KITCHENER WILMOT HYDRO INC.
P.O. BOX 9010
301 VICTORIA STREET SOUTH
KITCHENER, ONTARIO
N2G 4L2

Jerry Van Ooteghem
President & C.E.O
Tel: (519) 745-4771
Fax: (519) 571-9338

November 16, 2009

BY COURIER

Ontario Education Services Corporation
439 University Avenue, 18th Floor
TORONTO, ON M5G 1Y8
Attn: Wayne McNally

Re: EB Number: EB-2009-0267
Kitchener-Wilmot Hydro Inc. Response to School Energy Coalition Interrogatories
2010 Electricity Distribution Rates, Licence No. ED-2002-0573

Dear Mr. McNally:

On August 31, 2009, Kitchener-Wilmot Hydro Inc., referred to herein as KW Hydro, filed its application for 2010 electricity distribution rates and, subsequently, on October 26, 2009, SEC submitted its interrogatories to KW Hydro as per the Board's Procedural Order #1 dated October 15, 2009. KW Hydro now submits its responses to those interrogatories.

Note that KW Hydro will be submitting an Addendum to its 2010 rate application to adjust its LRAM and SSM claim (Exhibit 10) to comply with certain recent decisions of the Board.

Should you require any further information or clarification of any of the above, kindly contact the writer.

Respectfully submitted,

Original Signed by

J. Van Ooteghem, P.Eng. President & CEO

cc All Intervenors

KITCHENER WILMOT HYDRO INC.
P.O. BOX 9010
301 VICTORIA STREET SOUTH
KITCHENER, ONTARIO
N2G 4L2

Jerry Van Ooteghem
President & C.E.O
Tel: (519) 745-4771
Fax: (519) 571-9338

November 16, 2009

BY COURIER

Shibley Righton LLP
250 University Avenue, Suite 700
TORONTO, ON M5H 3E5
Attn: John De Vellis

Re: EB Number: EB-2009-0267
Kitchener-Wilmot Hydro Inc. Response to School Energy Coalition Interrogatories
2010 Electricity Distribution Rates, Licence No. ED-2002-0573

Dear Mr. De Vellis:

On August 31, 2009, Kitchener-Wilmot Hydro Inc., referred to herein as KW Hydro, filed its application for 2010 electricity distribution rates and, subsequently, on October 26, 2009, SEC submitted its interrogatories to KW Hydro as per the Board's Procedural Order #1 dated October 15, 2009. KW Hydro now submits its responses to those interrogatories.

Note that KW Hydro will be submitting an Addendum to its 2010 rate application to adjust its LRAM and SSM claim (Exhibit 10) to comply with certain recent decisions of the Board.

Should you require any further information or clarification of any of the above, kindly contact the writer.

Respectfully submitted,

Original Signed by

J. Van Ooteghem, P.Eng. President & CEO

cc All Intervenors

EB-2009-0267

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

AND IN THE MATTER OF a review of an application filed by Kitchener-Wilmot Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution commencing May 1, 2010.

INTERROGATORIES

OF THE

SCHOOL ENERGY COALITION

1. Ref. Exhibit 1, p. 68

(a) With respect to the 2008 change in accounting policy regarding income taxes, please:

(i) Whether there are any rate base or revenue requirement impacts for 2010 as a result of the move to the future tax method and if, so, please state what they are.

Response

The 2008 change in accounting policy regarding income taxes has no effect on rate base or revenue requirement for 2010 as the OEB accounts that are used to book income taxes are not included in the rate base or revenue requirement calculation

(ii) If there is a material impact on 2010 revenue requirement resulting from the change, please:

(A) State whether the taxes payable method remains permissible for rate-regulated enterprises.

Response

N/A

(B) Provide a more detailed explanation for prompted the change to a future tax method;

Response

N/A

(C) Provide copies of any accounting or professional reports or opinions obtained by KWHI regarding the change.

Response

N/A

2. Ref: Exhibit 1: 2008 Annual Report: the report states that controllable operating costs were $158.68 per customer, including CDM costs funded by OPA of $5.72 for a total net KW cost per customer of $149.22. Please provide the equivalent projected figures for 2010.

Response

Note that controllable operating costs of $158.68 were the budget amounts for 2008 and that the actual was $154.94. Also note that the customer count used in KW Hydro's Annual Report mentioned above does not include USL, Embedded Distributor or Street Light rate classes. For the purposes of this calculation, the same customer count methodology has been used.

2010 Gross Controllable Operating Costs per Customer	**$162.77**
2010 CDM Costs funding by the OPA	**($ 11.95)**
2010 Net Controllable Operating Costs per Customer	**$150.82**

Rate Base and Capital Expenditures

3. Ref: Exhibit 2: New Development Spending

Preamble

In the years 2009 to 2012, KWHI plans on significantly increasing its spending in the category "System Expansion to Supply New Development". In 2010, for example, spending in this category in areas of Transformer Stations ($6,542,600), Poles ($929,600), and Underground Ducts and Cables ($1,011,400 + $450,000 for new Residential U/G Services) is significantly higher than previous years . In total $8,393,600 is being spent on "System Expansion to Supply New Development" in 2010. The Company's Annual Report for 2008, however, as well as its load forecast evidence in the current proceeding, show a decrease in overall consumption, average use and peak demand. The 2008 Annual Report [Exhibit 1, pg. 214], for example, states that overall consumption was down 2.1% in 2008 and peak demand was down almost 6% (from 371 MW in 2007 to 351MW in 2008). In addition, the number of both residential and general service customers is projected to increase at a much slower rate in 2010 than in previous

years. Residential and GS<50kW customers, for example, are projected to increase by 1.5% and 1.0% respectively in 2010, vs. 2.09% and 2.11% respectively in 2007 [see load forecast evidence, Exhibit 3, pp. 29, 41.]

Please:

(a) Confirm that the above figures are correct;

Response

A total of $8,933,600 is being spent on "System Expansion to Supply New Development" in 2010. The other figures are correct.

(b) Provide KWHI's peak demand from 2004 to 2012 or as far forward as projections are available.

Response

KW Hydro operates two independent distribution systems that are not interconnected.

The City of Kitchener is serviced by a 13.8 kV distribution system fed by seven transformer stations owned and operated by KW Hydro.

The Township of Wilmot is serviced by an 8.3 kV distribution system and a 27.6 kV sub-transmission system. Waterloo North Hydro's Wellesley Distribution Station is also fed from the Wilmot 27.6 kV sub-transmission system. The Township of Wilmot and Wellesley DS are currently supplied with power by Detweiler Transformer Station and the Waterloo Landfill Gas Generating Station (a.k.a. Toromont). On July 27, 2005, the demand on this system exceeded the capacity of Detweiler TS and came within 1 MW of exceeding the combined capacity of Detweiler TS and Toromont, which would have required public appeals to reduce consumption and possible rotating blackouts. KW Hydro's new Wilmot Transformer Station (a.k.a. 9TS) is under construction to supply power to this system.

City of Kitchener Distribution System Demand (extracted from billing data)

Year	System
2004	316 MW
2005	361 MW
2006	356 MW
2007	345 MW
2008	326 MW
2009	317 MW

Although Kitchener's customer base continues to grow, conservation efforts and plant closures, particularly in the auto sector, have combined to shrink total demand on the distribution system serving the City of Kitchener. KW Hydro has no current plans to expand transformer station capacity of the 13.8 kV system and is not in a position to reasonably prepare a demand forecast for this distribution system until these negative effects begin to reverse and the demand starts growing again.

Township of Wilmot Distribution System Demand

(Moderate Growth Scenario - 2.5% P.A. yielding 85% increase in demand as population doubles over 25 years)

Year	Wilmot System	Wellesley D.S.	Total
2004	29.80 MW	4.38 MW	34.18 MW
2005	30.52 MW	4.28 MW	34.80 MW
2006	30.04 MW	3.93 MW	33.97 MW
2007	30.31 MW	4.22 MW	34.53 MW
2008	29.41 MW	4.00 MW	33.41 MW
2009	30.02 MW	4.16 MW	34.18 MW
2010	30.77 MW	4.27 MW	35.04 MW
2011	31.54 MW	4.37 MW	35.91 MW
2012	32.32 MW	4.48 MW	36.80 MW

The Township of Wilmot's distribution system is largely rural and has been much less affected by the downturn in manufacturing activity. The Township of Wilmot has been targeted by the Province and the Region to absorb migration and is expected to double in population over the next 25 years.

(c) Provide any business cases or cost-benefit analysis performed for the capital projects in the "System Expansion to Supply New Development" category. If none is available, please provide a more fulsome explanation/description for the New Development projects.

Response

The majority of the expenditures for System Expansion to Supply New Development are related to the construction of the new Wilmot Transformer Station and the installation of pole lines, ducts and cables required to connect it to the existing distribution system. Please refer to Exhibit 2, pages 3 & 4 for an explanation of the justification for construction of the new transformer station.

The other major group of expenditures is related to a multi-year project to reinforce the feeders supplying power to the downtown area of Kitchener. This is an area that has been targeted to absorb a significant increase in population through redevelopment and intensification. The University of Waterloo is developing a new campus to house its School of Pharmacy and Medical School. Abandoned factories are being converted into residential and retail uses. This development activity is ongoing despite the current economic downturn. Furthermore, the additional feeder capacity will need to be in place by the time the economy rebounds.

The remainder of the projected expenditures are customer driven, are necessary to meet expected demand for servicing new developments and connecting new customers and represent a significant reduction in such activity compared to 2006 and 2007. Please read the response to Question #7 in the Energy Probe Interrogatories for additional details.

OM&A

4. Exhibit 4, p. 6, Table 3: please explain why the Closing Balance for a year do not match the Opening Balance for the subsequent year (for example, the Closing Balance for 2006 actual is $12,838,999, but the Opening Balance for 2007 is $12,662,510). Ordinarily in these types of variance tables, these two figures are the same.

Response

The closing balance for a year does not match exactly the opening balance for the subsequent year because it excludes minor cost variances. KW Hydro identified all costs that it considered to be true *cost drivers*.

Ex. 4: Over-Time expenses:

(a) Over-time expenses increased by $401,416 in 2008. Please provide the major drivers for this increase. If the increase is related to storm activity, please provide the number of storm incidents in 2008 versus 2007 and 2006.

(b) KW Hydro has projected no change in over-time costs for 2009 or 2010. Please state what assumptions were made in determining that over-time costs will remain at the same level as 2008.

Response

Overtime costs are the result of several activities which include the following:

- **Emergency repairs due to storms, vehicle accidents, equipment failure and wildlife contacts**
- **Planned outages to suit our customers' schedules to maintain utility-owned equipment, transfer customer services to new poles and isolate a customer's equipment for their own work**

- **Planned work to meet customer schedules for road work projects or new service installations**

Generally KW Hydro does not maintain a listing of storm activity throughout the year, although KW Hydro does maintain a work order system to capture costs when damage of a significant nature occurs. Many of the storms that occur mostly cause numerous momentary outages but do not result in significant damage to the distribution system. On occasion; however, a major storm event will occur that is memorable in terms of the damage caused and the amount of around-the-clock labour required to restore power to KW Hydro's customers. These storms are usually accompanied by high winds and result in multiple poles being broken.

- **In 2008, there were two such events: December 28, 2008 (Notre Dame Drive) and July 22, 2008 (Stirling Avenue, Samuel Street, Fairview Street, Chestnut Street).**
- **In 2007, there was one major storm on May 15, 2007 (Glasgow Street and Gordon Street).**
- **In 2006 there were no major storm events**

It is worth noting though, that July 22, 2008 was no ordinary major storm. Although there were no reports of a tornado, the damage was tornado-like (downed power lines, broken and uprooted trees, etc.) for a two kilometre long swath that ran roughly along Stirling Ave. Accompanying this was widespread wind damage over a much larger area. Everyone KW Hydro could put in the field worked around the clock for several days to restore power to the worst hit areas. Cleanup efforts continued on for perhaps another week. This was much, much more severe and widespread than the May 15, 2007 storm and far worse than the tornado that went through Gravenhurst this year.

Most of these overtime costs are non-discretionary and outside the control of KW Hydro. The frequency and severity of storms is difficult to predict. Although the number of new service installations will be less than 2006 and 2007, the advance of stimulus monies to municipalities is expected to result in significant pole line and underground cable relocation work in 2009 and 2010 and hence a similar amount of overtime is budgeted for these years

5. Ex. 4: A/R Credit Insurance: the evidence states that the insurance was purchased in 2007. What was the reason for the $53,254 increase in 2008?

Response

The A/R Credit Insurance was purchased in November of 2007; thus there was only two months of coverage in that year. 2008 was increased due to a full year's worth of insurance coverage.

6. Ex. 4, p. 36-37: IFRS Implementation Costs- does KW Hydro anticipate additional IFRS *implementation* costs after 2010? If so, is the decision not to amortize them based solely on the fact the amount is "not considered to be of a material nature."?

Response

See Energy Probe interrogatory #21 b)

Cost of Capital

7. **Cost of Debt**

(a) Ex. 5, pp. 9 and 11: please explain how the term "the Ontario Energy Board Established Rate", as it appears in the two Promissory Notes filed in evidence (with the Town of Wilmot and the City of Kitchener, respectively) has been defined by the parties up to now.

Response

This is the OEB deemed long-term debt interest rate applicable to KW Hydro as established and approved by the OEB through its rate rebasing process

(b) Pg. 8: please explain how the "actual long-term debt rate" for 2006, 6.33%, was determined and why it differs from the deemed long-term debt rate for that year, 6%.

Response

The actual long-term debt rate for 2006 was 6.33% because the deemed interest rate from January to April of 2006 was 7% and from May to December of 2006, it was 6%. The new rate of 6% was set during the 2006 EDR. Due to the fact that two different rates were used throughout the year, the average rate for the calendar year is 6.33%

Cost Allocation

8. Ex. 7: please explain the large change in the revenue to cost ratio for the Street Lights rate class from the original Cost Allocation Model (29% or 26.15% revised) and the 2010 cost allocation model (127.88%). What changes to the model caused the R/C ratio to change so dramatically?

Response

The large change in the revenue to cost ratio for the Street Light rate class originates from a change to the number of street light connections used in the model due to KW Hydro's "daisy chain" configuration. Please refer to the KW Hydro's 2010 rate application Exhibit 7, pages 11 and 12 for further detail

Rate Design

9. Ex. 8: Bill Impacts/Rate Design

The billing impacts for the GS<50kWh rate class show that higher volume users within the class face much larger distribution rate impacts than smaller volume users. It appears that this is the case because the fixed charge for this rate class is not being increased, which means that all of the increase in revenue from this class is being derived through an increase in the variable distribution rate.

(a) Please explain why the fixed charge has not been increased so as to distribute the increased revenue from this rate class more equitably across different users.

Response

KW Hydro's current monthly fixed charges for all rate classes except Residential and Street Lights already exceed the ceiling as calculated by the cost allocation model. In its Report of the Board (EB-2007-0667), the Board ordered that *"Distributors that are currently above the value are not required to make changes to their current MSC to bring it to or below this level at this time"*. KW Hydro therefore proposed to maintain its current monthly charge for those classes unchanged.

(b) Are the Floor and Ceiling rates for fixed charges set out in Table 3 current or are they based on the 2006 cost allocation study?

Response

The Floor and Ceiling rates for fixed charges are based on current rates