

**Board staff Interrogatories
2010 Electricity Distribution Rates
Kitchener-Wilmot Hydro Inc. ("KW Hydro")
EB-2009-0267**

Rate Base

1. Ref: Exhibit 2/pp. 51-52/Table 21 – Working Capital Allowance

Please identify the commodity price, wholesale market service charge, and uniform transmission rates used in the derivation of the working capital base shown in Table 21, for each of the 2009 bridge and 2010 test years.

Capital Expenditures

2. Ref: Exhibit 2/pp. 16-24 and Exhibit 2/Appendix B

In Tables 1 to 9 of **Exhibit 2**, KW Hydro provides its Capital Expenditures, Capital Additions, Contributed Capital and changes to Construction Work-in-Progress for the period 2004 to 2008 actuals, 2009 Bridge and 2010 Test years and forecasts for 2011 and 2012. Board staff has prepared a table summarizing the information in these tables below. These capital expenditures exclude smart meters.

In **Exhibit 2/Appendix B**, KW Hydro provides its 2010-2019 capital budget estimate, with the forecasts unadjusted for inflation (i.e. constant dollars). Board staff has prepared the second table below summarizing the information from the table on page 225 of this Exhibit.

Capital Expenditures

			Capital	Construction Work-in-Progress		Change to	Additions	Contributed
			Expenditure	Beginning	End	Rate Base		
Exhibit 2/Tables 19	Current Dollars	2004	\$ 16,543,654	\$ 2,029,442	-\$ 1,303,769	\$ 17,269,327	\$ 13,647,198	\$ 3,622,128
		2005	\$ 15,081,086	\$ 1,303,769	-\$ 2,931,473	\$ 13,453,382	\$ 9,461,314	\$ 3,992,068
		2006	\$ 14,663,461	\$ 2,931,473	-\$ 2,070,266	\$ 15,524,668	\$ 10,534,772	\$ 4,989,896
		2007	\$ 16,669,946	\$ 2,070,266	-\$ 1,875,892	\$ 16,864,320	\$ 11,701,964	\$ 5,162,355
		2008	\$ 17,599,990	\$ 1,968,751	-\$ 6,809,560	\$ 12,759,181	\$ 8,260,597	\$ 4,498,583
		2009 Bridge	\$ 19,714,100	\$ 6,809,560	-\$ 12,495,388	\$ 14,028,272	\$ 11,228,273	\$ 2,800,000
		2010 Test	\$ 22,457,100	\$ 12,495,388	-\$ 4,896,175	\$ 30,056,313	\$ 27,256,312	\$ 2,800,000
		2011 Forecast	\$ 19,585,200			\$ 19,585,200		
		2012 Forecast	\$ 20,141,500			\$ 20,141,500		

Exhibit 2/Appendix B/page 225	Constant Dollars	2010 Test	\$ 22,457,100
		2011 Forecast	\$ 19,136,600
		2012 Forecast	\$ 19,445,900
		2013 Forecast	\$ 22,417,900
		2014 Forecast	\$ 21,855,000
		2015 Forecast	\$ 21,256,500
		2016 Forecast	\$ 22,894,800
		2017 Forecast	\$ 22,813,300
		2018 Forecast	\$ 22,306,000
		2019 Forecast	\$ 22,906,000

- a) Please confirm or correct the data shown in the above tables.
- b) Based on the capital expenditures shown in Table 1 through 9 of **Exhibit 2**, forecasted 2010 test year capital expenditures of \$22,457,100 are higher than for historical levels, and higher than the forecasts for 2011 and 2012. Analysis of KW Hydro's pre-filed evidence indicates that the new Wilmot Transformer Station is the main project accounting for 2010 being higher than earlier or succeeding years, but there are other projects identified in **Exhibit 2/pg. 16/Table 1** and discussed subsequently, such as Transportation Equipment, Computer Software, and Meters, which are higher than for prior years. Please provide further explanation of KW Hydro's capital expenditure forecasts for 2010, and the prioritization of projects that would justify that all 2010 capital projects should be scheduled for that year, and that KW Hydro has the resources to carry out these projects.
- c) The 2010-2019 Capital Expenditures Program provided in **Exhibit 2/Appendix B** has sections labelled "System Expansion to Supply New Development", suggesting that, while the forecast estimates may be in constant dollars, the estimates are adjusted for growth in KW Hydro's customer base.
 - i) Please confirm whether this is the case, or provide an explanation of these sections of that document.
 - ii) If yes, then this would suggest that the 2010 forecasted capital expenditure may be higher than on a per customer basis than for all years, possibly until 2019. Please provide KW Hydro's perspective on this, and the justification for 2010 capital expenditures to be the higher than for preceding or succeeding years.

3. Ref: Exhibit 2/pp. 356-357 – Contributed Capital

KW Hydro has estimated that the contributed capital will decrease to \$2.8 million per year for each of 2009 and 2010, while contributed capital has historically ranged from \$3.6 million to \$5.2 million. It has provided explanations in the referenced Exhibit, indicating an expected 50% housing decrease in 2009 and 2010 due to the continued recession.

- a) Please provide any evidence the KW Hydro has on actual housing starts in its service area for 2009, compared to historical levels. In light of recent economic information that the recession may not be as deep or prolonged as expected, although there will be a lengthy recovery, please provide any information that KW Hydro has as to updated forecasts for 2010 housing starts in its service area.
- b) Please provide KW Hydro's 2009 Year-to-Date contributed capital.

Service Reliability

4. Ref: Exhibit 1/pg. 48

- a) Please provide reliability performance for the period 2006 to 2008 actuals for SAIDI, SAIFI and CAIDI, with and without Loss of Supply interruptions, by filling out the following table.

	All Service Interruptions			Service Interruptions excluding Loss of Supply (Cause Code 2)		
	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
2006						
2007						
2008						

- b) The 2006 Electricity Distribution Rate Handbook specifies the standard for reliability performance as being “within the range of the last three year's performance”. For any year and reliability indicator where performance did not meet the standard, please describe the reasons for below-standard performance and what actions KW Hydro took or is taking to remedy the situation. Please identify, as appropriate, operating or capital projects linked to reliability improvement.

Customer and Load Forecast

5. Ref: Exhibit 3/pg. 10 – System Load Regression Model

KW Hydro indicates that it has estimated the system load regression model based on monthly data from 1997 to 2005 inclusive. It states, at Exhibit 3/pg. 10/II. 15-19, as the reason for excluding more recent actual data:

From 2006 to 2008, total purchases declined significantly due to the impact of CDM programs and the economic downturn. When the data from this three-year period is included in the regression model, the R-squared value drops very quickly and the model is no longer reliable (i.e. the co-efficient for population turns into a negative and population growth then brings down consumption, see Table 2-1).

- a) Please provide further explanation and support for KW Hydro's views that CDM impacts and the economic downturn, the latter of which occurred only in the beginning of the second half of 2008, are major factors for the anomalous model estimates when the data range is extended to 2008.
- b) Please provide KW Hydro's views about whether the poorer fit when more recent data is used, could be indicative that the model is not properly specified.
- c) Please describe what alternative modelling efforts, such as alternative econometric model forms or additional variables, were examined by KW Hydro to improve the system load regression model including data to 2008.

6. Ref: Exhibit 3/pg, 30/Table 13 and Exhibit 3/pg. 40

Table 13 shows that the estimated consumption for Unmetered Scattered Load was about 10,000 kWh per connection per year, per the 2006 EDR Board approved, while 2006 and 2007 actual was about 6,000 kWh per connection and 2008 actual was 4,000 kWh/connection. On **Exhibit 3/page 40**, KW Hydro states that the reduction from 2007 to 2008 was due to a renegotiated average fixed load per connection, with the billed load being reduced from 875 Watts to 562 Watts.

- a) Given that Unmetered Scattered Load is not metered and that the consumption is estimated, please explain the difference between the 2006 Board-approved amount of 10,000 kWh per connection per year and the 2006 and 2007 actuals of about 6,000 kWh per connection per year.
- b) What was the basis for the renegotiation of the assumed or estimated load per connection from 875 Watts to 562 Watts (i.e., review of nameplate ratings, temporary measurement of a sample of devices)? Please provide detailed support for your response.

Operating Expenses

7. Ref: Exhibit 4/page 6/Table 3 and Exhibit 4/pp. 7-11

In Table 3 of **Exhibit 4/page 6**, KW Hydro tabulates the incremental cost drivers of OM&A expenses year over year, and describes how these cost drivers in the following pages. KW Hydro notes that payroll inflation was 3.5%, 3.3% and 3.3% in 2006, 2007 and 2008 respectively, and has estimated payroll inflation at 3% for each of 2009 and 2010 based on the recently ratified agreement for its inside workers. KW Hydro has also estimated non-labour inflationary increases ranging from 1.9% to 2.3% (2010 = 2.25%), as documented on Exhibit 4/page 9.

In general, these labour and non-labour increases exceed what would be the typical IRM adjustment of inflation less productivity which, adjusting for the K-factor and tax changes, was 0.90% in 2007, 1.1% in 2008, and 1.3% in 2009.

Acknowledging that there has been growth in its customer base over this period, and that serving more customers (output) with the same inputs is a form of productivity, please identify elsewhere where efficiency and productivity gains to offset labour and non-labour inflation are factored into KW Hydro's OM&A expenses shown in **Exhibit 4/Tables 1 and 3**. Please provide a detailed discussion in support of your response.

8. Ref: Exhibit 4/page 10 – Increased Meter Maintenance

KW Hydro notes that, when it completes deployment of Smart Meters in mid-2010, it will need to catch up on its maintenance of non-smart meters, and expects to incur an additional \$100,000 in 2010.

- a) Please provide the historical level of meter maintenance costs for each year from 2006 actual to 2010 test year.
- b) Please provide further details on what meter maintenance KW Hydro will need to catch up on, indicating:
 - i) For what period maintenance activities have been delayed or deferred;
 - ii) The reasons for these delays or deferment; and
 - iii) The types of meters involved (wholesale meters, interval meters, etc.)
- c) Please identify if the incremental OM&A expense is needed only for 2010. If KW Hydro expects to incur costs for "catch-up" meter maintenance beyond 2010, please explain the time period involved and the reasons.

9. Ref: Exhibit 4/page 33/Table 7 – Charges to Affiliates

KW Hydro has documented that it provides streetlighting capital and maintenance services to its shareholders. **Table 7** is replicated below.

Table 7 – 2006 to 2010 Charges to Affiliates for Services Provided

Description	2006 Actual	2007 Actual	2008 Actual	2009 Bridge *	2010 Test
Revenue					
City of Kitchener Street Lighting Capital & Maintenance	\$ 537,892	\$ 954,286	\$ 905,429	\$ 929,858	\$ 948,455
Township of Wilmot Street Lighting Capital & Maintenance	\$ 34,648	\$ 88,422	\$ 19,205	\$ 53,814	\$ 54,890
Operating Revenue from Street Lighting	\$ 572,540	\$ 1,042,708	\$ 924,634	\$ 983,671	\$1,003,344
Profit on Street Lighting (8.01% Rate of Return)				\$ 78,792	\$ 80,368
PILs				\$ 26,001	\$ 24,906
Total Streetlighting Revenue	\$ 572,540	\$ 1,042,708	\$ 924,634	\$ 983,671	\$1,003,344

* 2 year average

** 2% inflation added to Bridge Year

- a) KW Hydro only shows a profit added to streetlighting operating revenue for the 2009 bridge and 2010 test years. Does the absence of this mean that, previously, there was no return factored into the costs of the capital services provided under these arrangements?
- b) Please describe the contractual arrangements under which KW Hydro provides these services to the shareholding municipalities. Please also describe the pricing arrangements and the basis for current pricing.
- c) Please augment the information in Table 7 by breaking out the capital and operating/maintenance services provided, or estimated to be provided, to each of the shareholding municipalities for each of the 2009 and 2010 years.
- d) Given that the operating revenue is to recover both operating/maintenance and capital-related expenses for services rendered, please explain why KW Hydro has applied the ROE to determine the profit on these operating revenues. In particular, if a return is appropriate, please explain:
 - i) why the ROE is preferable to the Weighted Average Cost of Capital;
 - ii) whether the return should only be applied to capital-related costs for the services provided; and
 - iii) whether operating and maintenance expenses include, or should include, overheads.

- e) Please provide further explanation of the calculation of the PILs shown in Table 7. Is this grossed up income taxes or does it also include the Ontario Capital Tax component?
- f) On **Exhibit 4/page 32**, KW Hydro states: “As a result of recent changes to the Affiliate Relationships Code, KW Hydro is reviewing its provision of services to its shareholders in respect of Street Light Capital and Maintenance services and these services may be outsourced in the future.” Please explain further why the recent changes to the *Affiliate Relationship Code* are driving KW Hydro and its shareholders to review the arrangements? If known, what timeframe is contemplated for possible outsourcing?

10. Ref: Exhibit 4/page 58 – Service Centre Building Maintenance

In this exhibit, KW Hydro documents the annual maintenance expenses for its Service Centre Building in the referenced exhibit. The table from this exhibit is replicated below, with staff calculations of the annual percentage increases in expenses and the geometric average annual change in the period from 2006 actual to 2010 test year.

Service Centre Building Maintenance					
Activity	2006	2007	2008	2009	2010
Service Centre Building Maintenance	\$ 305,511	\$ 441,469	\$ 429,005	\$ 505,000	\$ 530,000
Annual % Change		44.5%	-2.8%	17.7%	5.0%
Annual growth rate (2006 to 2010 test)					14.8%

The discussion in this exhibit identifies age of the service centre as a factor in increasing maintenance costs, and identifies some of the cost increases in various years. KW Hydro also documents that these maintenance costs do not get charged to capital.

- a) The cost increases documented in the exhibit account for only part of the annual increases in the costs shown in the table. Board staff has calculated a 14.8% annual increase in expenses over this period. Some of the identified projects, such as warehouse dock size reduction, stairway construction, and catch basin replacements would seem to be one-time costs, which would not recur at least for several years, once completed.
 - i) Please explain if this is the situation. If so, please identify how these expenses are removed in subsequent years and what new costs are being incurred to explain the observed year-over-year increases.
 - ii) In the alternative, please explain why these costs are ongoing.
 - iii) Please explain why costs for projects such as warehouse dock size reduction, stairway construction, and catch basin replacements are not capitalized, as it would seem that these

projects replace or refurbish the building and property, which are capital assets.

- b) Given the documented increases in the service building maintenance expenses, please identify what alternatives KW Hydro has investigated, such as reconstruction. Please discuss why the current practice is the preferred approach.

11. Ref: Exhibit 4/pp. 74-87 – Purchases of Products and Services from Non-Affiliates

In this Exhibit, KW Hydro provides Tables 37-39 showing purchased products and affiliates from non-affiliates for 2006, 2007 and 2008. The amounts are summarized in the following table:

Year	2006 actual	2007 actual	2008 actual	2009 YTD	2009 Bridge (forecast)	2010 Test (forecast)
Total Purchases from non-affiliates	\$12,308,856	\$13,916,071.90	\$18,507,733			

On **Exhibit 4/page 76**, KW Hydro states that:

In review of the overall purchases for 2009, KW Hydro will see an increase due to the significant costs involving the construction of #9 Transformer Station in Wilmot Township and the Smart Meter program. It is expected that these two projects will offset the decrease that we have seen in the new home starts for subdivision projects. Increased purchases are expected to carry on through 2010 as the two major projects will continue through most of 2010.

Please provide an update to the table above showing 2009 Year-to-Date actuals, 2009 Year-end forecasts and 2010 test year forecasts, if available. If forecasted information is not available, please explain.

12. Ref: Exhibit 4/pg. 7 – LEAP

In the above reference, KW Hydro stated that the amount of \$46,976 is included in the 2010 Test Year for Low Income Energy Assistance Program. Please identify whether the amounts relate to existing or new program(s).

Corporate Cost Allocation

13. Ref: Exhibit 4/page 63

KW Hydro states that it owns numerous properties and pays property taxes to the shareholders, specifically the City of Kitchener and the Township of Wilmot, of its corporate parent company, Kitchener Hydro Corporation.

Please indicate whether there are any other costs allocated to KW Hydro from its corporate parent company. If so, please provide details with explanations of any allocated costs.

Regulatory Costs

14. Ref: Exhibit 4/pp. 34-35

KW Hydro indicates that it has forecasted \$230,000 for increased regulatory expenses in 2010 associated with this application. This amount consists of \$63,000 for additional staff and \$165,000 for legal assistance, with the recovery amortized over four years (2010 plus 3 years of 3rd Generation IRM). Table 8 on Exhibit 4/page 35 also shows an expense of \$76,500 for Hearings (written and oral).

- a) Please provide further explanation of the additional staff required for this current application.
- b) Please provide further explanation of the \$76,500 estimated for Hearings (oral and written). What is the basis for KW Hydro's estimate? If the amount is specific to the current Cost of Service application, please provide KW Hydro's views on whether it would also be appropriate to amortize recovery over four years.

PILs

15. Ref: Exhibit 4/pp. 62-66

Exhibit 4/page 64/Table 24 – Summary of PILs is replicated below:

Description	2006 Board Approved	2006 Actual	2007 Actual	2008 Actual	2009 Bridge	2010 Test
Income Taxes	\$ 3,562,401	\$ 2,753,671	\$ 2,852,445	\$ 2,518,014	\$ 1,836,808	\$ 222,170
Large Corporation Tax	\$ 473,075	\$ -	\$ -		\$ -	\$ -
Ontario Capital Tax	\$ 117,953	\$ 504,102	\$ 481,977	\$ 304,545	\$ 314,594	\$ 2,748,885
Total Taxes	\$ 4,153,429	\$ 3,257,773	\$ 3,334,422	\$ 2,822,559	\$ 2,151,402	\$ 2,971,055

- a) Please confirm that the estimated Income Taxes and Ontario Capital Tax shown in Table 24 for the 2010 Test Year are reversed.

- b) In **Exhibit 4/page 66/Table 27**, provides the calculation of the estimated Ontario Capital Tax of \$222,170 as 0.150% of the Taxable Capital of \$148,113,438, derived as Total Rate Base of \$163,113,488 less the Exemption of \$15,000,000. Ontario's Economic Statement of December 13, 2007 became Bill 44 and received Royal Assent on May 14, 2008. Bill 44 as enacted eliminates the Ontario Capital Tax effective July 1, 2010.
- i) Please provide KW Hydro's reasons for calculating the capital tax allowance for the whole 2010 calendar year.
 - ii) Please provide KW Hydro's estimates of the Ontario Capital Tax payable for the period January 1 to June 30, 2010.

16. Ref: Exhibit 4/page 62 – Ontario Apprenticeship Tax Credit

In its PILs estimate, KW Hydro has made an adjustment for the Ontario Apprenticeship Tax Credit ("ATTC") of \$25,000 per year for 2009 bridge and 2010 test years, as 10 apprenticeships @ \$5,000. This is shown in **Exhibit 4/page 67/Table 28**, reproduced below.

Number of Apprentices

	2006	2007	2008	2009	2010
# of Apprentices	6	7	7	10	10
ATTC	30,000	25,655	22,185	25,000	25,000

The 2006 ATTC can be derived as 6 apprentices @ \$5,000. However, for subsequent years, the ATTC amounts can not be derived based on the documented amount of \$5,000 per apprentice. Please provide further explanation and derivation of the ATTC for each year shown in Table 28.

Cost of Capital

17. Ref: Exhibit 5/pp. 5, 7-8, Exhibit 2/page 30 – Return on Equity

On **Exhibit 5/page 7**, KW Hydro states: "KW Hydro's historic Debt to Equity ratios (45% in 2007 and 42% in 2008) are lower than the OEB deemed rate of 60% Debt and 40% Equity. KW Hydro does not currently have any short term debt; however, KW Hydro is currently evaluating options to bring the actual debt to equity ratio closer to the deemed capital structure. ... The ROE using current rates is projected at 2009 (5.57%) and 2010 (4.92%) are also well below the allowed deemed ROE." In **Exhibit 5/page 8/Table 5**, KW Hydro documents the actual Return on Equity.

In **Exhibit 5/page 5/lines 25-28**, KW Hydro notes that its actual debt capitalization, at 45% in 2007 and 42% in 2008, is below the deemed debt capitalization (currently 60% debt: 56% long-term and 4% short-term).

- a) Please provide KW Hydro's estimates of its actual capitalization for the 2009 bridge and 2010 test years.
- b) Given that KW Hydro has less debt and correspondingly more equity than the deemed capital structure, please comment on how this factors into the lower actual returns that KW Hydro has reported.
- c) In **Exhibit 2/page 30**, KW Hydro documents that: "[it] does not capitalize interest costs where capital assets are financed internally from working capital and, to date, KW Hydro has not borrowed funds for the purpose of financing a large project and therefore does not have a policy on capitalization of interest costs. When that occurs, KW Hydro expects that it would then capitalize the interest costs associated with the borrowed funds." Please provide further explanation on why KW Hydro has decided, to date, not to seek debt financing for major projects such as the Wilmot T.S. or smart meters, but is funding capital additions through working capital (when CWIP) or retained earnings when in service.

18. Ref: Exhibit 5/pp. 5-6 and Exhibit 5/Appendix A – Cost of Debt

In **Exhibit 5/page 6/Table 4**, KW Hydro documents its existing debt, consisting of Promissory Notes due to the municipal shareholders and which attract the deemed long-term debt rate.

- a) Please confirm whether KW Hydro is forecasting any new debt financing for capital projects in the 2010 year. If new debt is anticipated, please provide any available information on such debt (e.g. principal, term, rate, whether the debt-holder is affiliated or third-party, etc.)
- b) The Promissory Notes documented in Exhibit 5/Appendix A each have a term "This Promissory Note is open and may be repaid by Kitchener-Wilmot Hydro at any time without notice or bonus." Please explain, with reasons, whether KW Hydro has taken advantage of, or contemplated, retiring and replacing the existing debt if it could be replaced at a lower rate and with fixed terms. Would such refinancing improve KW Hydro's financial performance metrics, such as the Interest Coverage Ratio and provide it with a better opportunity to improve its actual ROE?

Retail Transmission Service Rates

19. Ref: Exhibit 4/pp. 6-9

On **Exhibit 4/page 6**, KW Hydro proposes to reduce its Network Transmission Rate by 5% and its Line and Connection Transformation Rate by 22%. Tables 5 to 8 on the following pages in this Exhibit provide summaries of costs, revenues, rate increases and revenue-to-cost ratios related to the Retail Transmission

Service Rates (“RTSRs”). However, the basis for the proposed rate reductions is not shown in these tables. Please provide a detailed derivation of the proposed RTSR rate reductions.

Loss Factors

20. Ref: Exhibit 8/pp. 10-12 and Exhibit 8/pp. 23-25

Board staff has prepared the following table based on KW Hydro’s current Board-approved Total Loss Factors, as documented in its current Tariff of Rates and Charges as approved in the Decision and Order in Board File No. **EB-2008-0192**, and the proposed loss factors as documented in **Exhibit 8/page 11/Table 9** and in the Proposed tariff on **Exhibit 8/page 25**.

Total Loss Factors

	Current Board Approved Decision and Order EB-2008-0192	Proposed Tariff Sheets	Proposed Total Loss Factor
		Exhibit 8/pg. 25	Exhibit 9/pg. 11/Table 9
Secondary Metered Customer < 5000 kW	1.0329	1.0154	0.0000
Secondary Metered Customer > 5000 kW	1.0154		1.0154
Primary Metered Customer < 5000 kW	1.0226	1.0217	0.0000
Primary Metered Customer > 5000 kW	1.0053	1.0053	1.0053

- Please confirm or correct the numbers shown in the table.
- Please confirm the total loss factors that KW Hydro is seeking approval for in this application. As necessary, please update **Exhibit 8/pp. 10-12** to provide the proposed loss factors and their derivation.
- Please confirm the loss factors used in the calculation of estimated bill impacts as shown in the Bill Impacts (**Exhibit 8/Tables 15 to 18** and **Exhibit 8/Appendix A**).

Embedded Distributor

21. Ref: Exhibit 3/page 54/Table 25

In this Exhibit, KW Hydro shows rates for 2007 of \$0.10/kW for the shared line and \$1.14/kW and for 2008 of \$0.10/kW for the shared line and \$1.13/kW for the dedicated line.

Board staff has prepared the following table for the Embedded Distributor rates from 2006 to 2009 and 2010 proposed, based on the Decisions and Rate Orders for KW Hydro’s distribution rates in recent years and as proposed in this application. The rates for 2006 to 2009 are taken from the Board-approved Tariff

of Rates and Charges publicly available from the Board's website
www.oeb.gov.on.ca .

	2006 EDR EB-2005-0386	0	2007 IRM EB-2007-0549	0	2008 IRM EB-2007-0883	2009 IRM EB-2008-0992	2010 CoS EB-2008-0267
Embedded Distributor							
Shared line per kW	\$ 0.1000		\$ 0.1005		\$ 0.0998	\$ 0.0999	\$ 0.1400
Dedicated line per kW	\$ 1.1300		\$ 1.1360		\$ 1.1280	\$ 1.1290	\$ 1.2900

- Please confirm or correct the rates shown in the above table.
- Please explain, as necessary, differences between the numbers shown in the above table and the 2007 and 2008 rates referenced in **Exhibit 3/Table 25**.
- On **Exhibit 3/page 54**, KW Hydro notes that revenues have been around \$60,000 per year (\$61,407 in 2007 and \$59,513 in 2008). On **Exhibit 3/page 55**, KW Hydro states that its proposed embedded distributor rates will allow it to recover its 2010 Test Year Revenue Requirement of \$70,145. Derivation of this is shown in Table 28 on **Exhibit 3/page 57**. The derivation is in effect a proxy cost of service calculation involving cost of capital, tax rates, etc. Please provide KW Hydro's views, with reasons, as to whether it considers it would be appropriate to update the proposed embedded distributor rates based on cost of capital parameters, tax rates, and other findings in the Board's decision on this current application.

22. Ref: Exhibit 7/page 9

Under details of its Cost Allocation Study, KW Hydro documents that "The Embedded Distributor rate class was not included as part of the study as KW Hydro believes that the Embedded Distributor rate class cannot be accurately reflected in the model." It further notes that the Embedded Distributor revenue, at \$70,145, will not affect the Cost Allocation results.

Board staff also notes that KW Hydro states that it does not document the Embedded Distributor distribution revenues under Account 4080, as documented in Exhibit 3/page 1/II. 12-17.

Given that one of the lines by which KW Hydro services the embedded distributor is shared (i.e. also provides distribution services to KW Hydro's direct customers and whose costs would be included in the Cost Allocation study), please provide further explanation of:

- why KW Hydro believes that it can not accurately reflect the Embedded Distributor rate class in the Cost Allocation model; and
- why KW Hydro has decided on its treatment that separates the costs, where possible, and revenues differently than for other customers of KW Hydro.

Deferral and Variance Accounts

23. Ref: Exhibit 9

On October 15, 2009, the Board's Regulatory Audit & Accounting group issued a bulletin related to Regulatory Accounting & Reporting of Account 1588 RSVA Power and Account 1588 RSVA Power Sub-account Global Adjustment. Please confirm whether or not KW Hydro plans on making any changes to its filing with respect to Account 1588.

LRAM/SSM

24. Ref: Exhibit 10 / pp. 1-20

The Board issued "Guidelines for Electricity Distributor Conservation and Demand Management" (the "Guidelines") on March 28, 2008. Section 9 of the Guidelines outlines the information that is required when filing an application for LRAM or SSM recovery. Please explain why KW Hydro has not provided the kW or kWh impacts not adjusted for free riders; KW Hydro has provided kW or kWh impacts net of free riders for each program and each rate class has been provided, but not the kW or kWh impacts before adjusting for free riders.

25. Ref: Exhibit 10 / Page 13 – EnerSpectrum Group Report

Section 6 - Determination of SSM Amounts of the EnerSpectrum Group Report on KW Hydro's LRAM and SSM proposal states that "[f]or all programs/projects, the most recently published OPA assumptions and measures list were used in TRC calculations in accordance with OEB's direction letter, Conservation and Demand Management ... Input Assumptions Board File No.: EB-2008-0352, January 27, 2009.

The Board's letter of January 27, 2009, quotes section 7.3 of the Board's Guidelines as follows:

The timing at which changes in assumptions become effective will differ depending on the use of the assumption, as follows:

Program Design and Implementation

Distributors should design, screen and evaluate programs using the best available information known to them at the relevant time. Therefore, it is expected that distributors will incorporate new information into program design and implementation as soon as feasible, subject to relevant operational considerations. In considering the prudence of any spending in excess of an approved budget that has been tracked in a CDM variance account, the Board will consider the information available to the distributor at the time the program was implemented. That is, when amounts in a CDM variance account are being reviewed for the purposes of disposition, the Board will consider the information available to the distributor at the

time the spending decision was made by the distributor. This will apply even if the input assumptions have changed since that time.

LRAM

The input assumptions used for the calculation of LRAM should be the best available at the time of the third party assessment referred to in section 7.5.

For example, if any input assumptions change in 2007, those changes should apply for LRAM purposes from the beginning of 2007 onwards until changed again.....

SSM

Assumptions used from the beginning of any year will be those assumptions in existence in the immediately prior year. For example, if any input assumptions change in 2007, those changes should apply for SSM purposes from the beginning of 2008 onwards until changed again....

Please elaborate further on the rationale for using the recently published OPA assumptions and measures list for all programs/projects, and how these assumptions align with section 7.3 of the Board's Guideline as quoted above and in the January 27, 2009 letter.