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October 26, 2009

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2009-0267
Kitchener-Wilmot Hydro Inc. – 2010 Cost of Service Application
Interrogatories of Energy Probe

Pursuant to Procedural Order No. 1, issued by the Board on October 15, 2009, please find two hard copies of the Interrogatories of Energy Probe Research Foundation (Energy Probe) in the EB-2009-0267 proceeding. An electronic version of this communication will be forwarded in PDF format.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Jerry Van Ooteghem, Kitchener-Wilmot Hydro Inc. (By email)
Randy Aiken, Aiken & Associates (By email)
Intervenors of Record (By email)

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Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an Application by Kitchener-
Wilmot Hydro Inc. for an Order or Orders approving or
fixing just and reasonable distribution rates and other
charges, effective May 1, 2010.

**INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

October 26, 2009

**KITCHENER-WILMOT HYDRO INC.
2010 RATES REBASING CASE
EB-2009-0267**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES**

Interrogatory # 1

Ref: Exhibit 2 & Exhibit 4

The provincial government has announced plans to harmonize the provincial retail sales tax (RST) with the goods and services tax (GST) effective July 1, 2010 to create harmonized sales tax (HST). Based on the proposed elimination of the RST effective July 1, 2010:

- a) Please confirm that KW Hydro has not made any adjustments to the OM&A forecasts shown in Exhibit 4 to reflect the elimination of the 8% provincial sales tax.
- b) Please provide the estimated costs of the provincial sales tax included in the OM&A forecast for 2010.
- c) Please provide the amount of provincial sales tax paid by KW Hydro in each of 2006, 2007, 2008 and 2009 on OM&A expenses.
- d) Is there any reduction in compliance costs that will result from the reduction in the administrative burden on KW Hydro to comply with two separate sets of tax rules?
- e) Please confirm that KW Hydro has not made any adjustments to the capital expenditure forecasts shown in Exhibit 2 to reflect the elimination of the 8% provincial sales tax.
- f) Please provide the estimated costs of the provincial sales tax included in the capital expenditures included in rate base forecast for 2010.
- g) Please provide the amount of provincial sales tax paid by KW Hydro on capital expenditures included in rate base in each of 2006, 2007, 2008 and 2009.

Interrogatory # 2

Ref: Exhibit 1, page 30

Are any of the costs associated with Kitchener Power Corporation, including its Board of Directors, included in the costs included in the filing by KW Hydro for recovery through the revenue requirement? If yes, please identify and quantify these costs.

Interrogatory # 3

Ref: Exhibit 2, Table 1

- a) Does KW Hydro update its forecasts throughout the year for management reporting purposes? If so, please provide the most recent forecast for capital expenditures for 2009 and 2010 in the same level of detail as shown in Table 1.**
- b) Are the capital expenditures shown in Table 1 the gross capital expenditures, or are these figures net of the contributed capital amounts?**

Interrogatory # 4

Ref: Exhibit 2, Tables 2 through 8 & Table 24

The evidence indicates that the amount of contributed capital ranges from about \$3.6 million to \$5.2 million in 2004 through 2008. The forecast for 2009 and 2010 is \$2.8 million.

- a) Please provide the breakdown of the forecasted 2009 and 2010 contributed capital in the same level of detail as shown in Table 24.**
- b) Please explain the significant reduction in the level of contributed capital forecast for 2009 and 2010, with reference to the detail provided in part (a) above.**
- c) What is the most recent year-to-date level of contributed capital for 2009?**
- d) Please explain why the 2007 year end WIP shown in Table 6 in account 1808 is not the same as the 2007 year end figure shown for 2007 in Table 5.**

- e) Please explain why there is WIP at the end of 2008 as shown in Table 6 for computer software (account 1925) and transportation equipment (account 1930).

Interrogatory # 5

Ref: Exhibit 2, Table 21

- a) Please update the cost of power calculation and the resulting impact on the working capital allowance to reflect the Regulated Price Plan price as issued by the OEB on October 15, 2009.
- b) Does KW Hydro intend to update the transmission related cost of power to reflect 2010 transmission rates when they are approved by the Board?

Interrogatory # 6

Ref: Exhibit 2, Table 1 & Exhibit 2, page 310 & Exhibit 9, page 20

The evidence indicates that KW Hydro intends to deploy and install all of its smart meters by August, 2010. The evidence also indicates a significant increase in capital expenditures related to meters in 2010 to \$724,000 from a level of \$291,000 in 2009 and an average level of expenditures of about \$425,000 per year in 2004 through 2008.

- a) Does the forecast 2010 expenditure of \$724,000 include in it any costs related to smart meters?
- b) If there are no smart meter related costs included in the 2010 expenditures, please explain what these expenditures are related to, given that smart meters will be installed by August, 2010.
- c) Please provide a breakout of the \$724,000 cost into the four primary drivers noted on page 310 of Exhibit 2.

Interrogatory # 7

Ref: Exhibit 2, page 357

KW Hydro is forecasting a 50% decrease in new housing starts in 2009 and 2010 from the actual 2010 level.

- a) Please provide the most recent year-to-date information available on the reduction in new housing starts in 2009 as compared to the same period in 2008.**
- b) How has the reduction forecast for new housing starts been reflected in the capital expenditure forecasts for 2009 and 2010?**
- c) Which capital expenditure accounts are impacted the most by new housing starts?**

Interrogatory # 8

Ref: Exhibit 3, Table 2

Please expand Table 2 to provide the following:

- a) actual total purchased GWh for 2006, 2007 and 2008;**
- b) predicted purchases GWh for 2006, 2007 and 2008 using the model shown on page 10;**
- c) predicted purchases GWh for all years, including 2006, 2007 and 2008 using the model shown in Table 2.1; and,**
- d) predicted purchases GWh for all years, including 2006, 2007 and 2008 using the model shown in Table 2.1, but removing the population variable.**

Interrogatory # 9

Ref: Exhibit 3, page 10 & Table 2.1 & Appendix C

- a) Please provide a regression analysis using data up to December, 2008 as shown in Table 2.1 with the following changes. Please provide all regression statistics and adjusted r-squared values for each regression.**
 - i) replace the population variable with the number of year-end customers (excluding street lighting and USL connections);**
 - ii) leave the population variable in the equation and add a dummy variable that has a value of 1 in all months in 2006, 2007 and 2008 and has a value of 0 in all other months; and,**
 - iii) replace the population variable with the number of year-end customers as in (i) above and add the dummy variable as in (ii) above.**
- b) For any of the three regression equations estimated above that has an adjusted R-squared of 0.9 or greater, please provide each of the following:**
 - i) Table 2 showing the variance for 1997 through 2008;**
 - ii) the resulting weather normalization factors for 2004 through 2008; and,**
 - iii) Tables 11 & 13 showing the new normalized average use figures.**
- c) Based on the results in (b) above, what changes would be made to the average consumption forecasts for 2009 and 2010 for each of the weather sensitive rate classes and what would be the impact on the revenue deficiency?**

Interrogatory # 10

Ref: Exhibit 3, pages 30 – 35

- a) Please provide the actual number of residential, GS < 50 kW and GS > 50 kW customers for the most recent month available for 2009.**
- b) Please provide the actual number of residential, GS < 50 kW and GS > 50 kW customers for the corresponding month in 2008.**

- c) The growth in GS < 50 kW customers in 2006, 2007 and 2008 has almost been identical to the growth rate in residential customers. What is the impact on the revenue forecast of increasing the 2009 and 2010 GS < 50 kW customer forecast from 1.0% in both years to 1.50% in both years? Please show all calculations, including the number of customers, rates used and incremental revenues.

Interrogatory # 11

Ref: Exhibit 3, Table 15

Please update Table 15 to show discontinued accounts and related consumption for the GS > 50 accounts for 2009 closures and the corresponding reduction of the whole class.

Interrogatory # 12

Ref: Exhibit 3, pages 37 – 39

- a) Please confirm that Large User #1 has closed its account. If this cannot be confirmed, please indicate when this user is now expected to close.
- b) Please add 2009 data to Table 16 to reflect the most recent data available, including the year-to-date average for 2009 for each of the 4 large use customers.

Interrogatory # 13

Ref: Exhibit 3, pages 35, 38 & Table 17

The evidence states that the average weather normalized demand for the GS > 50 kW class for 2010 is at the same level as 2009, at 2,173 kW per customer. Table 17 shows the 2010 figure as 2,225 kW. Please confirm that this difference is the result of the transfer of Large User #2 from the large use class to the GS > 50 class.

Interrogatory # 14

Ref: Exhibit 3, Table 18 & 19

The average use forecasts used by KW Hydro are either based on trends (residential, GS < 50, GS > 50) or the 2008 level (street lighting, USL). There appear to be trends to higher kW/kWh ratios in the GS > 50 and large user class as shown in data in Table 18, while there is a declining trend in the street lighting class. In particular, the compound annual growth rates between 2000 and 2008 are 3.5% for the GS > 50 class, 2.8% for the large user class and -1.1% for the street lighting class.

- a) Please explain why KW Hydro has used the 2000 through 2008 average to calculate the kW/kWh ratio.**
- b) Please calculate the kW/kWh ratios for 2010 based on the compound annual growth rates between 2000 and 2008.**
- c) Please calculate the impact on the kWh forecast of using the kW/kWh ratios calculated in (b) above. What impact would this have on the revenue forecast? What impact would this have on the calculation of the working capital allowance?**
- d) Please calculate the impact on the kWh forecast of using the 2008 values of the kW/kWh ratios. What impact would this have on the revenue forecast? What impact would this have on the calculation of the working capital allowance?**

Interrogatory # 15

Ref: Exhibit 3, Table 25

Please explain why the rate for the specific line went down in 2008 to \$1.13 from \$1.14 in 2007.

Interrogatory # 16

Ref: Exhibit 3, page 61

- a) What is the reason for the decline in standby charges in 2008?**
- b) What is the most recent year-to-date standby charges revenue for 2009?**

Interrogatory # 17

Ref: Exhibit 3, page 62

- a) How has KW Hydro adjusted the 2009 and 2010 forecast for the expected changes from the OEB for low income customers?**
- b) In the absence of any changes from the OEB, what would the forecast be for 2009 and 2010?**
- c) Given the high unemployment rate in the Kitchener area, why is KW Hydro not forecasting a significant increase in late payment charges?**
- d) What is the most recent year-to-date late payment revenue for 2009 and what was the corresponding figure for the same period in 2008?**

Interrogatory # 18

Ref: Exhibit 3, page 63

- a) What is the most recent year-to-date miscellaneous service revenue for 2009 and what was the corresponding figure for the same period in 2008?**
- b) KW Hydro is requesting three new Specific Service Charges for 2010. What is the effective date that KW Hydro is requesting the OEB to allow these rates to be charged?**
- c) Please explain why KW Hydro assumes 8 months collection for these charges rather than 12.**

Interrogatory # 19

Ref: Exhibit 3, page 64

- a) What is the driver for the increase in service transaction request revenue in 2009 as compared to 2008?
- b) What is driving the decrease in service transaction revenue in 2010 as compared to 2009?
- c) What is the most recent year-to-date revenue for 2009 for each line item shown in the tables on page 64 and what was the corresponding figure for the same period in 2008?

Interrogatory # 20

Ref: Exhibit 3, Table 31 and pages 68 – 72

- a) Please show how the 2010 figure of \$441,868 in Table 31 for 2010 other income and deductions was arrived at with reference to the figures provided for Category 4 revenues on pages 68 through 72.
- b) Please reconcile the 2010 figure of \$1,265,524 shown on page 69 for the streetlighting capital and maintenance services with the \$1,345,892 shown on page 71. Please also explain why the 2009 figures are the same when the 2010 figures are not.
- c) Please explain the decrease in 2009 and 2010 revenues associated with scrap sales, other miscellaneous non-operating revenue and A/P discounts taken/lost.
- d) Please provide the most recent year-to-date figures for 2009 and the corresponding figures for the same period in 2008 for each of the Category 4 accounts, in the same level of detail as shown in the tables associated with each of accounts 4355, 4375 & 4380 and 4390.
- e) Please provide the most recent year-to-date figures for 2009 and the corresponding figures for the same period in 2008 for the information in Table 34.
- f) Please explain why no interest revenue on PILS returns has been forecast for 2009 and 2010 despite revenue for the three previous years.

Interrogatory # 21

Ref: Exhibit 4, Table 1

- a) On September 28, 2009 the OEB issued a letter providing a status update on the LEAP initiative. As part of that letter the Board indicated that the Minister of Energy and Infrastructure requested that the Board not proceed to implement new support programs for low-income energy consumers in advance of a ministerial direction. In light of this, would KW Hydro agree that the \$46,976 included in the 2010 revenue requirement should be removed? If not, why not?**
- b) Please explain why KW Hydro has included the IFRS related costs in the revenue requirement, rather than in the deferral account that will be established by the Board as indicated in the July 28, 2009 Report of the Board – Transition to International Financial Report Standards.**
- c) Does KW Hydro agree that if the IFRS related costs are included in the revenue requirement there should be a variance account established around this amount? If not, why not?**
- d) Please explain the need for “catch up” meter maintenance of \$100,000 in 2010 when KW Hydro expects to install all of the smart meters by August, 2010.**

Interrogatory # 22

Ref: Exhibit 4, page 8

- a) Given the economic conditions and the low rate of inflation, does KW Hydro believe that an annual 3% increase in unionized wages should be passed on to ratepayers in its entirety?**
- b) What increase has been budgeted for non-union personnel for 2009 and 2010?**
- c) What is the incremental cost associated with the increase for non-union personnel in 2009 and 2010?**
- d) Has KW Hydro reached a new agreement with its Outside Union? If yes, please provide the economic increase and term of the new agreement.**

Interrogatory # 23

Ref: Exhibit 4, page 9 & 10

- a) Have the 2009 positions forecast to be filled actually been filled?**
- b) Please provide the actual inflationary increases for the first two quarters of 2009 using the Statistics Canada data for the GDP IPP FDD.**
- c) Does KW Hydro agree that the inflation factor forecast for 2010 should be adjusted to reflect either than actual inflation rate for 2009, or the inflation for year-to-date when the Board makes its Decision in this case? If not, why not?**

Interrogatory # 24

Ref: Exhibit 4, Table 4

Please add two lines to Table 4 that show the total OM&A cost per customer and the change in this value from the previous year.

Interrogatory # 25

Ref: Exhibit 4, Table 5

For each sub-total line in Table 5, please provide the most recent year-to-date costs for 2009 and the corresponding figure for the same period in 2008.

Interrogatory # 26

Ref: Exhibit 4, pages 27 – 31

- a) Has KW Hydro experienced the substantial reduction in billable construction forecast for 2009 (Account 5005)?**
- b) Please explain the relationship between the reduction in the administrative recovery noted in Account 5005 and the reduction in Account 5605. If the administrative recovery were to decline by \$43,103 instead of \$83,103, what would be the net impact on OM&A expenses?**

- c) Please explain what maintenance activities will be undertaken in 2010 when all the meters are relatively new (Account 5065).
- d) Please provide a further breakdown of the \$228,000 forecast cost associated with the 2010 rate application (additional staff, legal, consulting, intervenors, etc.). Please also indicate how much of the costs are associated with the need for an oral (technical conference, hearing) component of the rate application.
- e) Please provide the expenses incurred to date in the same level of detail for the regulatory costs as requested above.

Interrogatory # 27

Ref: Exhibit 4, Table 7

Please explain why the profit and PILS have not been added in to arrive at the total streetlighting revenue.

Interrogatory # 28

Ref: Exhibit 4, page 38

Have the four additional outside union positions forecast to be filled in 2009 been filled? If not, is it still the expectation that all of these positions will be filled by the end of 2009? If not, please provide the expected date at which each unfilled position at the end of 2009 will be filled in 2010.

Interrogatory # 29

Ref: Exhibit 4, Table 27

The Ontario capital tax was reduced to 0.150% on January 1, 2010 and is scheduled to be eliminated on July 1, 2010, resulting in an effective rate for 2010 of 0.075%. This would reduce the forecast capital tax from \$222,170 to half of this amount, or \$111,085. Does KW Hydro agree with this reduction? If not, why not?

Interrogatory # 30

Ref: Exhibit 4, Table 28

- a) Please show how the ATTC of \$25,000 associated with the 10 apprentices was calculated, including the percentage of salaries used.**
- b) Please calculate the impact on taxes and on the revenue requirement of including the Apprenticeship Training Tax Credit as modified in the 2009 provincial budget to 35% of qualifying wages to a maximum of \$10,000 per position and extending the eligibility period from 36 months to 48 months if this has not been done in the current calculation.**
- c) Has KW Hydro included any tax credits related to the Co-operative Education Tax Credit? If not, why not, given that there was a tax credit claimed on the 2008 tax return (page 164 of Exhibit 4)? If yes, please provide the calculations used to calculate this credit and indicate where in the calculation of income taxes it can be found.**

Interrogatory # 31

Ref: Exhibit 4, Tables 35 & 36

- a) Please provide the final tax rates for Kitchener and update Table 36 to reflect actual taxes for 2009.**
- b) Please update Table 35 to show the actual 2009 market value assessments.**
- c) What increase in the municipal tax rate has KW Hydro forecast for 2010? What is the basis for this increase?**
- d) What is the basis of the increase in the 2010 market value assessments? Are they driven only by capital expenditures or has KW Hydro included some other change in market value?**

Interrogatory # 32

Ref: Exhibit 5, page 4

- a) As of the current date, has either shareholder provided written notice to have the loans repaid?**

- b) KW Hydro has the ability to pay off the loans at any time without notice or bonus. Does KW Hydro have the ability to pay off a portion of the loans at any time without notice or bonus?
- c) Has KW Hydro looked at whether it could obtain third party financing to replace the affiliate loans at rates lower than or equal to the “established rate”? If yes, please provide all correspondence related to the amounts, terms and interest rates quoted to KW Hydro. If no, why not?

Interrogatory # 33

Ref: Exhibit 7, page 2

The evidence states that KW Hydro’s proposed cost allocation model does not include the embedded distributor class and that the total amount of the distribution revenue from the 2010 trial balance was included in the cost allocation study. Does this mean that approximately \$70,000 in costs related to the service of the embedded customer has not been removed from the revenue requirement used in the cost allocation study? Please explain and clarify how the KW Hydro approach does not double recover the \$70,000 in costs associated with the embedded customer class.

Interrogatory # 34

Ref: Exhibit 7, Table 1

In a number of Decisions for 2008 and 2009 rate applications the Board has indicated that any point within a range is as acceptable as any other point within the range until better data is available and has not approved the moving of revenue to cost ratios that are already within the Board approved range (for example, see EB-2007-0693 Decision for Wellington North Power Inc. dated August 11, 2008).

- a) Please confirm that if this approach were to be approved by the Board for KW Hydro, only the street light and USL classes would need to be adjusted down to upper limit on the ranges.
- b) Assume that the revenue to cost ratios for the street lights and USL classes are both reduced to 120% in the test year. Please calculate the resulting revenue to cost ratio for the residential class that would be required to offset the lost revenue from the street lights and USL classes.

Interrogatory # 35

Ref: Exhibit 7, Table 2 & Exhibit 6, Table 1

Please reconcile the test year revenue of \$39,490,515 shown in Table 2 of Exhibit 7 with the throughput revenue of \$39,262,515 shown in Table 1 of Exhibit 6. What is the difference of \$228,000 related to?

Interrogatory # 36

Ref: Exhibit 4, Table 27

- a) Please confirm that the 2009 provincial budget reduced the small business tax rate from 5.5% to 4.5% effective July 1, 2010 on the first \$500,000 of taxable income and eliminated the 4.25% surtax on taxable income over \$500,000, also effective July 1, 2010.**
- b) Please confirm that the 2010 provincial tax savings resulting from the above change is \$18,750, the difference between the following calculations on the first \$1,500,000 of taxable income:**

*** 13% x \$1,500,000 = \$195,000, and**

*	5% x \$500,000	=	25,000
	13% x \$1,000,000	=	130,000
	2.125% x \$1,000,000	=	<u>21,250</u>
	Total	=	\$176,250

If these calculations cannot be confirmed, please provide the calculations that show the reduction in the provincial income tax and provide the rationale for the rates and numbers used.