Responses to SEC Interrogatories
2009 Electricity Distribution Rates
ENWIN Utilities Ltd. ("EWU")
EB-2008-0227

General Questions

1. Please advise the number of schools that are customers of the Applicant, broken down between GS<50 and GS>50 classes.

There are 77 schools (belonging to the Conseil Scolaire de District des Ecoles Catholiques du Sud-Ouest, Conseil Scolaire de District du Centre-Sud-Ouest, Greater Essex County District School Board, and Windsor Essex Catholic District School Board) within the EWU service area. Those schools belong to the GS<50 and GS>50 classes as set out below:

General Service < 50 kW: 19
General Service > 50 kW: 58

2. Please provide the Applicant's views on the most recent PEG Benchmarking ranking of the Applicant, together with any explanation available (positive and/or negative) for the efficiency level of the Applicant relative to other LDCs.

EWU has worked in consultation with the Electricity Distributors Association ("EDA") and the Coalition for Effective Incentive Regulation Mechanism ("CEIRM", led by Horizon) to better understand the most recent PEG Benchmarking effort. EWU agrees with the EDA and CEIRM that effective benchmarking would be a positive attribute within the industry. EWU also agrees with the EDA and CEIRM that the most recent PEG product does not result in effective benchmarking. Instead, the PEG product leads to results that appear to favour LDCs with particular characteristics.

As set out in CEIRM's December 15, 2008 submission, there appear to be a number of deficiencies with the PEG product. EWU perceives that these deficiencies disproportionately adversely affect EWU's ranking.

First, CEIRM notes that LDCs without LV charges may have relatively more costs included in the OM&A figure, whereas host utilities or other expensing mechanisms absorb those costs for LDCs with LV charges. EWU does not have LV charges and therefore its OM&A may be overstated by comparison.

Second, CEIRM notes that LDCs that own high-voltage assets, such as transformer stations, may have relatively more costs included in the OM&A figure, whereas HONI, host utilities or other expensing mechanisms absorb those costs for LDCs without high voltage assets. EWU owns 5 transformer stations and therefore its OM&A may be overstated by comparison.

Third, CEIRM notes that the exclusion of capital expenses may result in inadequately addressing asset lifecycle states and the impact of growth, thereby favouring LDCs with young assets and high growth. CEIRM points out that in EWU's cohort, the service areas for Veridian and Hydro Ottawa have double the growth rates of EWU's service area. CEIRM also points out that EWU has the highest line density of the so-called "Large City" LDCs, which suggests that the service area is either the most built-out or at least among the most built out. These factors also appear to weigh against EWU under the most recent PEG approach.

Fourth, CEIRM notes that the PEG approach may not correctly give credit to LDCs with embedded wholesale market participants. EWU has embedded wholesale market participants and the PEG product may punish EWU for the costs associated with those large customers.

Fifth, CEIRM notes that there are data quality, consistency and comparability issues. To the extent that there is poor quality data among comparators, inconsistency in accounting approaches across the industry and benchmarking approaches that don't adequately have regard for apples-to-oranges match-ups, it is inaccurate to use rankings as a meaningful tool. For example, EWU's leased fleet, $1,000 threshold for capitalization and burden policy may conspire against EWU's ranking, though those may be industry best practices or the best practices in light of EWU's particular circumstances (e.g. service area size, climate, company size).

More generally, while there may be a number of LDCs with relatively similar profiles that lend themselves to being benchmarked against each other, EWU has a relatively unusual profile. Information from the Board's 2007 LDC yearbook illustrates this point:

1) From consumption or average peak demand perspectives, EWU may be considered among the large LDCs, with numbers that compare with London and Veridian. However, London and Veridian each have over 20% more customers than EWU and are relatively low density service areas with significant new build relative to EWU.

	EWU	London	Veridian
Consumption (kWh)	**2,984,344,029**	**3,387,777,810**	**2,547,644,408**
Average Peak Demand (kW)	**482,475**	**576,717**	**423,075**
Customer Count	84,757	142,105	109,225
Customers/km	74.81	54.47	52.87

2) From a customer count perspective, EWU may be considered among the mid-sized LDCs, with numbers that compare with Kitchener-Wilmot and Barrie. However, Kitchener-Wilmot and Barrie have less than 70% EWU's consumption and demand and have much younger and low density service areas.

	EWU	Kitchener-Wilmot	Barrie
Consumption (kWh)	2,984,344,029	1,918,248,429	1,508,322,713
Average Peak Demand (kW)	482,475	320,111	264,432
Customer Count	**84,757**	**82,599**	**68,535**
Customers/km	74.81	44.89	47.43

3) From system age and density perspectives, EWU may be considered among the old and dense LDCs, with numbers that compare to Brantford and Kingston. However, Brantford and Kingston have less than 35% consumption and demand and less than half as many customers.

	EWU	Brantford	Kingston
Consumption (kWh)	2,984,344,029	1,008,306,513	723,094,046
Average Peak Demand (kW)	482,475	164,692	111,275
Customer Count	84,757	37,108	26,632
Customers/km	**74.81**	**75.73**	**76.53**

EWU has actively participated in the Board's 3GIRM and Benchmarking initiatives in order to give voice to these elements. However, at this juncture, it is not clear to EWU that the PEG product sufficiently accounts for the issues raised by the CEIRM or EWU's unusual profile.

3. Please provide a copy of the Applicant's most recent multi-year year strategic plan, including assumptions, forecast, budgets, narrative, and any updates.

EWU has not created a multi-year strategic plan. The 2009 budget documentation includes an extrapolation of costs to future years. This extrapolation is not approved by the EWU Board of Directors, nor is subject to much internal rigor or review. The 2009 budget information is provided in response to CCC question 15.

4. [Exhibit 1/1/14, p.2] Please provide a full description of the relationship between EWE and EWU relating to conservation and demand management activities, and provide any agreements, memoranda, or other documents setting out the terms of that relationship.

EWU is under contract with the Ontario Power Authority (OPA) to administer their conservation programs. EWE is administering the programs on EWU's behalf. EWE is responsible for managing the programs and reporting program performance to the OPA on behalf of EWU. Any costs incurred by EWE are recovered through the OPA funding. The OPA funding is directly passed through to EWE. EWU costs, if any, are charged directly to EWE.

This service agreement has not been reduced to writing at this time.

5. [1/2/1, p.3] Please file a live copy of the Ratemaker 2009 Cost of Service and PILs models, populated with the Applicant's data used in this Application.

EWU is providing locked copies of the models requested, populated with the data used in the Application and Evidence. Please see Attachments SEC_IRR_5-1 and SEC_IRR_5-2.

6. [1/2/3] Please file a table showing the primary drivers of the deficiency (e.g. load decline, OM&A increases by category, etc.).

Deficiency Driver: Load Decline	**Change from 2006 Actual**	**Application Reference**
Residential	(2%)	Exhibit 3-2
GS>50	(5%)	Exhibit 3-2
Large Use – Regular	(38%)	Exhibit 3-2
Large Use – 3TS	(37%)	Exhibit 3-2
Deficiency Driver: OM&A	**Change from 2006 Board Approved**	**Application Reference**
Operations	$680,470	Exhibit 4
Maintenance	$1,022,290	Exhibit 4
Billing and Collection	$773,351	Exhibit 4
Community Relations	$43,092	Exhibit 4
Administrative and General	($436,916)	Exhibit 4
Taxes other than Income	$371,316	Exhibit 4
Deficiency Driver: Deficiency Calculations	**Change from 2006 Board Approved**	**Application Reference**
Provision for PILs	$2,083,109	Exhibit 4-3-2
Rate Base	8%	Exhibit 2
Amortization	$2,504,882	Exhibits 2-2-3, 4-2-5

7. [1/3/1, p.16] Please file the Management Services Agreements referred to, together with any amendments, revisions, updates, service schedules, or other documents evidencing the current terms under which those services are being provided.

The EWU-WUC MSA dated January 1, 2000 is enclosed as Attachment SEC_IRR_7-1. The EWU-EWE MSA dated January 1, 2000 is enclosed as Attachment SEC_IRR_7-2. The most updated version of the EWU-WUC MSA is dated January 1, 2007 and is filed in response to VECC question 20(a). As noted in VECC question 20(a), the EWU-EWE MSA is outdated. Currently and in the test year, the costs of service to each affiliate are allocated based on the KPMG Model.

8. [1/3/5] Please file the most recent DBRS Rating Reports for EDFC and the Applicant, or any updates to the November 2007 reports currently filed.

There is no more recent DBRS report or update to the report released to EWU for EDFIN or EWU.

9. [1/3/5] Please provide details of any plan or strategy of the Applicant to respond to the current economic downturn in the Windsor area (and throughout North America), including cost containment, participation in any local stimulus programs, and any other activities. Please provide copies of any planning documents or other material evidencing the Applicant's intended response to the downturn.

EWU is aware of the economic turmoil currently facing its ratepayers in the City of Windsor service area. EWU's employees as well as employees' families, friends and neighbours are not immune from the impact of lost jobs, homes and stock market income. While there is a guttural reaction to want to defer costs to better economic times, it is necessary to take a longer term and broader view on the importance of sustaining and enhancing infrastructure.

While macroeconomic issues are outside of EWU's control, EWU believes it has a role to play in contributing to the economic prosperity of the region. By maintaining electricity infrastructure and support systems, EWU is able to deliver safe and reliable power to the City's commercial, industrial and institutional employers. Particularly in Windsor's manufacturing sector, reliably distributed electricity is an important component of efficiency and productivity.

The reality is that maintaining infrastructure, particularly in old urban cities, comes at a cost. It is also the case that enhancing infrastructure to improve safety, reliability, service and efficiency is costly. Fortunately, all ratepayers derive the benefits of those costs in the form of safe and reliable supplies of electricity for their own use and for the use of their employers, goods and services providers, and other organizations.

EWU remains committed to a safe, reliable and well-serviced distribution system, in order to make Windsor a good place for residents to live and businesses to operate. EWU remains committed to keeping costs to reasonable levels and providing funding to its local Keep the Heat program, in order assist customers financially. EWU remains committed to maintaining employment opportunities for its employees as well as those who provide goods and services to EWU at reasonable costs.

Rate Base

10. [2/1/1, p.2] Please provide actual working capital from the balance sheet (ie. current assets less current liabilities) for each of 2005 through 2007, plus 2008 forecast and 2009 projected. If it is possible to provide averages for each year (as opposed to a year end snapshot) please provide that as well.

Please see Attachment SEC_IRR_10 for schedule showing calculation of working capital from the balance sheet.

11. [2/1/1, p.9] Please provide a chart of the ten largest externally driven projects planned for 2009, including the nature of the project, the entity requiring that it be done, the total cost (broken down by year for multi-year projects), contributions from others, and current project status.

2009 Externally Driven Projects

NATURE OF PROJECT	**REQUESTED BY**	**COST**	**CAP. CONT.**	**STATUS**
Annual New Svcs				
OH	Customer	359,800		scheduled for 2009
UG	Customer	732,500		scheduled for 2009
UG - Subdivision	Developer	211,329	(90,969)	scheduled for 2009
Metering	Customer	400,103		scheduled for 2009
Roads				
Tecumseh & Jefferson	Municipality	827,750	(273,875)	scheduled for 2009
Other	Municipality	442,461	(184,232)	scheduled for 2009
IESO - wholesale				
Malden TS	IESO	451,880		scheduled for 2009
	Total	3,425,823	(549,076)	
	Externally Driven Net	**2,876,747**		

12. [2/1/1, p.17] Please provide a chart showing all capital projects that have been moved from 2006, 2007, 2008 or 2010 to 2008 or 2009.

There have not been any capital projects (with the exception of one project noted below) moved from 2006, 2008 or 2010 into 2008 or 2009. There were some capital projects in 2007 that were not fully completed and capitalized in 2007, which were therefore required to be carried forward into 2008.

There was one capital project moved from 2010 into 2009. This is for an IESO Wholesale Metering Compliance project for the metering installation in Hydro One's Malden Transformer station. The seal expires on this installation in 2010. However, a number of seals on EWU metering installations at other Hydro One transformer stations also expire in 2010. As a result, EWU will not have the manpower to complete all of these 2010 expirations in 2010. To manage limited labour resources, this particular project was moved forward to 2009. This situation is set out in the Application and Evidence at Exhibit 2-1-1.

13. **[2/1/1, p.26 and others] Please provide a chart showing all amounts in the capital and operating budgets presented in the Application that are expected to be paid to any affiliates, broken down into the areas in the Application in which they appear.**

    There are no capital budget amounts presented in the Application that are expected to be paid to any affiliates. The only operating budget amounts presented in the Application that are expected to be paid directly to any affiliate are property taxes and water and waste water utility services. The property tax expense for 2009 is forecast at approximately $488,000 and would form part of the "Other Taxes" line item in Table 4-2-1-B in Exhibit 4-2-1 which shows the OM&A costs by functional area.

14. **[2/1/1, p.36] Please file the "internal analysis" referred to.**

    Please see Attachment SEC_IRR_14.

15. **[2/1/1, p.43] Please provide a chart showing all capital and operating expenditures in each of 2007, 2008 and 2009 relating to information technology, whether included in the information technology budget or included in other budgets of the Applicant. Please provide a description of the Applicant's information technology department, including number of FTEs (actual, and net of those allocated to affiliates), total direct and indirect budgets, and major changes expected in the department in the Test Year.**

    Please see Attachment SEC_IRR_15.

16. **[2/1/1, p.50] Please provide the business case for the project management office. If no business case has been prepared, please provide any capital and operating budgets for the project management office currently in existence, together with details of savings in other parts of the Applicant as a result of the implementation of this office.**

    Please see Attachment SEC_IRR_16.

17. [2/1/1, p.56] Please confirm that the new financial reporting software is IFRS compatible. Please provide the quote or proposal for this software as provided by the vendor or the system integrator. Please advise how this new tool relates to the Comprehensive ERP system.

EWU confirms that the new reporting software, including the financial reporting aspect, is IFRS compatible.

EWU procured the software and implementation support related to this project (all of which were subsumed within the $300,000 budget line) through negotiations. Revealing the procurement prices would be prejudicial to the commercial interests of the vendors. The prejudice would be particularly significant given that procurement occurred very recently, Q4 of 2008.

This reporting software tool is compatible with the Comprehensive ERP systems for which EWU has received proposals. This tool can be managed and designed to meet the needs of several user groups, not only to produce standard financial statements. This tool has the potential to report data, not only financial data, to various users in a timely manner. The reporting tool has many options that can allow for customization and various levels of detail or be organized and sorted in the manner best suited for the user. The current reporting options available can sometimes be limited as information is stored in several systems. This tool will be able to report timely and concise data to managers to enable them to make appropriate decisions.

18. [2/1/1, p.60] Please confirm that the SJH Consulting report, which states that it was prepared "in conjunction with" the Applicant, was a joint study by the consultant and the utility. Please identify all steps, if any, taken to ensure that SJH provided an <u>independent</u> assessment of the utility's IT infrastructure.

SJH Consulting worked in conjunction with EWU to obtain information about EWU specific systems and needs. The conclusions of the report were arrived at by SJH Consulting and were made independently of EWU. Neither SJH Consulting nor its consultant has previously performed work for EWU.

19. [2/1/1, p.61] To the extent not included in the business case or other materials filed in response to VECC IR #7, please file a detailed statement showing all capital and operating costs associated with the ERP project, by year and by type, together with the quantified benefits to be derived from the project, by year and by type, as well as any backup documentation in the Applicant's possession supporting the costs and benefits.

As provided in the Application and Evidence at Exhibit 2-1-1 Table 2-1-1 FF – Comprehensive ERP – Timing of In-Service, the expectations for capital costs are $7,250,445 in 2009 and $8,789,333 in 2010. Expectations for operating costs in 2009 are $277,042. The detail for years following 2009 has not yet been developed.

20. [2/1/1, p.61] Please provide a chart, in the same form as provided by Horizon Utilities in EB-2007-0697, in their answer to Schools Interrogatory #13M, at pages 75-81 of their response (available on RESS, or we will provide a copy if you so request), detailing the revenue requirement impacts by year of the EnWin ERP system. Please provide a detailed explanation as to why the EnWin system is expected to be significantly more expensive than the Horizon system.

Please see Attachment VECC_IRR_7E.

21. [2/2/1, p.5-8] Please provide a detailed explanation of the amounts in the column "Ret/Other" of this chart.

Please see Attachment SEC_IRR_ 21 for schedule detailing amounts in the column "Ret/Other" for 2007.

22. [2/2/1] Please file a copy of the capital spending plan that was in effect in each of 2006, 2007 and 2008, and explain any differences between the plan for the year and the actuals. If there was a multi-year capital spending plan or plans covering any part or parts of this period, please file as well.

Please see attachment SEC_IRR_22 for schedules showing the 2006 – 2008 budget and actual expenditures.

There will always be variances between budgeted figures and actual expenditures as a number of variables come into play between the time estimates are prepared and work is designed and constructed. Among other factors, field conditions, customer's requirements, regulatory requirements, and resource availabilities often change in the course of a year.

Differences between the spending plan and actual expenditures are consistently encountered in the areas of "New Services" where budgeted contributed capital figures rarely align with actual figures. It is difficult for EWU to know exactly how many, how much energy customers will require for their electrical services. As such, it is difficult to accurately project the associated capital and contributed capital costs will be encountered within the year.

Another factor which is difficult to deal with is the timing of projects. Not all construction projects, nor customer requests follow fiscal nor calendar 'year-end' timelines. As such, funding carry-forwards are common events and difficult to forecast. This is particularly true for Municipal Road work projects as the Municipality traditionally approves their annual budget long after EWU's has been approved.

Finally, through prudent project review programs some projects are deferred or alternate spending plans are developed prior to the go-live of the project and dollars are saved in the process.

In light of the above mentioned service forecasting and timing concerns it can be noted from the attachment that while there is an annual variance, it is trending positively (2006=63%, 2007=53% and 2008=3%). This is due to a significant number of improvements that EWU has implemented in project planning/scheduling, corporate restructuring, improved financial reporting and general management initiatives that have been undertaken in the recent past. This trend towards improved variance is expected to continue in future years with a high level of confidence in EWU's forecasted 2009 expenditures.

23. [2/2/2] Please provide an explanation for each of the bold figures in the column detailing the variances between 2006 actual and 2007 actual, and those in the column detailing the variances between 2006 Board-approved and 2006 actual.

Please see Attachment SEC_IRR_23.

24. [2/3/3] Please provide or detail the Applicant's capitalization policies relating to capitalization of internal staff costs, allocation of internal expenditures between capital and operating, and capitalization of overheads (including any loading used for this purpose).

EWU's overall capitalization policy is included in Exhibit 2-3-3. EWU capitalizes its internal labour to capital projects based on actual time worked on projects by the unionized operations staff. Overheads are also captured as part of the total capital assets costs and capitalized based on actual staff time charged to the individual jobs. Overheads include direct and indirect costs. Direct costs represent benefits and payroll taxes. Indirect costs include costs to cover lost time (e.g. vacation, holidays, sick time), clothing allowances and training. Overheads also include a component of supervisors and management (related to overseeing operations staff) and engineering costs as these groups do not charge their time directly to individual jobs or projects and therefore a portion of their salaries and expenses are allocated to capital projects through the overhead application. Internal expenditures are allocated between capital and operating based on the nature of the work being performed and in accordance with the capitalization policy noted above.

25. [2/4/1] Please provide any internal or external lead-lag studies in the possession of the Applicant, and any memoranda, reports, studies or other documents dealing with the payment lag for customers generally or in any particular class or sub-class. If the Applicant has taken or plans to take any steps to change payment terms for any customers, please provide details of the impact of such steps on payment lag.

EWU does not have any lead-lag studies. EWU does monitor its accounts receivable on a regular basis. EWU complies with the Distribution System Code requirements in respect of terms of payment.

Revenues

26. [3/3/1. p.1] Please explain why the Applicant believes that, in a weak economy, late payment charges will decline in total.

Please see the response to VECC question 11(a).

Operating Costs

27. [4/2/1, p. 6] Please provide any report, analysis or other document detailing the reason that EnWin has predetermined it will file for cost of service in 2010 for 2011. Please estimate the incremental cost of that additional filing, and explain why the Applicant believes that cost should be for account of the ratepayers.

EWU has not predetermined that it will file a COS rate application for the 2011 rate year. However, in light of the economic challenges that were facing the Detroit Big 3 automakers and their suppliers in early 2008, challenges that were compounded by the credit crises in late 2008, and given the importance of the automotive sector to Windsor's economy, EWU believes it is more likely than not that it will be required to file a COS rate application before the 2013 rate year. The acute nature of the economic crisis suggests the need will likely arise sooner rather than later. The costs and other practicalities of creating a COS application suggest that filing one for the 2010 rate year would be highly unlikely. In light of these considerations, EWU offers 2011 the most likely rate year for which EWU would file its next COS application.

EWU does not anticipate any incremental cost to filing a COS application for the 2011 rate year as compared to filing a COS application for the 2013 rate year.

The Board's policy has been for ratepayers to absorb the cost of rate applications. There is no apparent reason to depart from that policy in this instance. It is in the interest of all parties that EWU's approved revenue recovery accurately reflects the operating needs of the company. If 3GIRM does not have the sophistication to address those needs reasonably well, then there does not appear to be any choice but for EWU to bring a COS application.

28. [4/2/1, p.9] Please provide a chart showing storm costs included in all expense categories for each year from 2006 to 2009.

Please see Attachment SEC_IRR_28.

29. [4/2/2, p.2] Please provide an enterprise-wide chart (for 2006 through 2009) of FTEs and compensation, with the allocation between each business unit and the rationale for that allocation. Please use the format set out in Table 5 of Board Staff interrogatories, at page 12.

Please see Attachment SEC_IRR_29 for the requested charts. The allocation to affiliates and EWU is based on the KPMG Model and related cost drivers. The allocations of these shared services are set out in the Shared Services section of the Application at Exhibit 4-2-4.

30. [4/2/2, p.8] Please explain why compensation charged to Operations and Maintenance does not include any Executive, Management, or other non-unionized personnel.

Operations and Maintenance expenses only reflect internal labour charges for those staff who charge their time directly to jobs or individual projects. For operations and maintenance expenses, there are not any executive, management or other non-unionized personnel who charge their time (and therefore labour costs) directly to those 2 categories of expenses.

31. [4/2/3, Attach. A and C] Please provide a list, for each Attachment, of the ten largest suppliers, together with the total amount paid for the year. Please provide a total dollar amount, for each year, of all suppliers whose services are listed as "consulting"

or any variation, e.g. "consulting-legal", "WSIB Consulting", etc. Please provide a forecast of total consulting costs for 2009.

Please see Attachment SEC_IRR_ 31. The forecasted amount for those types of services listed as consulting or any variation in 2009 is approximately $954,000.

32. [4/2/4, p.3] Please file any directions, guidance, or advice provided by the Board or Board staff in writing (including letters and emails, if any) on the appropriate structure to be implemented by the "family of utilities".

No such directions, guidance or advice have been provided to EWU by the Board or Board Staff in writing.

33. [4/2/4, Attach. B] With respect to the BDR study:

(a) **Please provide a copy of the agreement between the Applicant and the consultant, together with copies of any RFP, terms of reference, or other document describing the purpose, scope, goals, and/or restrictions related to the study**.

The agreement, which was by purchase order and an associated standard consultants' contract, is enclosed as SEC_IRR_ 33A-1. The RFP and Terms of Reference are enclosed as SEC_IRR_ 33A-2.

(b) **Please provide a copy of any previous study carried out by BDR with respect to the Applicant**.

The Affiliate Study was BDR North America's first engagement with EWU.

(c) **Please explain why the study did not include comments or opinion on a) the overall level of costs, b) operational synergies from sharing resources, c) correctness of the expenditure amounts, or d) compliance with ARC**.

The Affiliate Study was conducted in accordance with the terms of reference. The items listed above were not within the scope of the terms of reference.

As noted at Exhibit 4-2-4 p4, on December 6, 2007, the terms of reference were circulated to the Board Secretary and 2006 EDR Intervenors. Input was requested, but no input was received. Accordingly, the circulated version was used without amendment. A copy of the cover letter to the circulated package is enclosed at Attachment SEC_IRR_ 33C.

(d) **Please confirm that the consultant believes the same principles are appropriate for cost allocation between rate classes as for cost allocation between affiliates and/or business units. Please explain how this principle was applied in this study**.

The consultant believes that one common principle between the two is that costs should be directly assigned where possible, and that where costs cannot be directly assigned, they should be allocated on the basis of the variable that best reflects cost causation subject to the availability of good data at reasonable cost. In the BDR study, the proposed allocation approach used for each type of cost was assessed as to whether it had an appropriate basis in cost causation and was based on data that either was routinely collected, or could be collected at reasonable cost. It was determined that the costs were appropriately allocated based on these criteria.

There are also, of course, important differences between the two types of studies, which the consultant, having done both types, acknowledges. A key difference between class cost allocation studies and cost allocation between affiliates/business units is that class cost allocation studies assume that cost causation can be defined directly or indirectly in terms of the connection or consumptions of customers—that is, number of customers, energy, or demand; while studies allocating costs to business units define cost causation in terms of activity level within the function or production inputs (for example number of employees, time spent, number of transactions). Nonetheless the underlying consideration of cost causation applies to both types of studies.

At the cost allocation stage, the consultant believes that the methodology most reflective of cost causation should be used in order to prepare a valid result in the cost allocation study itself. However, additional considerations may apply when the results of a cost allocation study are used to establish pricing, and these considerations may be different between the two types of studies.

In the case of affiliate shared costs, the Board requires the services rendered by a regulated LDC to affiliates be priced to recover no less than the fully allocated costs of the services. EWU uses its shared cost allocation results to establish transfer pricing that accomplishes this.

With regard to cost allocation between rate classes, the Board has not set a requirement that rates to any customer class exactly equal allocated costs at the present time, and instead has established acceptable ranges of revenue/cost ratios and periods over which it is acceptable to arrive at the ranges. The existence of these ranges and grace period allow LDC management to take into account factors other than the cost allocation in proposing customer class rate levels. Bill impact is a pertinent example of such a factor. Where effecting rates that exactly reflect allocated cost for one or more rate classes would lead to unreasonable bill impact for one or more other rate classes, this is appropriately reflected in a rate proposal. That is, the cost causation objective in rate design is balanced with objectives of predictability and stability, through gradual changes in accordance with Board policy and decisions that have regard for all customer classes.

Cost Allocation and Rate Design

34. [8/1/1] Please file a chart of rates that would be in effect in 2009 if all revenue to cost ratios were set to 1:1, and all fixed monthly charges were set at the mid-point of the Board's recommended range.

Please see Attachment SEC_IRR_ 34.

35. [8/1/1] Please provide the Applicant's rationale for continuing to have commercial and industrial customers pay rates substantially in excess of cost recovery during an economic downturn. Please provide any reports, studies, memoranda, or other documents (including electronic documents) in the possession of the Applicant dealing with the impact of revenue to cost ratios during an economic downturn.

EWU does not have any documentation dealing with the impact of revenue to cost ratios during an economic downturn.

As set out in the Application and Evidence, EWU's approach to cost allocation and rate design has been to follow the Board's directions and guidance. EWU has proposed rates that are in conformance with the Boards' Report on Cost Allocation for Electricity Distributors. Further, EWU has proposed rates that reflect the preference of the Board, as expressed in numerous 2008 COS decisions (e.g. EB-2007-0698 (Brantford Power Inc.)), that outlying revenue-to-cost ratios reach the Board's range over a period of 3 years.

The issue of cost causality is important to EWU. The Board's cost allocation study, report and related processes have served a valuable role in improving awareness, understanding and initiating action in this regard. In this Application, EWU has proposed rates that demonstrate its buy-in. In fact, cost allocation provides benefits to EWU as it increases the contribution to revenue of the Street Lighting class, which is less economically and weather sensitive, and decreases contribution to revenue of the commercial and industrial classes, which generally have more volatile loads. However, the prudent path is not to move immediately into the ranges, but rather to spread the impact of this evolution over 3 years, as the Board has tended to do and as EWU proposes. This approach balances the need for cost causality in rates with the need to mitigate rate impact.

36. [10/1/1] Please provide a chart showing the range of fixed charges as recommended by the Board and based on the Applicant's cost allocation study, for each class, together with the proposed fixed charge for each class for the Test Year, and an explanation for any discrepancies. Please explain why the Applicant is proposing to increase the fixed charge for GS>50 by a greater percentage than the increase in GS<50.

The chart is provided as Attachment SEC_IRR_ 36.

The discrepancies between the Board's range of values and the proposed values are permitted under the Boards' Report on Cost Allocation for Electricity Distributors, which was issued November 28, 2007. EWU's proposed approach is consistent with the approach the Board approved of in numerous 2008 COS decisions, including EB-2007-0697 (Horizon Utilities Corporation) and EB-2007-0785 (Sioux Lookout Hydro Inc.)

As demonstrated in the Attachment to this response, EWU is proposing increases to the fixed charges for GS<50 and GS>50 that would result in each class maintaining the same fixed-variable split as exists in current rates.