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RENFREW HYDRO INC. (“RHI”)

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RESPONSES TO BOARD STAFF SUPPLEMENTAL INTERROGATORIES

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QUESTION #S1

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Ref: Applicant’s response to Board staff interrogatory #1

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In response to Board staff interrogatory #1, the Applicant filed an updated set of models that, among others, provided updated estimates for Revenue Requirement and Total Bill Impacts.

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Please confirm that the updated values contained in the re-filed set of models are the values on which the Applicant will now rely and for which it requests Board approval.

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RESPONSE:

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RHI confirms that it relying on the updated values and requests Board approval on that basis. For consistency, all interrogatory responses refer to the data as originally submitted, unless otherwise requested or explicitly stated in the response.

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1 **QUESTION #S2**

2 Ref: Applicant's Response to Board staff interrogatory #5

3 Part of the Applicant's response to this interrogatory was a table "Residential
 4 Total Bill Impacts" which showed for a range of "Monthly kWhs" and separately
 5 for both "Summer" and "Winter", the dollar ("\$\$") and percentage ("%") increases
 6 inherent in the Applicant's proposed rates. For example; at 800 Monthly kWhs
 7 and for Summer, the increase is shown as \$2.65 and 2.6% which is the same
 8 increase in the Applicant's pre-filed evidence; this appears to be different from
 9 the increases provided in response to Board staff interrogatory #1.

10 Please update, as necessary, the Applicant's response to Board staff
 11 interrogatory #5 with data that is consistent with that on which the Applicant will
 12 now rely.

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14 **RESPONSE:**

Residential Total Bill Impacts

Monthly kWh's	Original Application				Amended Application			
	Summer		Winter		Summer		Winter	
	\$	%	\$	%	\$	%	\$	%
100	\$1.90	7.5%	\$1.90	7.5%	\$1.88	7.5%	\$1.88	7.5%
250	\$2.05	5.0%	\$2.05	5.0%	\$2.00	4.9%	\$2.00	4.9%
500	\$2.35	3.5%	\$2.35	3.5%	\$2.20	3.3%	\$2.20	3.3%
800	\$2.65	2.6%	\$2.69	2.7%	\$2.40	2.4%	\$2.47	2.5%
1,000	\$2.85	2.3%	\$2.85	2.4%	\$2.56	2.1%	\$2.56	2.1%
1,500	\$3.40	1.9%	\$3.40	1.9%	\$2.92	1.6%	\$2.92	1.7%
2,000	\$3.93	1.7%	\$3.93	1.7%	\$3.31	1.4%	\$3.31	1.4%

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1 **QUESTION #S3**

2 Ref: Applicant's Response to Board staff interrogatory #11

3 In its response, the Applicant provided the actual and approved (budget) capital
4 costs for each year 2006 to 2009. With reference to the approved capital cost in
5 each year, the actual cost was shown to be:

6	2006	17.9% under spent
7	2007	12.8% over spent
8	2008	39.8% under spent
9	2009	2.0% under spent

10 Since the annual average capital under-expenditure is in the order of 12%, then
11 requested rates based on the 2010 approved budget may be expected to be
12 inflated if the historical under-expenditure were to continue for 2010.

13 Please comment.

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15 **RESPONSE:**

16 The material under spending in 2006 and 2008 were due to exceptional factors which are
17 described in the original response. RHI does not expect a recurrence of such factors in
18 2010. RHI notes that the budget variance in its 2009 capital spending was less than the
19 materiality threshold. As at August 31st, 2010, RHI's year-to-date capital expenditures of
20 \$375,942 represents 72.2% of the \$517K total projected for the year. At year end, RHI
21 expects a budget variance less than the materiality threshold on its 2010 capital
22 expenditures.

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1 **QUESTION #S4**

2 Ref: Applicant's Response to Board staff interrogatory #17

3 Board staff interrogatory #17 was concerned, among others, with trends in the
4 data used for load forecasting and with the weather normalization of the base
5 data.

6 To help clarify the Applicant's response:

- 7 a) Please confirm or correct Board staff's understanding that the 2005-2009
8 data for each rate class in Exhibit 3, Tab 1, Schedule 2, Attachment 1, page
9 5, Table 4 "Actual Average use Per Customer, Renfrew Hydro" are the data
10 whose average (arithmetic mean) for each class was multiplied by the 2010
11 forecasted number of customers to determine the 2010 weather-normalized
12 (by definition) kWh load forecast. (For example; for the Residential class the
13 2005-2009 values of 9,177 kWh, 8,664 kWh, 8,733 kWh, 8,787 kWh and
14 8,491 kWh have an average value of 8,770.4 kWh which, when multiplied by
15 the 2010 forecasted number of customers of 3,635 produces a load forecast
16 of 31,880,404 kWh i.e. 31,881,465 kWh after correcting for rounding errors.)
- 17 b) Using the input data for each class referenced in a) above – either the data
18 shown in the referenced Table 4 or corrected data provided by the Applicant
19 – please determine the straight line relationship and calculate the
20 extrapolated 2010 kWh value for each class
- 21 c) Please provide the five input historical values alluded to in the Applicant's
22 response to part c) that produced the "five-year historical average used to
23 derive weather-normalized NAC values" and explain how the unique weather
24 characteristics for each of the five years were taken into account (i.e. as
25 distinct from assuming the weather in each year was precisely the same).

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27 **RESPONSE:**

28 a) RHI confirms that Board staff's understanding as stated in the question is correct.

29 b) RHI has calculated the extrapolated values as follows (RHI has not proposed any
30 correction to projected retail volumes):

2010 Extrapolation

Average Use per Customer Trend

Residential	9,020
GS < 50kW	27,440
GS > 50kW	840,602
Street Light	955
USL	4,872

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RHI does believe these extrapolations to be useful. A linear trend does not in any way reflect a "normalization" process. It assumes that the value is somehow related to the passage of time. While a small portion of energy consumption per customer may be time related (in the sense of increased conservation, etc.), the overwhelming variation is due to weather, which is why we "weather normalize". Simple linear trending does not do this. Also of concern is the fact that the starting point for the trend line asked for is 2005, which happens to be the warmest year on record. In RHI's view, a more appropriate method is to use an arithmetic mean where the probability of each of the 5 years occurring is weighted equally.

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c) RHI has not analyzed the unique weather characteristics of each year. As stated in the question, the historical five-year average was used to derive a weather-normalized NAC for 2010. RHI does not have weather-normalized data for the historical years used in its forecast.

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1 **QUESTION #S5**

2 Ref: Applicant's Response to Board staff interrogatory #18

3 The Applicant provided background to its decision to reject the load forecast it
4 had developed using a multivariate approach since it produced "unusually
5 pessimistic" results and instead filed a forecast based on the Normalized
6 Average Consumption ("NAC") approach.

7 Please provide detailed rationale for the Applicant's rejection of the forecast
8 developed using the multivariate approach.

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10 **RESPONSE:**

11 RHI provided a detailed rationale in its original application; see Exhibit 3/1/2/1: p.2. A
12 multivariate approach based on wholesale load is problematic, as declining volumes in
13 General Service classes impact the projection for the Residential class, resulting in an
14 overly pessimistic estimate. RHI supported this view in its response to Board staff IR
15 #18(c): the multivariate approach produced estimates for 2009 and 2010 which were
16 well below the actual result of any the past five historical years, despite a slowly growing
17 Residential customer base.

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1 **QUESTION #S6**

2 Ref: Applicant's Response to Board staff interrogatory #22

3 The Applicant provided an updated table showing Total Compensation and
 4 Expenses by Employee Group for the years 2006 to 2010. In particular the table
 5 showed Total Compensation for "Mgmt/non-union" for the years 2009 and 2010
 6 to be \$69,493 and \$73,804 respectively.

7 Please confirm that the year-over-year increase is in the order of 6.2% and
 8 rationalize the magnitude of the increase in the current economic climate.

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10 **RESPONSE:**

11 The comparison as stated in the question is misleading as the 2009 Average
 12 Compensation of 69K takes into consideration the hiring of a summer student while the
 13 2010 Average Compensation of 73K does not.

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15 As stated in the application, RHI's workforce is comprised of 5 full-time non union
 16 employees. Under normal circumstances, RHI employs a summer student to assist with
 17 special projects and provide relief for office staff vacations. In 2010, due to the
 18 economic situation as well as the unavailability of existing staff to train a student, RHI
 19 opted not to hire a summer student.

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TOTAL COMPENSATION AND EXPENSES BY EMPLOYEE GROUP

2009 Including summer student	2009 Excluding summer student	2010 (no summer students)
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Compensation (Salary & Wages)

Description	2009 Actual	2009 Actual	2010 Test
Mgt/non-union	5.3	5	5

Compensation (Salary & Wages)

Description	2009 Actual	Average	2009 Actual	Average	2010 Test	Average
Mgt/non-union	\$287,216.00	\$54,191.70	\$278,123.00	\$55,624.60	\$288,002.00	\$57,600.40

Compensation (Benefits)

Description	2009 Bridge	Average	2009 Bridge	Average	2010 Test	Average
Mgt/non-union	\$81,099.00	\$15,301.70	\$79,872.00	\$15,974.40	\$81,019.00	\$16,203.80

Total (Salary and Wages & Benefits)

Description	2009 Bridge	Average	2009 Bridge	Average	2010 Test	Average
Mgt/non-union	\$368,315.00	\$69,493.40	\$357,995.00	\$71,599.00	\$369,021.00	\$73,804.20

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1 **QUESTION #S7**

2 Ref: Exhibit 4/2/1/p1

3 Inflation appears to be built into the Applicant's OM&A costs.

4 Please identify the inflation rate used for the 2010 OM&A forecast and the source
5 document(s) for the inflation assumptions.

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7 **RESPONSE:**

8 Renfrew's OM&A forecast is not based on a formulaic type method (i.e. applying a
9 specific inflation factor). Instead, Renfrew uses a more judgmental approach to its
10 forecasting method. The approach includes a thorough analysis of historical costs,
11 intuitive judgments, opinions and subjective estimates. Each account is looked at
12 individually.

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1 **QUESTION #S8**

2 Ref: Exhibit 4/2/6/p1

3 Please state whether or not the Applicant has included an amount for recovery of
4 late payment penalty litigation costs in its 2010 Test Year application. If yes,
5 please identify the amount and explain how the Applicant is proposing to recover
6 the amount (e.g. customer rate classes that would be affected and whether the
7 amount would be recovered by means of a fixed or variable charge or a
8 combination thereof). If yes, please provide evidence supporting the amount
9 allocated to the Applicant (e.g. through the settlement agreement).

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11 **RESPONSE:**

12 RHI's rate application does not include any amount to recover late payment penalty
13 litigation costs.

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1 **QUESTION #S9**

2 Ref: Exhibit 8/4/3/p1

3 Occasionally rates and charges are contained in an applicant's Conditions of
4 Service.

- 5 • Please identify any rates and charges that are included in the Applicant's
6 Conditions of Service and provide an explanation for the nature of any
7 costs being recovered.
8 • Please provide a schedule outlining the revenues recovered from these
9 rates and charges from 2006 to 2009 and the revenues forecasted for the
10 2010 Test Year.
11 • Please explain whether in the Applicant's view, these rates and charges
12 should be included on the Applicant's tariff sheet.

13 .

14 **RESPONSE:**

15 RHI does not have any rates and charges in its Conditions of Service.

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1 **QUESTION #S10**

2 Ref: Applicant's Response to Board staff interrogatory #28

3 Board staff interrogatory #28 read:

4 "Ref: Exhibit 9/1/2/1/pp5-6

5 The "Continuity Statements for Deferral/Variance Accounts", pages 5 and 6
 6 shows under Jan 1/09 to April 30/09, and under May 1/ 09 to Dec. 31/09, a
 7 column titled "Other".

- 8
- Please explain what these columns represent.
 - How were the numbers in the column titled "Other" derived?"
- 9

10 The Applicant's response was:

11 "The figures under the 'Other' columns reflect all principal balance
 12 changes in the accounts (excluding carrying charges)."

13 Please provide a comprehensive answer to both part of the original interrogatory.

14 .

15 **RESPONSE:**

16 RHI's principal balance changes can be summarized as follows:

2009 Principal Balance Changes

		1-Jan-09 to 30-Apr-09	1-May-09 to 31-Dec-09	2009 Total
Settlement Variances	<i>LV (#1550), RSVA (158x)</i>	(37,352)	(327,366)	(364,718)
Smart Meters	<i>Capital (#1555), OM&A (#1556)</i>	(1,742)	30,778	29,037
Other Group 2	<i>#1508, #1518, #1548</i>	380	5,068	5,449
TOTAL		(38,713)	(291,519)	(330,232)

17 The balance changes for Settlement Variances reflects the difference between the
 18 charges collected from ratepayers and charges paid by RHI for its power supply. The
 19 balance changes for Smart Meters reflect the proceeds from the rate adder and
 20 spending on smart meters. The types of costs recorded to the other 'Group 2' deferral
 21 and variance accounts are described in Exhibit 9/1/2, p.2.

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