



MIDLAND POWER UTILITY CORPORATION
16984 Highway #12 P.O. Box 820
Midland Ontario L4R 4P4

January 30, 2009

Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

Midland Power Utility Corporation – License #ED-2002-0541
OEB File No.: EB-2008-0236

Enclosed please find Midland's Interrogatory Response to the Supplemental VECC Interrogatories.
Should you have any questions, please do not hesitate to contact the writer.

Yours very truly,

MIDLAND POWER UTILITY CORPORATION

A handwritten signature in black ink, appearing to read 'Phil Marley'.

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Midland Power Utility Corporation (Midland)
2009 Electricity Rate Application

Midland's Response to VECC's Supplemental Interrogatories

Board File No. EB-2008-0236

VECC's Interrogatories – Round #2

Question #1

Reference: i) OEB Staff #2

- a) As requested in the original IR, please file a copy of the full Cost Allocation Run that supports the revenue to cost ratios set out in Table 65 of the Application.
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RESPONSE:

A copy of the full Cost Allocation Run #2 is filed as a separate attachment.

Question #2

Reference: i) VECC #2 e) and f)

- a) Please confirm whether the average weather normalized values provided in part (f) for Residential and GS<50 are “billed” or “purchased” values. (Note: Based on the weather normalized values reported at Exhibit 8/Tab 1/Schedule 1, Attachment 1 they appear to be “purchased values”)
 - b) What are the loss factors that should be used for these classes in order to make them comparable (i.e., billed values) to those reported in response to part (e) and how were these loss factors established?
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RESPONSE:

- a) It is our understanding that the values derived from the Hydro One Network's weather normalization analysis used for the cost allocation filing are "purchased" values that include system losses.
- b) In order to make the values from the Hydro One analysis comparable, "implied" loss factors can be calculated. The "implied" loss factor is simply the 2004 weather actual class consumption reported by Hydro One divided by the 2004 weather actual metered class consumption. Therefore, the 2004 average use per customer values for residential and GS<50 kW classes reported in response to VECC # 2 (e) should be compared with the Hydro One values for 2004 adjusted by the implied loss factor (divided by). The calculated "implied" loss factors are reproduced below for the weather sensitive classes (residential and GS<50 kW classes).

Calculation of Implied Loss Factors			
	H1 Weather Actual (2004)	Retail Weather Actual (2004)	Implied Loss Factor
Residential	49,540,136	46,604,134	1.063
GS<50	28,159,124	26,788,352	1.051

Question #3

Reference: i) VECC #6 c)

- a) As well as GS<50, the directional changes for the USL also appear to be inconsistent. While the revenue to cost ratio is decreasing from 117% to 100% the proportion of revenue recovered from the class is increasing from 0.31% to 0.43%. Please comment.

RESPONSE:

As outlined in Exhibit 8/Tab 1/Schedule 1/Page 1/Attachment 2 the revenues associated with USL in the cost allocation model are \$15,341 and the revenue requirement (i.e. "cost") are \$13,070. The resulting revenue/cost ratio is 117% or

\$15,341 divided by \$13,070. The revenue in the Cost Allocation Information Filing was based on revenue proportion across customer classes that assumed a three year average of load data (ie: 2002, 2003 & 2004). The 2009 Rate Application uses projected 2009 weather normalized data which also has its own distinct profile of revenue proportion across customer classes. In the 2009 Rate Application revenue at existing rates for USL is \$8,352 or .31% of the total revenue at existing rates. When this 0.31% is applied to the total base revenue requirement of \$3,582,772 the result is \$11,106. However, the cost allocation study suggest that USL should be assigned 0.43% of the total cost. When this 0.43% is applied to the total base revenue requirement of \$3,582,772 the result is \$15,406. This means revenue at existing rates of \$11,106 should move to \$15,406 in order to balance revenues with cost to achieve a 100% revenue/cost ratio in the USL class and the proportion of revenue recovered from the USL class is increasing from 0.31% to 0.43%.

Question #4

Reference: i) OEB Staff #5 c)

- a) Please explain how the 1.12 and 0.5885 factors used to adjust the Retail Network and Connection rates respectively were calculated.

RESPONSE:

The initial calculations performed with the revised Hydro One transmission rates continued to yield large variances (Oct 31/08 – Network debit \$387,291; Connection – credit \$1,534,690 for a net of \$1,147,399). Consequently, Midland's variances would continue to grow if no adjustment was made to the RTSR. As a result, Midland performed a sensitivity analysis to bring the variances as close to zero as possible. Additional adjustments were made to the Network and Connection rates to arrive at the proposed 2009 RTSR. The result of this analysis provided values of 1.12 and 0.5885 which resulted in

Network and Connection variances of debit \$1,571 and debit \$1,459 respectively.

Question #5

Reference: i) VECC #14 a)

Preamble: The original IR asked how the leasing amount for substation fees was determined. The response to the original IR stated (in full) that *[t]he lease fees were determined by the Town of Midland based on typical charges that the Town has on similar leases and include leases on each of our substation properties."*

- a) The response appears to indicate that the leasing fees were unilaterally determined by the shareholder, e.g., based on a take it or leave it proposition, and were not the result of negotiations. Please indicate if this inference is correct; if not please provide details.
- b) Please explain how the utility assured itself that the leasing amounts were just and reasonable when the leasing arrangements were entered into.
- c) Please provide additional specific information with respect to the \$30,000 in lease fees that the utility pays to its shareholder so that parties can be assured of the reasonableness of the leasing payments.

RESPONSE:

- a) Midland believes the lease fees charged by the Town of Midland were based on similar leases that the Town has on properties that are leased by other arms length individuals or businesses.
- b) MPUC believes that the Town of Midland's leasing arrangements with other lessees would be based on market value. In addition, Midland considered the costs of moving the substations and acquiring land. These costs would be disproportionate to the lease payments being charged by the Town of Midland. Midland also considered the opportunity cost of relocating substations to alternate properties throughout the Town of Midland. The area required is not aesthetically pleasing and consequently the lease payments would take this aspect into consideration.

- c) Based on the factors itemized in b) above, Midland Power believes that the lease payments are just and reasonable.

Question #6

Reference: i) VECC #14 c)

- a) Please explain how the utility ensures that its charges to its shareholder for services rendered covers the fully allocated costs of providing those services, in the absence of a service agreement.
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RESPONSE:

- a) Midland charges the same rates to the Town of Midland as is charged to other Jobbing customers. The Shareholder does not receive special rates and the fully allocated costs along with profit are realized from work performed on behalf of the Shareholder.

Question #7

Reference: i) VECC #15 b)

- a) Please indicate whether the Brandon substation project has been completed and the facilities are in-service. If so, please indicate when; if not please provide the expected date in-service and the effect on the opening rate base at January 1, 2009.
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RESPONSE:

The Brandon substation project was completed in November 2008 and the facilities are in-service.

Question #8

Reference: i) VECC #15 d)

- a) Please indicate how the Midland Power Utility rates for Journeymen (\$40/hr) and for the vehicle (\$20/hr) were determined. For example are the labour charges fully loaded, including benefits and allocated overhead costs? Do the vehicle charges include operating costs, taxes, return on rate base, and depreciation?
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RESPONSE:

- a) The rates for Journeymen (\$40/hr) include the hourly rate, all associated benefits and overhead costs. The vehicle rate (\$20/hr) includes operating costs and amortization.

Question #9

Reference: i) VECC #25 a)

- a) Regarding the new management position that Midland was expecting to fill, please provide an update to the original response.
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RESPONSE:

Due to time constraints, the interview process was held in abeyance until 2009. Midland has completed preliminary interviews and is currently working toward resuming the search process. This position will play a key role in the management at Midland and consequently, the search process will be very selective (business qualifications, utility knowledge, regulatory and safety expertise, succession planning).

Question #10

Reference: i) VECC #26 c) and d)

- a) Please confirm that in the increases for Outside Workers provided in part c), e.g., \$0.20 + 3% for March 1, 2007 and 2008, the \$0.20 represents an increase in hourly wages of \$0.20.
 - b) Please confirm that the current collective agreement expires on February 28, 2009.
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RESPONSE:

- a) The increases for Outside Workers provided in part c) include a 3% increase over the previous year rate plus an additional \$0.20 per hour. For example, if in 2007 the wage rate was \$25.00 the resulting increase would be $\$25.00 \times 3\% + \0.20 for a total of \$25.95. (Note: the \$25.00 is a fictitious rate)
- b) Midland Power confirms the current collective agreement expires on Feb 28, 2009.