



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 OEB Staff Interrogatories. Should you require any further information, 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'.

Phil Marley, CMA
President & CEO
Tel: (705)526-9362 ext 204
Fax: (705) 526-7890
E-mail: pmarley@midlandpuc.on.ca

**2009 Electricity Distribution Rates
Midland Power Utility Corporation (“Midland”)**

**Response to Board Staff Supplementary Interrogatories
(EB-2008-0236)**

RATE BASE / CAPITAL EXPENDITURES

Supplementary IR # 1

Ref: Board Staff Interrogatory No. 15

Midland has indicated that the cost to replace Bourgeois Lane Transformer Kiosk (Project # 2009-01) far exceeds what Midland has budgeted in the original application. While the engineering estimate is \$143,000, Midland has budgeted \$53,000 for this project. Please provide reasons for the significant difference between the engineering estimate and original budgeted amount.

RESPONSE:

The engineering firm completed their report in late summer of 2008. It was determined that specifications for the completion of the project would result in the additional installation of a secondary splitter box and a steel vault cover constructed of 6 inch I-beam. In order to complete this project additional costs will also be incurred for the rental of a small crane and engineering fees.

SMART METERS

Supplementary IR # 2

Ref: Board Staff Interrogatory No. 41

Midland estimates installing 6,700 smart meters in the 2009 Test Year. These meters have a capital cost of approximately \$1.5 million or \$190.02 per meter. Please complete the following table:

Total number of metered customers	
Total number of smart meters to be installed (2009 and beyond)	
Total capital cost of the Smart Meter Program	
Total installed cost per smart meter	
Approximate completion date of installing all smart meters	
Total expenditures incurred to-date	
Total balances in smart meter related deferral accounts (by account number)	
Annual estimated OM&A costs (once all smart meters are installed)	

RESPONSE:

Total number of metered customers	6,878
Total number of smart meters to be installed (2009 and beyond)	6,767
Total capital cost of the Smart Meter Program	\$ 1,363,813
Total installed cost per smart meter	\$ 190.02
Approximate completion date of installing all smart meters	Dec 31, 2009
Total expenditures incurred to-date	\$36,239
Total balances in smart meter related deferral accounts (by account number)	Account #1555 (\$20,678) Account #1556 \$0.00
Annual estimated OM&A costs (once all smart meters are installed)	\$ 108,098

Midland also expects to incur costs associated with unsafe meter bases totalling \$34,500 and TOU billing costs, currently estimated at \$62,000 per year on average over 5 years (larger costs in the first two years, lower costs over the 3 years following). These costs and the costs shown in the above-noted table are budget figures only. Midland is in the process of contract negotiations following the London RFP process. Consequently, final capital and OM&A costs will be submitted to the OEB for approval once these contract negotiations are finalized.

OM&A - International Financial Reporting Standards

Supplementary IR # 3

Ref: SEC IR Response #1; and Board staff IR Response #18

Midland stated in its response to SEC IR #1:

“the transfer to IFRS [International Financial Reporting Standards] will be a one-time expense and MPUC expects that audit fees, consulting fees and training will total \$100,000. MPUC is therefore requesting an additional \$25,000 per year over 4 years. MPUC would respectfully request that the Board include this expenditure when considering final rates.”

Please answer the following:

- (a) Distributors incur transaction processing and financial reporting costs, including responding to changes in accounting policy, on an ongoing basis as part of regular business. Please indicate why Midland has characterized these costs as incremental in nature, and not as business-as-usual items.
- (b) The amounts requested for recovery in response to SEC IR#1 were not part of Midland’s original rate application. Please update the variance analysis provided in response to Board staff IR #18 to reflect amounts requested for IFRS for recovery in rates. As in (a) above, please comment, in the update, on Midland’s apparent stance that IFRS costs should be regarded as incremental OM&A.

- (c) In reference to response to SEC IR #1 (c), please indicate what “additional staff” would be required in the transition to IFRS. If this is not reflected in the one-time costs please indicate any additional ongoing costs
- (d) On what basis did Midland conclude that recovery of these amounts is best reflected as an incremental OM&A expense? Has Midland considered other options to recover or absorb the stated costs? Please explain.
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RESPONSE:

- a) The IFRS transition will require Midland to re-evaluate and re-categorize its financial records. As indicated in our response to SEC, Midland has attended workshops relating to this process and although the requirements have not been finalized by the IASB (International Accounting Standards Board) or the OEB, Midland believes that this process will be a one-time cost to convert our financial statements. Midland views these costs as incremental as it is a fundamental change in financial reporting. It is not a minor change in accounting policy but rather a complete change in financial reporting which will require, inter alia, re-evaluations of fixed assets similar to the process endured when the Public Utility became a private corporation. In Midland's, view the time and resources needed to move to IFRS is similar to the time and resources needed to prepare and support our 2009 rate application. It's also similar in that it is a one-time event which does not occur on an ongoing basis. It is Midland's understanding that one time event costs in the 2008 cost of service rate application decisions were included in the approved revenue requirement but amortized over the period of 3rd Generation Incentive Regulation Mechanism ("3rd GIRM") which is currently four years. These are not business as usual items, but are incremental costs that could prove to be substantial.

b) The table below is reproduced as presented in Board Staff IR#18.

2009 Test Year vs. 2006 Actual Year	2009 Test Year	2006 Actual Year	Variance
3800-Administrative & General Expenses	\$807,900	\$655,050	\$152,850
Labour/Burden decrease over 2006			\$20,720
Office Supplies & Exp increase over 2006			-\$21,825
Outside Services Exp increase over 2006			-\$48,327
OEB Regulatory fees increase over 2006			-\$57,980
General Plant Exp increase over 2006			-\$34,274
Miscellaneous increase over 2006			-\$11,164
Net Variance			0.00

The following table represents the variance analysis which includes the IFRS increase in expense of \$25,000 (highlighted in blue) under the heading Outside Services. This table includes the Rate Application Costs of \$175,000 over four years vs. the above table at Rate Application Costs at \$150,000 over three years under the OEB Regulatory heading.

2009 Test Year vs. 2006 Actual Year	2009 Test Year	2006 Actual Year	Variance
3800-Administrative & General Expenses	\$826,650	\$655,050	\$171,600
Labour/Burden decrease over 2006			\$20,720
Office Supplies & Exp increase over 2006			-\$21,825
Outside Services Exp increase over 2006			-\$73,327
OEB Regulatory fees increase over 2006			-\$51,730
General Plant Exp increase over 2006			-\$34,274
Miscellaneous increase over 2006			-\$11,164
Net Variance			0.00

The IFRS transition will require Midland to re-evaluate and re-categorize its financial records. As indicated in our response to SEC, Midland has attended workshops relating to this process and although the requirements have not been finalized by the IASB (International Accounting Standards Board) or the OEB, Midland believes that this process will be a one-time cost to convert our financial statements.

- Midland views these costs as incremental as it is a fundamental change in financial reporting. It is not a minor change in accounting policy but rather a complete change in financial reporting which will require, inter alia, re-evaluations of fixed assets similar to the process endured when the Public Utility became a private corporation. In Midland's view the time and resources needed to move to IFRS is similar to the time and resources needed to prepare and support our 2009 rate application. It's also similar in that it is a one-time event which does not occur on an ongoing basis. It is Midland's understanding that one time event costs in the 2008 cost of service rate application decisions were included in the approved revenue requirement but amortized over the period of 3rd Generation Incentive Regulation Mechanism ("3rd GIRM") which is currently four years. These are not business as usual items, but are incremental costs that could prove to be substantial.
- c) The transition to IFRS costs include the expenses expected to be incurred to set up Midland's accounting records in accordance with those standards. What remains to be accounted for are the incremental costs associated with incorporating and maintaining a duplicate set of books for OEB regulatory purposes. As indicated in our response to SEC, Midland is conducting a study to identify and assess the potential impact on our day to day operations should the OEB additional set of books be required. Until we receive direction from the OEB it is difficult to estimate what additional costs will be incurred. In this regard, the details associated with knowing the "additional staff" requirements and auditing fees are not known at this time.
- d) Midland believes it is best to collect costs associated with providing service to customers during the time period the costs are incurred. The cost of IFRS transition will occur over the next couple of years as a one-

time cost. As a result, Midland believes it would be appropriate to smooth these costs over the 4 years and accordingly have included the IFRS costs over 4 years as an OM&A expense. This would result in collecting the costs very close to the period in which they occur. The alternative to this accounting treatment would be to set up a variance account to track all IFRS related costs, similar to what has been done with Smart Metering. In Midland's view, this is not the preferred option but should the Board determine this alternative be implemented, Midland would request that disposition of the variance accounts be readjusted on a yearly basis in order to alleviate the time lag between cash outlays and collections.

Supplementary IR # 4

Reference: Board Staff IR #9

In its response to Board Staff IR #9, regarding account 1508, Midland stated:

“The third sub-account [of account 1508 includes the recovery of transition costs for the period of April 2002 to March 2004. As at December 31, 2008 this account is projected to show a balance of (\$38,434).”

It is noted that the transition cost recoveries for the April 2002 to March 2004 period should have been netted against the transition cost balance that was approved for recovery in 2006 EDR, as per the 2006 EDR Regulatory Asset Recovery spreadsheet. Since these recoveries were not offset against the transition costs at that time, this balance should be moved to account 1590, Recovery of Regulatory Asset Balances.

Is Midland prepared to move this balance of sub-account 1508, Transition Costs, to account 1590?

RESPONSE:

Yes, Midland is prepared to move the balance of Sub-account 1508, Transition Costs to account 1590 Recovery of Regulatory Asset Balances.

#5 – Regulatory Cost Reduction proposed by Midland

Reference: VECC IR #11

In the above-noted interrogatory, Midland requested an increase in Regulatory costs from \$150,000 to \$175,000 due to the increased cost estimates associated with the oral component proposed in the rate application process. Due to the cancellation of this oral component, Midland is requesting a reduction in the Regulatory costs from \$175,000 to \$125,000. Once final rates are determined, Midland will reflect this change in costs, however, the following is a revised table showing the updated costs associated with IFRS (from 4(b) above) and Regulatory Expenses (highlighted in blue). The recovery of Rate Application costs is therefore adjusted from \$43,750 to \$31,250 per year.

2009 Test Year vs. 2006 Actual Year	2009 Test Year	2006 Actual Year	Variance
3800-Administrative & General Expenses	\$814,150	\$655,050	\$159,100
Labour/Burden decrease over 2006			\$20,720
Office Supplies & Exp increase over 2006			-\$21,825
Outside Services Exp increase over 2006			-\$73,327
OEB Regulatory fees increase over 2006			-\$39,230
General Plant Exp increase over 2006			-\$34,274
Miscellaneous increase over 2006			-\$11,164
Net Variance			0.00