

**NOTL Hydro responses to SEC Supplementary Interrogatories on  
the Updated Evidence**

**2019 Cost of Service Rate Application**

**Niagara-on-the-Lake Hydro Inc. (NOTL**

**Hydro) EB-2018-0056**

**January 30, 2019**

**SEC-Supp-35**

[Ex.2, Additional Evidence] Please confirm that there is no legal requirement that NOTL underground its voltage conversion capital work.

Response:

Although NOTL Hydro does have a legacy by-law and current policy mandating that voltage conversion replacement work be installed underground, NOTL Hydro does not have any information that this is a current legal imperative. However, as explained in the additional evidence on the topic, the underground installation of this work is appropriate in all the circumstances.

**SEC-Supp-36**

[Ex.2, Additional Evidence, p.7] The evidence says: "In addition, the Niagara Parkway, which runs from Queenston to the Olde Town was converted from underground 4.16 kV to underground 27.6 7 kV.":

- a. Please explain the rationale for undergrounding new capital assets on the Niagara Parkway.
- b. Since its last rebasing application, for each year, please provide the expenditures for underground voltage conversion work on the Niagara Parkway.
- c. Please provide the proposed test year costs of underground voltage conversion work on the Niagara Parkway.
- d. Please provide a map that shows the work that makes up your response to parts (b) and (c).

Response:

- a) The capital assets were previously already underground as 4.16 kV lines. As described in the sentence above, NOTL Hydro converted these underground lines from 4.16 kV to 27.6 kV as part of its voltage conversion program. This conversion was done many years ago. The quoted sentence was extracted from a part of the additional evidence which describes the voltage conversion work since 1987.
- b) No expenditures were made for underground voltage conversion work on the Niagara Parkway since the last rebasing.

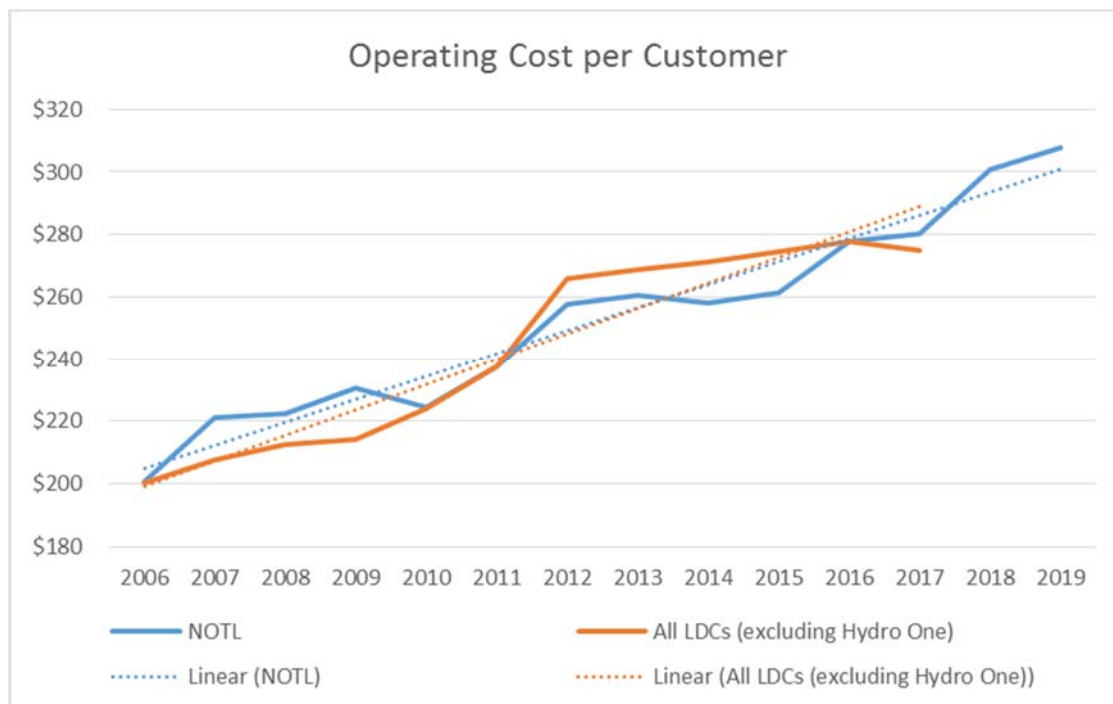
- c) No expenditures are planned for underground voltage conversion work on the Niagara Parkway in the Test Year.
- d) N/A

### SEC-Supp-37

[Ex. 4, Additional Evidence, p.8] Please updated Chart 8 to include the 2018 and forecast 2019 NOTL information.

Response:

See below. As there is no data for other LDCs for 2018 or 2019, trendlines have been added.



### SEC-Supp-38

[Ex. 4, Additional Evidence] Please update appendices 2-JA, 2-JB, 2-JC, and 2-K to provide 2018 year-end actuals. Please provide tables in the excel format.

Response:

The updated tables are filed separately as Appendix 1 to the NOTL Hydro Response to the Supplementary SEC Interrogatories. The updated values reflected in Appendix 3 for 2018 represent NOTL Hydro's best estimates based on current available information. These amounts are unaudited.

**SEC-Supp-39**

[Ex.4, p.7; 4-SEC-29, Ex.4, Additional Evidence, p.8-13] Is NOTL relying on the cost driver evidence in Table 4.6 in the pre-filed evidence or provided in Table 5 of the additional evidence? Please explain.

Response:

NOTL Hydro is assuming the question is referring to Table 9 of the additional evidence (not Table 5 as referenced above).

NOTL Hydro is relying on all of the evidence filed. As OM&A is an unsettled manner proceeding to hearing, NOTL Hydro is providing the additional evidence to assist the intervenors and the Board in understanding the appropriateness of NOTL Hydro's request. The additional evidence is provided as a supplement to the original evidence to provide greater clarification. The only difference is the additional evidence has been updated to reflect any settled matters. NOTL Hydro is hopeful that the provision of the additional evidence, along with the additional interrogatories on that evidence, will ensure that there is a sufficient evidentiary base to support having the unsettled issues determined by way of a written hearing. This would avoid the time and expense of an oral hearing.

Table 4.6 sets out the components of the 38% increase in O&M expenditure from 2014 to 2019. Table 9 in the additional evidence depicts the elements of the increase so that the components add to 100%. The main difference between the two tables is that the originally filed evidence and 4-SEC-29 did not break out or identify the impact of the change in capitalization policy that moved some costs from capital to OM&A in 2017, thereby increasing the administrative and general costs. This item is set out separately in the additional evidence – note that this change simply shifted existing costs; it did not increase overall compensation costs paid by the utility (total compensation costs are discussed at Exhibit 4, pages 24-28).

**SEC-Supp-40**

[Ex. 4, Additional Evidence, p.6] Please confirm that NOTL stretch factor has remained 0.3% (+/-10%) since its last rebasing application and is forecasted to remain at 0.3% in the test year.

Response:

Confirmed.

**SEC-Supp-41**

[Ex.4, Additional Evidence, p.9] Please provide a breakdown (and explanation of the calculation) of the actual incremental expenses incurred or forecasted to be incurred since 2014, related specifically for growth, for each of the following:

- a. Customer growth
- b. System peak and load growth

Response:

The information provided on page 9 of the additional evidence was the calculation of the impact of inflation, customer growth, load growth and system peak growth using the PEG factors. NOTL Hydro is aware that this is a formula commonly used in the Ontario distribution industry as a starting point for analysing OM&A costs. Changes in accounting standards and new or increased services, which would not be captured by the PEG formula, were then added to demonstrate the appropriateness of NOTL Hydro's overall OM&A costs.

At a general level, NOTL Hydro believes that growth in its customer base and load will have added costs over the past 5 years, in terms of items such as billing, customer communications, maintenance and general operations. At the same time, inflation will have increased existing and ongoing costs. NOTL Hydro is not able to breakdown actual incremental costs between load growth or customer growth as that is not how its records and operations are organized or recorded.

**SEC-Supp-42**

[Ex. 4, Additional Evidence, p.10] Please provide a copy of the live spreadsheet used to calculate table 10.

Response:

A copy of the live spreadsheet is being filed separately as Appendix 2

**SEC-Supp-43**

[Ex. 4, Additional Evidence, p.15] Please reconcile the 2014 information provided in Table 13 with the information provided in response to 4-SEC-30.

Response:

The main difference between the information in the two tables is that NOTL Hydro separated out the capitalized labour and CDM costs in Table 13 of the additional evidence. There are also some minor changes in the dollars shown because NOTL Hydro used more detailed historical spreadsheets from 2014 to complete the additional evidence, as compared to the more high-level information used to prepare the response to 4-SEC-30.

For details of the differences, please see the table below:

	<b>Table 13</b>	<b>4-SEC-30</b>	<b>Variance</b>	<b>Notes</b>
IFRS	130,784	-	130,784	Included in Capital & Billable in 4-SEC-30
Capital & Billable	528,634	796,432	(267,798)	4-SEC-30 included both CDM and IFRS payroll in Capital & Billable
CDM	114,669	-	114,669	Included in Capital & Billable in 4-SEC-30
Sub-total non-OM&A	774,087	796,432	(22,345)	Difference between total staffing costs and OM&A related staffing costs
OM&A	1,047,264	1,017,499	29,765	Line by line review of the underlying budget used as the basis for the Board Approved 2014 Cost of Service revealed some items included in services budget were labour related
Total Staffing Costs	1,821,351	1,813,931	7,420	4-SEC-30 did not include some payroll items that were budgeted in services including on-call and step-up pay.

### SEC-Supp-44

[Ex. 4, Additional Evidence, p.10] With respect to the accounting change:

- Please provide the full calculation and derivation of the \$130,784.
- Please provide the 2014 actual total cost for the President and the VP Operations positions, allocated to each of capital & OM&A.
- Using IFRS accounting rules, please re-allocate the 2014 actual total cost for the President and the VP Operations positions.
- Please provide the forecast 2019 forecast total costs for the President and the VP Operations positions allocated to each of capital & OM&A.

### Response:

- \$130,784 was the amount of payroll for the President and VP Operations that was allocated to the capital expenditures in the underlying budget used to derive NOTL Hydro's approved 2014 cost of service application.
  - President - 665 hours x \$100.07 / hour (all in rate including benefits, vacation etc) = \$66,548
  - VP Operations - 981 hours x \$65.48 / hour (all in rate including benefits, vacation etc) = \$64,236
- The table below includes the breakdown of executive payroll from the Board Approved 2014 Cost of Service. Executive includes the President, VP Operations, and VP Finance. The VP Finance position had minimal time allocated to capital.

2014 Cost of Service	
	<b>Executive Payroll &amp; Benefits</b>
OM&A	\$292,297
Billable	\$5,875
Capital	\$131,311
	<u>\$429,484</u>

- Under IFRS overhead is not an allowable capital expense. The nature of the duties performed by the President and VP Operations at this time would have been overhead in

nature and therefore the full amount allocated to capital would be included in OM&A under IFRS.

- d. The table below includes the breakdown of executive payroll from the 2019 Cost of Service Application. Executive includes the President, VP Operations, and VP Finance.

2019 Cost of Service	
	Executive Payroll & Benefits
OM&A	\$462,409
Billable	\$18,310
Capital	\$1,133
	<u>\$481,851</u>

#### **SEC-Supp-45**

[Ex.5, Additional Evidence, p.1] The evidence states: "In November 2018, the Town of NOTL financial management informed NOTL Hydro verbally that they would be looking to renegotiate the loans due to the rise in interest rates". Please provide greater details regarding the discussion that was held including, but not limited to whom specifically from the Town spoke to whom at NOTL, and on what date.

#### **Response:**

The initial discussion was held on November 8, 2018 during a meeting on a different matter. During a break from the main agenda item, the Town's Acting Treasurer, Kyle Freeborn informed NOTL Hydro President Tim Curtis of the Town's desire to renegotiate the loans due to rising interest rates.

#### **SEC-Supp-46**

[Ex.5, Additional Evidence, p.1] Please provide a copy of all written communications and a detailed summary (including participants and dates) of all oral communications between the Town and the NOTL, that in whole or in part, discuss its debt arrangements since January 1 2018. [Note: For written communications, please provide copies the actuals communications and do not copy and pasting the text as is done with the email from Mr. Freeborn on p.1-2).

#### **Response:**

The only written communication is the e-mail from Kyle Freeborn, a copy of which is attached as Appendix 2 to the responses to the OEB Staff Supplementary Interrogatories. In addition to the oral communication described in the response to SEC-Supp-45, Kyle Freeborn and Tim Curtis discussed the loan terms during a meeting on December 17, 2018. The 3.5% interest rate was proposed during that meeting based upon the due diligence with the schedule A bank as described in SEC-Supp-48. On January 28, 2019, Tim Curtis and Kyle Freeborn discussed finalizing the change in the loan terms. The earliest available date is March 4, 2019 for this to be presented to Town Council for approval. It was agreed that Tim Curtis will prepare the

revised loan documents, with an effective date of March 1, 2019. Kyle Freeborn will put this on the agenda and prepare the motion. Subsequent to March 4, 2019, the new loan terms will be in force.

#### **SEC-Supp-47**

[Ex.5, Additional Evidence, p.1] With respect to the two loans:

- a. Has the Town formally called the loans yet? If so, please provide the date in which it did so.
- b. Have the new loan(s) been agreed to yet, if so please provide a copy.
- c. If it has not, please provide the expected date the new loan(s) will be signed and effective.
- d. Please revise the tables on p.2 to reflect the forecast date the new interest rate will be effective on.

Response:

- a) Not yet. March 4, 2019 has been set as the date when the new loan terms will be presented to Town Council for approval.
- b) Not officially as a resolution is needed from Town Council. NOTL Hydro and Town staff are in agreement as to the terms and these will be presented to Town Council.
- c) The effective dates for the two town loans with reset interest rates will be March 1, 2019.
- d) No revision is necessary as the effective date of the new loan rates is before the May 1, 2019 effective date of the new electricity rates.

#### **SEC-Supp-48**

[Ex.5, Additional Evidence, p.1-2] Based the NOTL's expectation that the Town is going to call the two loans, please provide details regarding the due diligence that it has undertaken regarding the appropriateness of agreeing to a new loan of 3.5% with the Town.

Response:

In early December, NOTL Hydro contacted a schedule A bank and requested indicative rates. The bank provided that the indicative swap rate as of December 13, 2018 was 2.73%. On top of this NOTL Hydro pays a 0.75% stamping fees giving an aggregate rate of 3.48%. The rate of 3.50% was therefore considered a fair rate.

As was noted in the additional evidence, the loans from the Town are much more favourable to NOTL Hydro as they do not contain restrictive financial covenants and are unsecured. The Town would also be easier to negotiate with in the event NOTL Hydro needed to change the terms of the loans. Paying around the same rate as would be required from a financial institution is therefore beneficial.

#### **SEC-Supp-49**

[Ex.5, Additional Evidence, p.2] With respect to the 'Original Promissory Note', SEC understands for rate-making purposes the rate is proposed in the Board's long-term debt rate, but what rate does the NOTL currently actually pay the Town on the note.

Response:

7.25%

### SEC-Supp-50

[Ex.9, Additional Evidence] With respect to the proposed Group 2 and LRAM DVA disposition period:

- Please add a column to the tables on p.3 to show the bill impact as a percentage of total bill impact.
- Did NOTL undertake any customer engagement on the change in the proposed disposition period as proposed in the Additional Evidence either before after its filing? If so, please provide details including copies of any communicators.

Response:

a)

LRAM	Rate Rider 1 Year	Rate Rider 2 Years	Variance	Group 2/LRAM Bill Impact	Total Bill Impact	Group 2/LRAM % of Total Bill Impact 2 Years	Group 2/LRAM % of Total Bill Impact 1 Year
Residential	\$ 0.42	\$ 0.21	\$ 0.21	\$ 0.21	\$ 1.27	16.5%	33.1%
GS<50	\$ 0.0010	\$ 0.0005	\$ 0.0005	\$ 1.00	\$ 3.42	29.2%	58.5%
GS>50	\$ 0.2686	\$ 0.1343	\$ 0.1343	\$ 18.13	\$ 157.47	11.5%	23.0%
Street Lights	\$ 26.3920	\$ 13.1960	\$ 13.1960	\$ 382.68	\$ (337.37)	(113.4%)	(226.9%)
Unmetered	\$ -	\$ -	\$ -	\$ -	\$ (0.34)	0.0%	0.0%
Large User	\$ -	\$ -	\$ -	\$ -	\$ (556.15)	0.0%	0.0%

Group 2	Rate Rider 1 Year	Rate Rider 2 Years	Variance	Group 2/LRAM Bill Impact	Total Bill Impact	Group 2/LRAM % of Total Bill Impact 2 Years	Group 2/LRAM % of Total Bill Impact 1 Year
Residential	\$ 0.80	\$ 0.40	\$ 0.40	\$ 0.40	\$ 1.27	31.5%	63.0%
GS<50	\$ 0.0011	\$ 0.0005	\$ 0.0006	\$ 1.10	\$ 3.42	32.2%	64.3%
GS>50	\$ 0.4104	\$ 0.2052	\$ 0.2052	\$ 27.70	\$ 157.47	17.6%	35.2%
Street Lights	\$ 0.3785	\$ 0.1893	\$ 0.1893	\$ 5.49	\$ (337.37)	(1.6%)	(3.3%)
Unmetered	\$ 0.0011	\$ 0.0005	\$ 0.0006	\$ 0.41	\$ (0.34)	(121.3%)	(242.6%)
Large User	\$ 0.4104	\$ 0.2052	\$ 0.2052	\$ 1,026.00	\$ (556.15)	(184.5%)	(369.0%)

- NOTL Hydro did not undertake any supplementary customer engagement about the proposed disposition period for the relevant accounts.