

Energy Probe Interrogatories

EB-2019-0049

2020 Electricity Distribution Rates Application Kitchener-Wilmot Hydro Inc.

July 9, 2019

1-EP-1

Reference: Exhibit 1, Page 32, [Table 1.2.6-1, Bill Impacts](#)

Preamble: The Bill impacts for most rate classes are material, but the Impact on the embedded Distributor (Waterloo North Hydro) is 4X the Board Guideline

What is KWHI proposing to do about this situation?

2-EP-2

Reference: Exhibit 2, Section 2.1.3, Appendix 2.3 DSP, Appendix P, CIS Page 11

Preamble: KWHI will be replacing its in-house Customer Information System (CIS) through the period 2019 and 2020. The full business case is included in the Distribution System Plan (DSP) Appendix P. The replacement of the CIS has been approved by KWHI's Board of Directors. A0

- a) Please discuss the Functionality of the AITO/OCS System and indicate if the following are Included in the Base CIS or must be added later (Phase 2) at higher capital and operating cost: e-billing, on-line bank/credit card payments, customer interactive portal, and customer site work scheduling and management. Please add additional comments on current and future functionality.
- b) Please indicate the treatment of the CIS capital asset in the revenue requirement in 2020 in terms of expense and amortization. Point to/provide the numbers.
- c) Please provide a list and NBV/Net Asset value of the other KWHI Enterprise Systems and Software with dates of acquisition and replacement life(s) including Accounting, HR and Work Management.
- d) In making its decision on the CIS discuss if/how KWHI considered the linkage to/integration to its current and future Enterprise IT Systems.

2-EP-3

Reference: Exhibit 2. DSP Asset Condition Assessment, Appendix L, METSCO ACA Report Sections 3.6 and 4.26.

- a) Please provide an extract showing the last Wood Pole ACA and asset profile.
- b) Provide a Table with the historic Pole replacement profile, annual costs and Unit Costs.
- c) Does KWHI have a record of Wood Pole Failures? If so please provide a copy. Relate Pole failures to the Cause Codes for SAIFI/SAIDI.
- d) Based on the METSCO ACA discuss what is the optimum strategy for Wood Pole replacement. Provide charts showing three scenarios: business as usual, recommended (400-425 poles per year) and accelerated; with number of units, capital costs and related risks.
- e) Why is KWHI also replacing 1000 “Fair Condition” poles?
- f) Please provide the projected unit pole replacement costs for the proposed plan and compare to the historic KWHI costs and to the benchmark costs for poles in the UMS Cost Benchmarking Study filed in EB-2018-0165 (Toronto Hydro) at Exhibit 1B, Tab 2, Schedule 1, Appendix B, summarized in Table II-1 Page 7, and in Tables C-8 to C-10.
- g) Comment if Unit Costs will change with an accelerated replacement scenario.

2-EP-4

Reference: Exhibit 2, Pages 73/74, Table 2.12.1, Charts 2.12-1 and 2.12-2; EB-2018-0165 Toronto Hydro CIR Plan 2020-2024, Exhibit U-EP-64

Preamble: KWHI indicates its reliability statistics compare favourably to the industry as can be seen in the referenced charts.

- a) Please explain the basis of the “Industry” (Blue) lines in the charts in statistical terms
- b) Please confirm that based on the second reference:
 - i. KWHI SAIFI in 2017 was at about the 50th Percentile of Ontario Distributors
 - ii. KWHI SAIDI in 2017 was at about the 35th Percentile of Ontario Distributors
- c) What is the Projection of the Reliability Indices for 2020?

3-EP-5

Reference: Exhibit 3, Distribution System Plan 3.3.1.3, Vegetation Management

Preamble: Kitchener-Wilmot Hydro’s 2013 strategy for VM was a 5-year cycle. The current is 6 years.

- a) What are the annual VM Cost Savings?
- b) Please provide the OM&A costs for VM from 2014-2020 (projected). Mark the cycle change and Show the cost effect of the change in cycle.
- c) Has KWHI considered the impact on tree-related outages? Please discuss and provide more information
- d) Please Compare KWHI VM Costs to the Benchmark in the UMS Study filed by Toronto Hydro in EB-2018-0165 at Exhibit 1B Tab 2 Schedule 1 Appendix B. summarized in Table II-1

3-EP-6

Reference.: Exhibit 3, Table 3.1.6-3, Table 3.3.1.1-5 – 2017 Actual vs 2018 Actual

- a) Please clarify the calculation for the 2017 purchased energy change (1.0%).
- b) Please provide an explanation/reasons for the 54 GWh (3%) reduction in purchased energy in 2017.
- c) Provide more details of the 2018 GWh and the increase to 2011 levels.
- d) Please discuss concerns that the 2017 and 2018 results are an anomaly and may affect the model forecast for 2019 and the 2020 Test Year. In your answer specifically address HDD and CDD values that may affect normalization, also customer/connection growth and the effects of CDM.

3-EP-7

Reference: Exhibit 3, Table 3.1.9-1 4, Annual Usage per Customer/Connection; Table 3.2.2-1, Summary of Forecast

- a) Please provide a graphical representation similar to Exhibit 3 Page 30 but with trend lines added for the Residential and GS<50 Classes.
- b) Please provide the trends and decline in normalized average use for each class. Discuss the factors in the decline in average use.
- c) Please provide the average growth factors in customers and reduction of average use (Including CDM) and provide the net impact of these on the normalized load forecast for 2019 and 2020.

4-EP-8

Reference: Exhibit 4, Table 4.1.1-4, Total Actual and Forecast Spend

Preamble: KWHI presents CAPEX and OM&A together in the Total Spend. In most utilities CAPEX and OM&A are subject to different pressures and treated separately with the exception of Capitalized OM&A.

Table 4.1.1-4 provides the data and annual percentage changes for OM&A and TOTAL spend using MIFRS.

- a) Please summarize the reasons/drivers of the 2019 and 2020 forecast increases in OM&A taking into account changes in capitalized OM&A.
- b) Which figures is KWHI asking the e Board To approve for 2019 and 2020?
- c) Please summarize the reasons/drivers of the 2019 and 2020 forecast increases in Capex, (taking into account of the end of the non-discretionary LRT Project).
- d) Which figures is KWHI asking the Board to approve for 2019 and 2020?

4-EP-9

Reference: Exhibit 4, Page 4, Table 4.1.2, OM&A per customer; Appendix 5A Metrics

- a) Please Update the Table to show more recent year 2018 data (if available).
- b) Please provide the other EDS Scorecard Cost Control Metrics for KWHI and its cohort (cost/Km line).
- c) Please discuss the trends in these measures and position KWHI in 2015 and 2018 (or 2017 if 2018 is not available)

4-EP-10

Reference: Exhibit 4, Table 4.2.2-2 and Table 4.1.2

Preamble: The 2020 Test Year OM&A per customer is projected to increase from \$200.54 in 2018 to \$222.27. \$4.12 of the increase is due to the required investment in a Customer Information system, \$4.70 is due to the requirement to switch to monthly billing and \$2.67 is due to increased regulatory expenses.

- a) Confirm that according to the 2017 OEB Yearbook, \$222.27 would now place KWHI as the third lowest OM&A per customer, rather than first in 2014.

- b) Please provide the latest cost/customer and cost per Km of line for the cohort group.
- c) KWHI was the lowest cost performer from 2015-2017 explain what cost pressures causing the increases were unique to KWHI.

4-EP-11

Reference: Exhibit 4, Table 4.3.4, Variance Analysis Programs Pages 42-53

- a) Please list/ provide a breakout of Total Compensation costs for non-core departments (IT for example) for 2018, 2019 and 2020 show percentage changes.
- b) Provide the main drivers for the increases e.g. headcount, compensation increases and increased workload/activity. Provide relevant references to the evidence.
- c) Indicate how these departmental costs are allocated to capital and operating in 2020.
- d) What steps are management taking to control these costs in the Budgeting Process. Please use HR and IT as examples.

4-EP-12

Reference: Exhibit 4, Depreciation Expense, Table 4.9.1-1

- a) Please provide the Calculations supporting the Increases in Depreciation in 2020 related to the new CIS. Please include explanatory notes related to the tax treatment.
- b) Will the accelerated Depreciation continue into 2021 and beyond?
- c) Please provide the basis of the increased Transportation Equipment Depreciation Expense in 2020. Please relate this to changes to the Fleet.

4-EP-13

Reference: EB-2019-0049_KWHI_Appl_LRAMVA_Workform_20190430; Exhibit 4, Tables 4.11.2 -1 and Table 4.11.2 -1; Appendix 4-4

Preamble: The Conservation First Program has terminated and the IESO now delivers CDM Programs.

- a) Please provide KWHI's interpretation the Board's policy on LRAM post 2018.
- b) Is the recovery of amounts in 2020 from prior years due solely to persistence? Please discuss.

- c) Please provide a table that breaks out the contributors to the amounts to be recovered for each of the years.

4-EP-14

Reference: Exhibit 4, Appendix 4-7, Customer Service Outsourcing EARTH Business Case

- a) Please Provide the following Billing information from 2015-2020 and add explanatory notes and any other relevant information:
 - i. number of customers,
 - ii. number on re-authorized payment customers,
 - iii. number of bills paid by customers at the KWHI office,
 - iv. number of paper bills issued,
 - v. mailing costs,
 - vi. cost of paper bills and unit costs,
 - vii. and number of e-bills.
- b) Please summarize the cost/benefit of outsourcing per The Memo.
- c) Has the contract commenced?
- d) What is the duration of the Outsource Contract?
- e) What performance measures are included (on time etc.)

5-EP-15

Reference: Exhibit 5, Section 5.1.3, Return on Equity

- a) Please provide a Table showing the Board-Authorized and Actual realized ROE 2014-2018.
- b) How were the returns disposed of in each year e.g. dividends to the Municipalities retained earnings etc.?

5-EP-16

Reference: Exhibit 5, Section 5.1.4, Notional Debt; Table 5.1.1-1; Appendix 2-OB,

Preamble: KWHI's deemed and actual long-term debt are different. For the 2020 Test year, the actual amount of Long-Term debt is \$76,692,142 and the deemed long-term debt is \$134,045,953. KWHI has positive notional debt. KWHI is requesting the weighted average cost of actual long-term debt on its notional debt rather than the current long-term debt rate issued by the Board. KWHI has \$57,353,811 in notional debt for the 2020 Test Year.

- a) What is the current Long-Term Debt rate issued by the Board?
- b) What Rate has KWHI used for cost of LT Debt for 2020?
- c) What is the Impact of KWHI's LT Debt proposal on 2020 Cost of Debt, assuming the Board Rate rather than the WAC of LT Debt?

5-EP-17

Reference: Exhibit 5, Appendix 5-3, Infrastructure Ontario Loan

- a) Please confirm KWHI is paying 4.28 % on the IO 10-year loan
- b) Why is the IO Loan not included in the 2020 Cost of LT Debt Table 5.1.1-1, given its maturity in 2020?
- c) Confirm KWHI has projected cash balances and forecasts that it will not need to borrow additional cash to replace the IO Loan?

5-EP-18

Reference: Exhibit 5, Section 5.1.2, Short Term Debt

Preamble: KWHI is requesting a Short-Term Debt rate of 2.82% for the 2020 Test Year in accordance with the Cost of Capital Parameter Updates for 2019 Cost of Service Applications

Please confirm KWHI will update both the ST debt rate and Deemed LT rate when the 2020 Rate Order is prepared.

7-EP-19

Reference: Exhibit 7, Section 7.1.4, Embedded Distributor

Preamble: KWHI received feedback from WNHI they do not like the large increase, but they understand the methodology. The 2019 Cost Allocation model used for this application is different from the Cost Allocation model used in the 2014 Cost of Service Application.

- a) Please provide a copy of the correspondence with Waterloo North Hydro
- b) Please breakout the ED allocation change 2014-2020 into its components, showing the amounts % increases and Total.
- c) Given the small number of WNHI Customers what is the impact per customer?