition gains or losses on disposals of grouped fixed assets, and
 - iv. Itemize any other components of account 1576, as applicable.
- b) Please provide an analysis showing the components of Account 1576 (excluding recoveries through rate riders) that should have been journalized, had the balances been originally recorded correctly, including:
- i. depreciation expense differences,
 - ii. capitalization differences,
 - iii. derecognition gains or losses on disposals of grouped fixed assets, and
 - iv. Itemize any other components of account 1576, as applicable.
- c) Please reconcile the annual differences, in account 1576, between the two analysis prepared in part a) and b) above, and detail the adjustments required by year and explain the reasons for making these corrections.
- d) Please update Appendix 2-EC (excluding recoveries from rate riders and return components) that should have been journalized, had the balances been originally recorded correctly
- e) Please reconcile Appendix 2-EC (excluding recoveries from rate riders and return components) to the analysis derived in part a) of this question.

- f) Please reconcile Appendix 2-EC (excluding recoveries from rate riders and return components) as determined in part d) of this question to the analysis derived in part b) of this question.
- g) How are the differences reflected in Whitby Hydro's financial records; and how they were reported in the OEB 2.1.7 and other RRR reportings.

Staff-IR 9

Ref: Table 2 – Impact of Changes to Capitalization Policy and Appendix 2-EC

- i. The amounts for 2017 in Table 2 referenced do not match the difference in capitalized amounts per Appendix 2-EC. Please correct and refile the appropriate schedules.
- ii. The amounts for 2018 per Table 2 referenced do not match the difference in capitalized amount per Appendix 2-EC. Please correct and refile the appropriate schedules.

Staff-IR 10

Ref: Appendix B Account 1576 Final Disposition Methodology, Application Overview – pp. 3-5 – Relief sought (g) – Approval to use Account 1575.

Whitby Hydro has proposed to use Account 1575 going forward to track

- The impact of gains & losses on retirement and disposition of assets,
- Other accounting changes to PP&E, including impacts of annual review requirements under IAS 16.

OEB staff notes that the APH describes the purpose and scope of Article 510 as follows:

“...This guidance is in relation to the one-time transitional accounting adjustments required on.....adoption of IFRS.....”

In addition, it states:

“....In respect of PP&E, a distributor must use deferral Account 1575, IFRS-CGAAP Transitional PP&E Amounts, to record differences arising as a result of accounting policy changes caused by the transition from previous Canadian GAAP to MIFRS.”

OEB staff notes that the above excerpts indicate that Account 1575 was to be used only for the adjustments required for the transitional amounts, for

adjustment to opening net PP&E. This account was not intended to be used as an ongoing deferral account.

- a) Whitby Hydro states that it recorded gains & losses on retirement and disposition of assets. Confirm whether or not Whitby Hydro is referring to the derecognition of assets pertaining to grouped fixed assets that was required on adoption of IFRS. If so, confirm whether Whitby Hydro recorded such gains or losses annually since the adoption of IFRS, and the annual amount since adoption.
- b) If the gains or losses recorded by Whitby Hydro are other than due to the derecognition of grouped fixed assets, please confirm the amount by year and explain what the gains or losses on retirement and disposition of fixed assets relate to.
- c) As per the OEB policy report “Implementing IFRS in an IRM Environment”, the OEB did not create or define a generic account to address ongoing volatility, and determined that utilities may apply for a utility-specific variance account if they can demonstrate the **probability of significant ongoing volatility after rebasing**.sdf
- d) Please demonstrate through evidence as to how and why Whitby Hydro has determined that there will be significant ongoing volatility under IFRS to warrant:
 - 1. the use of tracking changes to PP&E as a result of changes to IFRS Accounting Policy, and
 - 2. due to annual review requirements under IAS 16.
- e) OEB staff notes that Whitby Hydro has recorded minimal losses on disposals on its Appendices 2-BA from 2015 to 2017 (under IFRS), and the Account 1576 calculation already includes the impact of such losses in Appendix 2-EC.

Note 21 (b) Explanation of transition to IFRS to Whitby Hydro’s 2015 AFS states:

“....If an entity applies this exemption, at the date of transition to IFRS, it shall test for impairment each item for which this exemption is used. The assets were tested for impairment at the date of transition and it was determined that **the assets were not impaired.**”[Emphasis added]

Given that there were minimal losses on disposals after Whitby Hydro converted to IFRS in 2015, why does Whitby Hydro believe that the amounts would be material in future for it to require Account 1575 to record the impact of gains &

losses on retirement and disposition of assets, and other accounting changes to PP&E, including impacts of annual review requirements under IAS 16?

- f) According to Article 410, where a distributor for general financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the distributor shall reclassify such gains and losses as depreciation expense and disclose the amount separately.

OEB staff notes that Whitby Hydro has correctly reclassified the gains and losses as depreciation expense in its Appendices 2-BAs and 2-EC.

OEB staff also notes that in each of the 3 years since adoption of IFRS, the depreciation expense recorded by Whitby Hydro was lower than the amount built into its rates.

Why does Whitby Hydro believe that the situation will change in the future that it would require Account 1575 to record gains and losses and impairment due to IAS 16?

Staff-IR 11

Ref: Appendix B Account 1576 Final Disposition Methodology, Table 6 – 1576 Revenue Requirement. Table 5 – Rate rider calculation for Account 1576 based on 2016, 2017 and 2018 actual and forecast transactions

- a) Whitby Hydro has calculated an adjustment to base rates of a credit of \$571,640. OEB staff notes that Whitby Hydro's approach is not consistent with the OEB policy for calculating amounts in Account 1576

When calculating the balance of account 1576, Appendix 2-EC must be used to calculate the differences between the capitalization and depreciation amounts using the accounting standards when rates were last rebased, and each year's actual (or in Whitby Hydro's case, projected) corresponding amounts using the accounting standards applicable in each year between rebasing under CGAAP and the first rebasing under MIFRS.

Please explain what Whitby Hydro's rationale is for deviating from the OEB policy.

- b) Prepare a forecast for account 1576 from 2018¹ to 2028 for each of the following components (as well as the applicable annual return component):
- a. depreciation expense differences,
 - b. capitalization differences,
 - c. derecognition gains or losses on disposals of grouped fixed assets, and
 - d. Itemize any other components of account 1576 as applicable.
- c) Prepare a forecast of Appendix 2-EC for 2018 to 2028, that reconciles to the table prepared in b) above (including the return component).
- d) Using the updated 2018 forecast of the components (plus the return component) of the balance of account 1576 as per part b) of this question, recalculate the disposition rate ride. Please update the 2019 Rate Generator Model accordingly.
- e) Using the updated 2018 (single year forecast) of the sum of the components of account 1576 (including the return component), recalculate the adjustment to 2018 Base Rates and update the 2019 Rate Generator Model
- f) Prepare a table for 2019 to 2028 comparing the forecast annual account 1576 amounts (including the return component) based on b) above, to the annual amount of \$571,640 calculated by Whitby Hydro as a Base Rate adjustment for the same period.
- g) Based on Whitby Hydro's response to part b) of this question, calculate the average of each of the following components (including the return component) for account 1576 from 2019 to 2028:
- a. depreciation expense differences,
 - b. capitalization differences,
 - c. derecognition gains or losses on disposals of grouped fixed assets, and
 - d. Itemize any other components of account 1576 as applicable.
- h) Based on the average calculated in part g) above, recalculate the adjustment to 2019 base rates and update the 2019 IRM Rate Generator Model.
- i) Based on the updated 2019 Rate Generator Model, provide a bill impacts table for each customer class based on the original 2019 Rate Generator

¹ The forecast for 2018 should be updated incorporating the actual data to the end of September 2018.

Model and another bill impact table based on the updated 2019 Rate Generator Model and calculate the change in bill impacts between the two impact tables.