

Board Staff Supplemental Interrogatories
2009 Electricity Distribution Rates
Westario Power Inc. (Westario)
EB-2008-0250

OPERATING COSTS

Cost Efficiency Savings – cable locating

1. Ref: E4/T2/S3 – Materiality Analysis on OM&A costs table
Board staff IR #6

In response to Board staff IR #6, Westario identified \$327k in costs savings resulting from the contracting out of underground cable locating in 2009. Westario provided the following table in support:

2009 Call Centre Cost Estimate	\$	13,000.00
2009 Locate Contractor Estimate		<u>100,700.00</u>
		113,700.00
2007 Total Westario Power Labour Costs		441,000.00
Potential Savings in 2009		327,300

At E4/T2/S3, Westario identifies \$469,400 in account 5040, Underground Distribution Lines and Feeders. It is unclear if the savings identified by Westario are reflected in account 5040 given the 45% increase identified by Westario in this account from 2008 to 2009.

- a. Please identify how much of the “savings” is cable locate related and confirm whether accounts other than 5040 are used to capture cable locating costs.
- a. Please confirm whether or not the call centre and cable locating savings are already reflected in the 2009 OM&A as filed by Westario

Increase in Maintenance and Services of OH and UG Conductors

2. Ref: E4/T2/S2/p8 – Variance Analysis of OM&A Costs, Board staff IR #7

The evidence indicates that Westario is forecasting to spend approximately \$200k in 2008 and \$350k in 2009 on Maintenance of OH Conductors and Devices, Services and Underground Services (accounts 5125, 5130 and 5155). In response to Board Staff IR #7, Westario stated that 10% of the increase of \$150k is due to an increase in direct labour hours of approximately 10%, with the balance of the increase attributable to the proportionate Engineering Burden.

Based on the aforementioned explanation it appears that at least 40% (\$135k/\$350k) of the 2009 forecast is related to engineering burden.

Please elaborate on the reasonableness of the allocation given that the overall 2009 amount is just \$350k. Based on the aforementioned explanation it appears that at least 40% of the 2009 forecast is related to engineering burden.

Non-Recurring Costs – UG Distribution Lines and Feeders

3. Ref: E4/T2/S1 – OM&A Variance Analysis Table, E4/T2/S2/p4 – Variance Analysis of OM&A Costs, E4/T2/S3/p3 – Materiality Analysis of OM&A Costs, Board staff IR #11

In response to Board Staff IR #11, Westario indicates that there are no non recurring expenditure items (in excess of \$10k) that are included in the 2009 OM&A forecast.

Regarding Account 5040 (UG Dist Lines and Feeders- operations labour), in E4/T2/S3/p3 and E4/T2/S2/p4, Westario explains that the \$100k escalation in the account from 2007 to 2008 is due to the increase of underground cable locates because of telephone company fibre optic cable activity and the \$140k escalation from 2008 to 2009 is due to the on-going field asset program.

It is unclear though whether the telephone company activity will continue at the forecasted 2009 levels into future years leading up to Westario's next re-basing.

Please confirm or elaborate on whether the funding at 2009 levels for these activities will be required in 2010, 2011 and 2012. Have the telephone companies confirmed their fibre optic activity plans for the 2010-2011 period?

RATE BASE

Impacts of Amalgamation on Revenue Requirement

Westario states that there was no surplus land, building, facilities or equipment as a result of the amalgamation of Westario Power Holdings Inc., Westario Power Services Inc., and Westario Power Inc. that occurred on January 1, 2008. Westario states that all leases of property were terminated upon occupying the new centralized Walkerton Centre in 2007.

The following questions are meant to assist Board staff in understanding the costs and cost recoveries under Westario's previous "virtual utility" structure.

Historical Lease Payments

4. Ref: E1/T4/S1 – Annual Report, E2/T2/S2 – Gross Assets Table, E3/T3/S1 – Other Distribution Revenue, E3/T3/S2 – Materiality Analysis of Other Distribution Revenue, Board staff IR #17, 18, VECC IR #4

According to the application, Westario was the lessee, with lease payments showing up as operating expenses. However, it is not clear whether the landlord was Westario Power Holdings or Westario Power Services or even the municipalities.

Please identify who was (were) the owner(s) of the buildings and properties that Westario and/or its parent or subsidiary leased to house its staff and inventory and from which Westario conducted its distribution businesses prior to occupancy of the new Walkerton centre.

Master Services Agreement

5. Ref: E4/T2/S4 – Master Services Agreement, Board staff IR #19

In response to Board staff IR#19 b), Westario states that no capital-related costs (with the exception of depreciation expense) were recovered for assets owned by Westario Power Services Inc. during the "virtual utility" period that the Master Services Agreement ("MSA") was in effect. Board staff understands that the following sections of the MSA would probably bear on this matter:

- Section 1.01 – definition of "Capital cost"
- Section 1.10 – definition of OM&A cost

- Section 3.03 – requirement on Westario Power Services Inc. (the “Servco”) to expand and upgrade Westario Power Inc.’s (Wiresco’s) electrical distribution system (“Capital Works”).
- Section 4.01 and Appendix A –requirement for Wiresco to pay Servco fees and charges for OM&A costs, with Appendix A showing the fees as being the annual OM&A expenses of all of Wiresco’s predecessor MEUs in 1999 plus the annual budgeted depreciation expense.
- Section 4.03 – requirement for Wiresco to reimburse Servco for actual Capital Works costs.
- Section 4.05 allows for adjustments of the OM&A, Capital and Extraordinary Costs within 90 days upon renewal.

The following questions are meant to assist Board staff in understanding how the MSA was applied in practice up to December 31, 2007.

- a. Please explain whether section 4.05 was invoked (periodically or annually) to update the fees paid to reflect inflation (changes in labour, equipment and material costs).
- b. If section 4.05 was not invoked, please explain why not. If not, would this mean that Servco was not recovering all of its costs to provide the services to maintain and operate Wiresco’s distribution system?
- c. It is clear from the evidence that office equipment, tools, and vehicles were owned by Servco, as these were transferred upon amalgamation. Board staff provides the following hypothetical example in order to try and understand how the MSA was applied.

Consider a scenario where the Servco bought a pickup truck with fixtures in 2004 for \$50,000. Assume further that the truck was purchased with \$25,000 down and a \$25,000 bank loan at 6.00%. How would Servco’s OM&A and capital costs for that truck be recovered in the fees per the relevant sections of the MSA? Please address each of the following cost components:

- i. A market-based return on the equity in the truck (the \$25,000 down payment)
- ii. Interest on the truck loan.
- iii. Annual depreciation expense.

If Board staff understands the MSA and the response to Board staff IR#19, only the actual depreciation expense would be recovered, and that there would be no

return on equity or recovery of interest paid on the truck loan. Please confirm or explain Westario's response.

Costs and Benefits of New Centralized Operations Centre

6. Ref: E2/T2/S2 /Attachment – Gross Assets Table, E1/ T4/S1 – Annual Report, E3/T3/S1 – Other Distribution Revenue, E3/T3/S2 – Materiality Analysis of Other Distribution Revenue, Board staff IR #18

Westario constructed a new centralized operations centre that was placed in service in 2007 with an overall capital cost of \$2,443,787. Board staff understands that this replaces about \$220,000 annual lease payments. (2007 actuals in account 5670[rent] total \$221k while no costs are forecasted in 2008 and 2009.)

Staff conducted a “back of the envelope” calculation for 2008 that would show the annual costs, including depreciation expense, carrying costs and return, and PILs, as being about \$270,000. This ignores other operating expenses (heating, landscaping, etc.) that Westario incurs on an on-going basis to operate and maintain the centre.

Gross amount for Walkerton operations centre				\$ 2,443,787
Depreciation expense				\$ 49,196
Interest expense (@6.00%) for 53.3%				\$ 75,930.98
return on equity (@8.57%) for 46.7%				\$ 96,994.00
PILs (at 33.5%)				\$ 32,492.99
Grossed up PILs				\$ 48,861.64
Total plus grossed up PILs				270,982.61

It appears that, absent any operational savings or other benefits, Westario's construction and ownership of the centralized Walkerton operations centre is more expensive, by at least \$50,000, than were its previous lease arrangements.

It is not readily apparent from the evidence or responses to the interrogatories that Westario has identified efficiency savings in either OM&A or capital that have resulted from the opening and use of the new operational centre.

Can Westario describe, and identify the relevant parts of its application evidence, that demonstrate ongoing savings and/or benefits due to the ownership of the new centralized operations centre?

CIS Costs for 2006 and 2007

7. Ref: E2/T2/S2 /Attachment – Gross Assets Table, E1/ T4/S1 – Annual Report, E3/T3/S1 – Other Distribution Revenue, E3/T3/S2 – Materiality Analysis of Other Distribution Revenue, Board staff IR #18

Westario's evidence shows that in 2006 and 2007 it received revenues, for the rental of its CIS system, from Westario Power Services Inc. Westario states that the original costs of the CIS system were not in rate base but were included in Account 1570, Transition Costs. However, Westario shows amounts of \$267k for gross assets in account 1925 – Computer Software for 2006 and 2007. These assets would have been factored into Westario's rate base in 2006 and have associated costs (return, interest expense, depreciation expense, and PILs) recovered in distribution rates.

A review of the 2004 and 2006 rate applications indicates that the original CIS system had a cost of about \$4 million. In response to Board staff IR#18, Westario identified \$180k as revenues for rental property related to use of its CIS system by Servco. It is not clear if the \$180,000 per year is for non-Dx usage of the system.

- a. Please confirm whether the software assets recorded in account 1925 are separate from the CIS system recorded in account 1570. If so, please provide further explanation on the purpose of these software assets.
- b. Please confirm whether Westario received revenues from Westario Power Services Inc. or any other party, affiliated or third-party, for the rental and usage of these software assets recorded in account 1925, in 2006 and 2007. If so, please provide further information.
- c. If the cost of the original CIS system was recorded in account 1570, were the costs not recovered through the regulatory asset rate riders approved for Westario from 2004 to 2008? If so, please explain the purpose for the rental revenues received from Westario Power Services Inc. in 2006 and 2007.

- d. Were the revenues of \$180,000 received from Westario Power Services Inc. in each of 2006 and 2007 solely for its usage of the CIS for non-distribution system purposes?
- e. If the answer to d) is no, then it would seem that Westario Power Services Inc. would have used the CIS system in its daily operations of Westario's system to provide electricity distribution services to Westario's customers. In such a case, please provide a detailed explanation of how the cost (i.e the \$180k) would have been recovered from ratepayers. Would this cost have been recovered through the MSA as OM&A?
- f. Please identify if there would have been any mark up or return for the use of the rented CIS system on the charges back to Westario to be recovered in Westario's rates.

COST ALLOCATION, RATE DESIGN AND VARIANCE ACCOUNTS

Unmetered Scattered Load

8. Ref: E10/T2/S39/Attachment A - Information Filing EB-2007-0003, Board staff IR #39 b), c)

Westario is proposing a monthly service rate for USL that is nearly triple the existing approved rate, even though the existing rate is equal to the floor value from the Informational Filing cost allocation. Westario appears to have allocated billing costs to USL on a per-connection basis instead of per-customer. The default weighting factor in the cost allocation model is a weighting factor equivalent to five residential customers.

- a. Assuming that the number of connections is larger than the number of customers in the USL class, please prepare a version of the cost allocation model in which either:
 - i. billing costs are allocated to USL on a per-customer basis, or
 - ii. if billing costs are allocated per USL connection then the billing weighting factor per connection is set at 1.0 or lower(Please provide only Sheets I6, O1 and O2)
- b. Please provide a suggested monthly service rate for USL that would yield revenues consistent with the class revenue requirement derived in part a).

Sentinel Lights

9. Ref: E9/T1/S9 – Rate Impacts, Board staff IR # 41

The cost allocation filings show a revenue to cost ratio for sentinel lights of nearly 100%. However, in response to Board staff IR# 41, Westario proposes to nearly triple the percentage of revenue derived from this class (\$246 to \$618). The proposed volumetric rates for Sentinel Lights is over \$20 per kW, and for Streetlighting less than \$4 per kW.

This proposal will result in an increase in the proportion of its distribution revenues derived from Sentinel Lights from 0.003% to 0.01%, largely by increasing the volumetric rate from less than \$7 per kW to over \$20 per kW. The reason for this increase does not appear to be based on Westario's cost allocation results.

Please provide a more complete explanation of why the increase to this class is warranted, or alternatively please propose a rate that would be more equal to the rate change proposed for other classes whose revenue to cost ratio is currently close to 100%.

Low Voltage and RTS Rates

10. Ref: E3/T5/S1 – Calculation of LV Charges, Board Staff IR #37 c) or E10/T2/S37c

Westario has provided in Exhibit 10 (response to Board staff IR #37 c) a projection of 2009 LV costs at the rates recently approved for use by the host distributor.

- a. Please provide a breakdown of the cost for each class, similar to that provided in the table on the second page of E3/T5/S1, but totalling \$620,444 consistent with the information provided in Exhibit 10.
- b. Please provide 2009 LV rate adders, comparable to the column titled "Rate" in the table on the first page of E3/T5/S1, that would be consistent with 2009 volumes and "Total Billed" equal to \$620,444.

11. Ref: Board Staff IR #43 c), d) or E10/T2/S43c,d and Board staff IR #44 or E10/T2/S44/Attachment A

- a. Westario has confirmed in Schedule 43 c) that its costs of transmission from the host distributor are based on the interim rates, which have since been approved as final. In Schedule 43 d) Westario has provided projected costs of \$2,339,188 and \$2,308,535 for Network and Connection costs respectively. Looking at Network only, there would be a projected shortfall in 2009 of \$344,291. In Schedule 44, Westario has shown that there was a

surplus added to account 1584 (RSVA Network Charges) in 2007. Considering that Westario has proposed to apply the same retail rates whereas the Network rate charged to Westario decreased as a result of Hydro One's application EB-2007-0681, please explain why there would be a projected shortfall as shown in Schedule 43 d).

- b. In light of Westario confirming in Schedule 43 c) that it has used the Hydro One interim rates (that have since been confirmed as final) for its cost projections in E1/T3/S4, please provide RTSR – network rates that will recover network cost, ie such that account 4066 Billed NW will match account 4714, Charges NW, and show how the rates calculated in this way compare with the proposed network rates listed in Schedule 43 d) .
- c. Similarly, please provide RTSR – connection rates that will recover connection cost, ie such that account 4068 Billed CN will match account 4716, Charges CN, and show how the rates calculated in this way compare with the proposed connection rates listed in Schedule 43 d).

Deferral and Variance Accounts

12. Ref: E5/T1/S2/Attachments – Deferral / Variance Account Balances, Board staff IR #44 - E10/T2/S44

Westario has provided the continuity schedule in response to Board staff IR #44 a). The following questions concern the information in the continuity schedule and the account balances used to calculate rate riders that would be consistent with disposing of the balances.

- a. Account 1588 shows an average principal balance of about \$1.8 m in 2007, and a change in the interest of more than \$200k. What interest rate is Westario using to calculate the increase in the interest balance?
- b. The 2007 year-end principal balance of account 1508 in the continuity table is \$230,428, and interest of \$23,081, totalling \$255,609. The projected total including interest to April 2009 is \$266,213. The total recovery amount proposed in E5/T1/S3 /Attachment 1/p.1 is \$269,618. Please reconcile and/or correct the “total recovery amount” and the allocation amounts to the rate classes to reflect the amount shown in the continuity table for account 1508.
- c. The 2007 year-end principal balance of account 1550 in the continuity table is \$785,813, and interest of \$28,880, totalling \$814,693. The projected total including interest to April 2009 is \$854,662. The total recovery amount proposed

in E5/T1/S3/Attachment 1/p.1 is \$865,375. Please reconcile and/or correct the “total recovery amount” and the allocation amounts to the rate classes to reflect the amount shown in the continuity table for account 1550.

- d. Similar to parts b) and c) above, please reconcile and/or correct the applicable balances provided at E10/T2/S44/Attachment C and the allocation amounts to the rate classes to reflect the amounts shown in the continuity table for the remaining accounts.

Rural or Remote Electricity Rate Protection

13. Ref: E9/T1/S8 – Proposed Rate Schedule for 2009, Board’s December 17, 2008 Letter to All Licensed Electricity Distributors and Retailers Re: Rural or Remote Electricity Rate Protection

In its December 17, 2008 letter, the Board announced a change to the RRRP rate from 0.10 cents per kWh to 0.13 cents per kWh. The Board also directed all distributors that have current rate applications before the Board to submit the Board’s December 17, 2008 letter as an update to their evidence along with a request that the RRRP change in their tariff sheet be revised to 0.13 cents per kWh effective May 1, 2009. As of this date, Westario has not updated its application for this change.

Does Westario wish to update its application to reflect the change to the RRRP rate?