



**Jerry Van Ooteghem**  
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November 16, 2009

**BY COURIER**

Energy Probe Research Foundation  
225 Brunswick Avenue  
TORONTO, ON M5S 2M6  
Attn: David MacIntosh

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

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Dear Mr. MacIntosh:

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, Energy Probe submitted its interrogatories to the 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



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

November 16, 2009

**BY COURIER**

Aiken & Associates  
578 Mcnaughton Avenue West  
CHATHAM, ON N7L 4J6  
Attn: Randy Aiken

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

Dear Mr. Aiken:

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, Energy Probe 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.

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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.

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

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**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.**

**Response**

**Confirmed, no adjustments were made.**

- b) Please provide the estimated costs of the provincial sales tax included in the OM&A forecast for 2010.**

**Response**

**See below**

- 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.**

**Response**

**See below**

- 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?**

Response

The HST harmonization will not reduce KW Hydro's compliance costs because it will still have to file HST return (similar to GST return). As for the PST collected and self-assessed, KW Hydro files bi-annually to the Ministry of Finance and it is very insignificant in amount and volume.

- 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.

Response

Confirmed, no adjustments were made.

- f) Please provide the estimated costs of the provincial sales tax included in the capital expenditures included in rate base forecast for 2010.

Response

See below

- 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.

Response

KW Hydro does not have data on provincial sales tax at such a granular level. PST costs are embedded in those costs for which it is applied and, in order to get more detailed information, it would require significant time and effort. Total *estimated* provincial sales tax paid for the years 2006 – 2009 is as follows:

Jan – Dec 2006 - \$844,868  
Jan – Dec 2007 - \$782,534  
Jan – Dec 2008 - \$822,143  
Jan – Sep 2009 - \$629,210

Note the amounts above are the amounts *actually paid* and embedded in KW Hydro's costs, *both capital and operating*.

Based on preliminary analysis, KW Hydro estimates that between 80 to 90% of the total PST paid is applied to capital with the remainder going to OM&A.

**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.**

**Response**

**There are no costs related to Kitchener Power Corporation, including the Board of Directors included in the costs filed by KW Hydro for recovery through the revenue requirement.**

**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.**

**Response**

**Each year, KW Hydro updates and revises both its Capital and Operating budgets. KW Hydro is currently in the process of updating these budgets for the Bridge 2009 and Test 2010 years. This process should be complete by the end of November 2009.**

- e) Are the capital expenditures shown in Table 1 the gross capital expenditures, or are these figures net of the contributed capital amounts?**

**Response**

**The capital expenditures shown in Table 1 are the gross capital expenditures before the reduction for contributed capital.**

**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.**

Response

See table below, estimates for Contributed Capital by USoA account are based on 2008 percentages as the exact amounts are unknown.

Contributed Capital Annual \$\$ Change							
Account	Description	2005	2006	2007	2008	2009	2010
1830	Poles, Towers and Fixtures	(108,546)	(228,028)	(69,148)	(324,634)	(118,454)	(118,454)
1835	Overhead Conductors and Devices	(71,172)	(161,181)	(55,495)	(217,407)	(91,416)	(91,416)
1840	Underground Conduit	(624,917)	(1,241,809)	(799,039)	(623,048)	(481,373)	(481,373)
1845	Underground Conductors and Devices	70,437	1,032,864	93,025	(768,051)	(124,942)	(124,942)
1850	Line Transformers	(1,070,616)	(1,742,402)	(1,420,354)	(737,097)	(634,174)	(634,174)
1855	Services	(2,157,819)	(2,648,758)	(2,907,864)	(1,817,290)	(1,338,321)	(1,338,321)
1860	Meters	(29,435)	(583)	(3,478)	(11,054)	(11,320)	(11,320)
		(3,992,068)	(4,989,896)	(5,162,355)	(4,498,583)	(2,800,000)	(2,800,000)

Note KW Hydro is now forecasting Contributed Capital to decrease to \$2M for both 2009 and 2010, although the amounts above are based on its forecasted amounts at the time of filing its 2010 rate application.

- 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.

Response

See Board Staff Interrogatory #3 a)

- c) What is the most recent year-to-date level of contributed capital for 2009?

Response

See Board Staff Interrogatory #3 b)

- f) 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.

Response

At the end of 2007, there was \$92,858 misclassified as WIP for capital account 1815 pertaining to Transformer Station #9. This amount was still classified as WIP at the end of 2008 but was moved to be classified to the correct capital account 1808.

- 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).

Response

Archiving software for the JD Edwards database was purchased in 2008 but not yet put into service. A large truck was also not yet put into service as it was purchased in 2008 but the utility body and aerial device was not yet finished and installed on the chassis.

**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.**

**Response to Energy Probe Interrogatory # 5**

		Application (2010)	Per New RPP Price	Variance	Impact on Working Capital
Commodity Price (\$/kWh)		0.06072	0.0607		
RPP Price (\$/kWh)					
First Tier			0.058		
Second Tier			0.067		
Consumption (kWh)		1,918,855,997			
Non-RPP Consumption	47.50%		911,456,599		
RPP Consumption					
First Tier	36.75%		705,179,579		
Second Tier	15.75%		302,219,820		
<b>Commodity Charge (\$)</b>		<b>116,512,936</b>	<b>116,474,559</b>	<b>-38,377</b>	<b>-5,757</b>
Non-RPP Consumption			55,325,416		
RPP Consumption					
First Tier			40,900,416		
Second Tier			20,248,728		

**Per the above table, using the Regulated Price Plan price as issued by the OEB on October 15, 2009 will reduce the working capital allowance in 2010 by \$5,757.**

- g) **Does KW Hydro intend to update the transmission related cost of power to reflect 2010 transmission rates when they are approved by the Board?**

Response

Yes

**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?**

Response

**Smart meters costs are not included.**

- 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.**

Response

**These costs are related to metering requirements in the General Service >50 kW rate classification, which are not covered under the Smart Metering mandate.**

- c) Please provide a breakout of the \$724,000 cost into the four primary drivers noted on page 310 of Exhibit 2.**

Response

**New Meters for New Customers - \$102,000  
Replacement Meters (GS>50 kW rate class) - \$322,000  
Retrofit (GS<50kW and GS>50kW rate classes) - \$300,000**

**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.

Response

See Board Staff interrogatory #3 b)

- b) How has the reduction forecast for new housing starts been reflected in the capital expenditure forecasts for 2009 and 2010?

Response

Yes

- c) Which capital expenditure accounts are impacted the most by new housing starts?

Response

The following accounts are impacted most:

1850 – Line Transformers

1855 - Services

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;

Response

### Historic Annual Energy Purchases

	Actual Total Purchased (GWh)	<u>Predicted Purchases (GWh)</u>	Variance		<u>Actual Purchased (GWh) Changes over Last Year</u>	<u>Predicted Purchased (GWh) Changes over Last Year</u>
			GWh	%		
1997	1,835	1,818	(17)	-0.9%		
1998	1,835	1,847	12	0.6%	0.0%	1.6%
1999	1,900	1,910	10	0.5%	3.5%	3.4%
2000	1,917	1,928	11	0.6%	0.9%	1.0%
2001	1,964	1,961	(3)	-0.2%	2.4%	1.7%
2002	2,037	2,015	(22)	-1.1%	3.7%	2.8%
2003	2,013	2,010	(4)	-0.2%	-1.2%	-0.3%
2004	2,010	2,020	11	0.5%	-0.2%	0.5%
2005	2,086	2,088	2	0.1%	3.8%	3.4%
2006	1,984	2,082	98	5.0%	-4.9%	-0.3%
2007	1,979	2,083	104	5.2%	-0.2%	0.0%
2008	1,939	2,081	142	7.3%	-2.0%	-0.1%
<b>Total</b>	<b>17,598</b>	<b>17,598</b>	<b>0</b>	<b>0%</b>		

- b) predicted purchases GWh for 2006, 2007 and 2008 using the model shown on page 10;

Response

Included in the table above.

- c) predicted purchases GWh for all years, including 2006, 2007 and 2008 using the model shown in Table 2.1; and,

Response

**Historic Annual Energy Purchases Using the Model in Table 2.1**

	<u>Actual Total Purchased (GWh)</u>	<u>Predicted Purchases (GWh)</u>	<u>Variance</u>		<u>Actual Purchased (GWh) Changes over Last Year</u>	<u>Predicted Purchased (GWh) Changes over Last Year</u>
			<u>GWh</u>	<u>%</u>		
1997	1,835	1,812	(24)	-1.3%		
1998	1,835	1,843	7	0.4%	0.0%	1.7%
1999	1,900	1,920	21	1.1%	3.5%	4.2%
2000	1,917	1,959	42	2.2%	0.9%	2.0%
2001	1,964	1,985	22	1.1%	2.4%	1.3%
2002	2,037	2,021	(16)	-0.8%	3.7%	1.8%
2003	2,013	1,993	(20)	-1.0%	-1.2%	-1.4%
2004	2,010	1,977	(32)	-1.6%	-0.2%	-0.8%
2005	2,086	2,023	(63)	-3.0%	3.8%	2.3%
2006	1,984	2,016	32	1.6%	-4.9%	-0.4%
2007	1,979	2,015	36	1.8%	-0.2%	0.0%
2008	1,939	2,012	73	3.7%	-2.0%	-0.2%

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.

Response

Historic Annual Energy Purchases Using the Model in Table 2.1 (Removing Population)

	Actual Total Purchased (GWh)	Predicted Purchases (GWh)	Variance		Actual Purchased (GWh) Changes over Last Year	Predicted Purchased (GWh) Changes over Last Year
			GWh	%		
1997	1,835	1,848	12	0.7%		
1998	1,835	1,867	32	1.7%	0.0%	1.1%
1999	1,900	1,919	19	1.0%	3.5%	2.7%
2000	1,917	1,924	7	0.4%	0.9%	0.3%
2001	1,964	1,947	(17)	-0.9%	2.4%	1.2%
2002	2,037	1,989	(48)	-2.3%	3.7%	2.2%
2003	2,013	1,971	(43)	-2.1%	-1.2%	-0.9%
2004	2,010	1,969	(41)	-2.0%	-0.2%	-0.1%
2005	2,086	2,025	(61)	-2.9%	3.8%	2.9%
2006	1,984	2,018	35	1.7%	-4.9%	-0.3%
2007	1,979	2,018	39	2.0%	-0.2%	0.0%
2008	1,939	2,016	76	3.9%	-2.0%	-0.1%

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.907290435
R Square	0.823175934
Adjusted R Square	0.815431815
Standard Error	5147072.993
Observations	144

Using the model shown in Table 2.1, but removing the population variable, the R square for this model is only 82%.

**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-square values for each regression.
  - i) replace the population variable with the number of year-end customers (excluding street lighting and USL connections);

**Response**

**SUMMARY OUTPUT**

*Regression Statistics*

Multiple R	0.928937122
R Square	0.862924177
Adjusted R Square	0.855868804
Standard Error	4548423.569
Observations	144

**ANOVA**

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	7	1.77122E+16	2.53031E+15	122.3073746	1.74987E-55
Residual	136	2.81359E+15	2.06882E+13		
Total	143	2.05258E+16			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>	<i>Upper 95.0%</i>
Intercept	17732571.66	17179736.01	1.03217952	0.303820071	-16241399.92	51706543.24	-16241399.92	51706543.24	111999698.4
Heating Degree Days	41009.55813	2373.474895	17.27827761	4.06595E-36	36315.86734	45703.24891	36315.86734	45703.24891	45856.39998
Cooling Degree Days	272176.5117	23400.79738	11.63107852	3.89381E-22	225900.0134	318453.0101	225900.0134	318453.0101	319748.957
Ontario Real GDP Monthly %	869070.4964	91784.4264	9.468605192	1.19292E-16	687561.2175	1050579.775	687561.2175	1050579.775	1254278.994
Number of Days in Month	3619547.189	492570.8835	7.348276787	1.68191E-11	2645458.345	4593636.034	2645458.345	4593636.034	4605857.469
Spring Fall Flag	-4987843.803	1023283.205	-4.874353238	2.99687E-06	-7011448.503	-2964239.103	-7011448.503	-2964239.103	-2917140.833
Total # of Customers	-1499.906119	238.8449624	-6.279831503	4.25358E-09	-1972.236542	-1027.575697	-1972.236542	-1027.575697	-534.65001
Number of Peak Hours	72374.58066	24444.35407	2.960789246	0.003621816	24034.38556	120714.7758	24034.38556	120714.7758	121085.0927

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,

SUMMARY OUTPUT

*Regression Statistics*

Multiple R	0.941713856
R Square	0.886824987
Adjusted R Square	0.880118319
Standard Error	4148186.915
Observations	144

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	8	1.82028E+16	2.27535E+15	132.2303505	5.2701E-60
Residual	135	2.32301E+15	1.72075E+13		
Total	143	2.05258E+16			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-22153721.2	25470010.78	-0.869796301	0.385955619	-72525564.07	28218121.72	-72525564.07	28218121.72
Heating Degree Days	40771.41755	2164.856687	18.83331021	1.35656E-39	36489.99726	45052.83784	36489.99726	45052.83784
Cooling Degree Days	272826.0844	21339.18252	12.78521725	5.08938E-25	230623.7486	315028.4203	230623.7486	315028.4203
Ontario Real GDP Monthly %	665190.419	122964.1839	5.409627402	2.78872E-07	422005.1056	908375.7324	422005.1056	908375.7324
Number of Days in Month	3599812.296	449288.7331	8.012246983	4.69349E-13	2711257.452	4488367.141	2711257.452	4488367.141
Spring Fall Flag	-5136286.28	933642.3123	-5.501342661	1.82724E-07	-6982743.446	-3289829.118	-6982743.446	-3289829.118
Population	-189.760226	158.0135012	-1.200911472	0.231888364	-502.2623027	122.7418502	-502.2623027	122.7418502
Number of Peak Hours	68956.49338	22304.03667	3.091659793	0.002418558	24845.97296	113067.0138	24845.97296	113067.0138
Dummy Variable	-8065908.61	1453435.168	-5.549548262	1.46075E-07	-10940356.07	-5191461.144	-10940356.07	-5191461.144

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.

Response

SUMMARY OUTPUT

*Regression Statistics*

Multiple R	0.941623488
R Square	0.886654794
Adjusted R Square	0.879938041
Standard Error	4151304.776
Observations	144

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	8	1.81993E+16	2.27491E+15	132.0064618	5.8294E-60
Residual	135	2.3265E+15	1.72333E+13		
Total	143	2.05258E+16			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-34472806.1	18500838.86	-1.863310434	0.06459132	-71061771.69	2116159.52	-71061771.69	2116159.52
Heating Degree Days	40772.30126	2166.70856	18.81762135	1.47204E-39	36487.21853	45057.38398	36487.21853	45057.38398
Cooling Degree Days	272892.652	21358.11948	12.7769981	5.33865E-25	230652.8647	315132.4393	230652.8647	315132.4393
Ontario Real GDP Monthly %	622737.7173	95730.94516	6.505082722	1.39485E-09	433411.3692	812064.0655	433411.3692	812064.0655
Number of Days in Month	3596944.745	449585.0622	8.000587758	5.0049E-13	2707803.852	4486085.637	2707803.852	4486085.637
Spring Fall Flag	-5135775.92	934355.6823	-5.496596231	1.86785E-07	-6983643.912	-3287907.932	-6983643.912	-3287907.932
Total # of Customers	-342.670062	308.0606333	-1.112346158	0.267966226	-951.9191882	266.5790647	-951.9191882	266.5790647
Number of Peak Hours	69176.22749	22318.24903	3.099536501	0.002359366	25037.59939	113314.8556	25037.59939	113314.8556
Dummy Variable	-8054708.81	1515060.682	-5.316426532	4.26707E-07	-11051032.58	-5058385.042	-11051032.58	-5058385.042

- 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?

Response

None of the three regression equations estimated above has an adjusted R-square of 0.9 or greater.

**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.

Response

See below

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

Response

2008 & 2009 Customer Counts as of September 30

	2008	2009	Increase/ Decrease	% Increase/ Decrease
Residential	75,471	76,437	966	1.28%
GS < 50 kW	7,285	7,391	106	1.46%
GS > 50 kW	1,020	1,010	(10)	-0.98%
USL	21	20	(1)	-4.76%
Large Use	4	2	(2)	-50.00%
Street Light	6	6	-	0.00%
	83,807	84,866	1,059	1.26%

- 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.

Response

The revenue forecast will not be impacted by changing the GS<50 kW customer forecast from 1.0% to 1.5% since the revenue requirement is determined by rate base, cost of capital and distribution expenses. However, the proposed rates for GS<50 kW will decrease if KW Hydro keeps the revenue allocation to this class unchanged.

**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.**

<b>Major Accounts Closed in Recent Years and Related Consumption</b>				
<u>Name of Customer</u>	<u>Account Type</u>	<u>Month Account Closed</u>	<u>Billed Demand (kW)</u>	<u>Average Historical Annual Consumption (kWh/year)</u>
GS > 50 # 6	GS>50	Jan-06	1,795	8,190,216
GS > 50 # 7	GS>50	Feb-06	382	1,711,694
			2,177	9,901,909
<b>% Reduction of Whole Class</b>			<b>1.13%</b>	
GS > 50 # 8	GS>50	May-07	4,341	15,564,179
GS > 50 # 9	GS>50	Jun-07	70	229,639
			4,411	15,793,817
<b>% Reduction of Whole Class</b>			<b>2.31%</b>	
GS > 50 # 10	GS>50	Jan-08	465	1,226,794
GS > 50 # 11	GS>50	Jan-08	638	2,509,745
GS > 50 # 12	GS>50	Apr-08	822	3,008,384
GS > 50 # 13	GS>50	Jul-08	138	641,305
GS > 50 # 14	GS>50	Jul-08	448	123,735
GS > 50 # 15	GS>50	Oct-08	107	395,660
GS > 50 # 16	GS>50	Oct-08	1,012	4,405,915
			3,630	12,311,537
<b>% Reduction of Whole Class</b>			<b>1.96%</b>	
GS > 50 # 17	GS>50	Jan-09	432	1,592,596
GS > 50 # 18	GS>50	Jan-09	115	289,924
GS > 50 # 19	GS>50	May-09	1,165	4,555,679
GS > 50 # 20	GS>50	Jul-09	73	570,100
GS > 50 # 21	GS>50	Aug-09	305	766,833
GS > 50 # 22	GS>50	Sep-09	82	198,900
			2,172	6,091,512
<b>% Reduction of Whole Class</b>			<b>1.17%</b>	

**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.

Response

Large User #1 has not yet closed its account; however, it has been reclassified to the GS > 50 kW rate classification and is no longer of the Large Use category due to substantial consumption reduction. Production activities have ceased for this customer since December 2008. A final closing date has not yet been released

- 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.

Table 16 Billed Demand of Large User Customers				
	<u>Large User # 1</u>	<u>Large User # 2</u>	<u>Large User # 3</u>	<u>Large User # 4</u>
<b>Average</b>	<b>1,972</b>	<b>4,262</b>	<b>5,086</b>	<b>6,295</b>
<b>Oct-09</b>	<b>1,378</b>	<b>4,435</b>	<b>4,823</b>	<b>6,568</b>
<b>Sep-09</b>	<b>1,426</b>	<b>4,491</b>	<b>4,942</b>	<b>6,673</b>
<b>Aug-09</b>	<b>1,521</b>	<b>4,413</b>	<b>4,990</b>	<b>6,817</b>
<b>Jul-09</b>	<b>1,378</b>	<b>4,158</b>	<b>4,908</b>	<b>6,887</b>
<b>Jun-09</b>	<b>1,473</b>	<b>4,058</b>	<b>5,153</b>	<b>6,414</b>
<b>May-09</b>	<b>2,043</b>	<b>4,014</b>	<b>5,157</b>	<b>5,991</b>
<b>Apr-09</b>	<b>2,091</b>	<b>4,136</b>	<b>5,114</b>	<b>5,884</b>
<b>Mar-09</b>	<b>2,233</b>	<b>4,346</b>	<b>4,966</b>	<b>5,838</b>
<b>Feb-09</b>	<b>2,519</b>	<b>4,236</b>	<b>5,676</b>	<b>5,998</b>
<b>Jan-09</b>	<b>3,659</b>	<b>4,335</b>	<b>5,131</b>	<b>5,876</b>

**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.

Response

**Confirmed**

## 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.

### Response

The years 2000 through 2008 were used because they are the historical years that were available to KW Hydro for analysis. In addition, the same methodology was used by Horizon Hydro in its 2008 Cost of Service Application and approved by the Board per EB-2007-0882.

- b) Please calculate the kW/kWh ratios for 2010 based on the compound annual growth rates between 2000 and 2008.

kW/kWh Ratio			
	General Service > 50 kW	Large User	Streetlighting
2008	0.2658%	0.2245%	0.2616%
Compound Growth	3.5%	2.8%	-1.1%
2009	0.2751%	0.2308%	0.2587%
2010	0.2847%	0.2373%	0.2559%

- 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?

	Application (2010)	Using Compound Growth Rate	Variance	Impact on Working Capital	Impact on Revenue Requirement
<b><u>Billed Demand</u></b>					
GS>50 (kW)	2,231,346	2,231,346			
Large User (kW)	140,928	140,928			
Street Lighting (kW)	46,815	46,815			
<b><u>kW/kWh Ratio</u></b>					
GS>50	0.2524%	0.2847%			
Large User	0.1966%	0.2373%			
Street Lighting	0.2805%	0.2559%			
<b><u>kWh Consumption</u></b>	1,861,211,165	1,750,223,001	-110,988,164	-1,149,407	-86,435
GS>50 (kWh)	884,051,506	783,753,425			
Large User (kWh)	71,682,604	59,388,116			
Street Lighting (kWh)	16,689,726	18,294,131			
Residential (kWh)	650,038,341	650,038,341			
GS<50 (kWh)	235,461,608	235,461,608			
Unmetered Scattered Load (kWh)	3,287,380	3,287,380			

Using the kW/kWh ratios calculated in (b) above, the revenue forecast is reduced by \$86,435 and the working capital allowance is reduced by \$1,149,407.

- 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?

	Application (2010)	Using 2008 Ratios	Variance	Impact on Working Capital	Impact on Revenue Requirement
<b><u>Billed Demand</u></b>					
GS>50 (kW)	2,231,346	2,231,346			
Large User (kW)	140,928	140,928			
Street Lighting (kW)	46,815	46,815			
<b><u>kW/kWh Ratio</u></b>					
GS>50	0.2524%	0.2658%			
Large User	0.1966%	0.2245%			
Street Lighting	0.2805%	0.2616%			
<b><u>kWh Consumption</u></b>	1,861,211,165	1,808,940,084	-52,271,081	-541,326	-6,106
GS>50 (kWh)	884,051,506	839,483,070			
Large User (kWh)	71,682,604	62,774,165			
Street Lighting (kWh)	16,689,726	17,895,520			
Residential (kWh)	650,038,341	650,038,341			
GS<50 (kWh)	235,461,608	235,461,608			
Unmetered Scattered Load (kWh)	3,287,380	3,287,380			

Using the 2008 kW/kWh ratios, the revenue forecast is reduced by \$6,106 and the working capital allowance is reduced by \$541,326.

#### 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.

#### Response

The reduction to the specific line was from an IRM Adjustment in 2008.

**Interrogatory # 16**

**Ref: Exhibit 3, page 61**

- a) **What is the reason for the decline in standby charges in 2008?**

**Response**

Prior to 2008, a Large Use customer was billed monthly standby charges for on-site load displacement generation based on the nameplate rating of the generators (approximately 4,075 kW). The customer advised us on March 1, 2007 that they planned to shut down the generators on March 31, 2007 (except for DR) due to the high cost of fuel...i.e. natural gas. KW Hydro agreed to only charge a Standby charge going forward on occasions when the billed peak plant demand for the month is reduced by the on-site generation. Since the generators have been enrolled in the DR program, the generators have seldom reduced the peak plant demand and hence there have been no Standby charges.

- b) **What is the most recent year-to-date standby charges revenue for 2009?**

**Response**

**Zero**

**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?**

**Response**

**KW Hydro did not adjust its 2009 and 2010 forecast *specifically* for the expected changes from the OEB for low income customers. Refer to Board Staff Interrogatory #12**

- b) **In the absence of any changes from the OEB, what would the forecast be for 2009 and 2010?**

**Response**

**N/A**

- c) **Given the high unemployment rate in the Kitchener area, why is KW Hydro not forecasting a significant increase in late payment charges?**

Response

There are two reasons that KW Hydro did not estimate a significant increase in late payment charges for 2009 and 2010. The first is that historically, late payment charges have fluctuated year-to-year and KW Hydro looks at historical costs when estimating for the future. For example, actual late payment charges for 2008 were \$207,836. However, 2005 late payment charges were only \$181,399. In addition, due to the expected changes from the OEB for low income customers and the creation of arrears management programs, KW Hydro estimated a small reduction in late payment fees to \$200,400 for 2009 and 2010.

- 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?

Response

September 2008 and 2009

	2008	2009	Increase
Late Payment Charges *	152,763	158,896	6,133

\* excludes late payment charges to retailers

**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?

Response

September 2008 and 2009

	2008	2009	Increase
Unsealing Meters Revenue	6,720	5,370	(1,350)
Reconnection Charges Revenue	25,375	28,050	2,675
Change of Occupancy Charges	123,072	111,040	(12,032)
Returned Cheque Charges Revenue	18,680	18,280	(400)
	173,847	162,740	(11,107)

- h) 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?

Response

May 1, 2010

- i) Please explain why KW Hydro assumes 8 months collection for these charges rather than 12.

Response

Since the new Specific Service Charges would be in effect from May 1, there would only be 8 months of collection of the new charges. The difference between a full year of collection and the 8 months included in the accounts is \$11,113. A full year of collection should have been included for calculation of annual revenue.

**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?

Response

4082 & 4084	Actual			Bridge	Test
	2006	2007	2008	2009	2010
Retailer Services Revenue	62,408	57,852	56,739	74,500	63,700
Service Transaction Request Revenue	3,578	8,253	5,291	6,400	7,000
<b>Total</b>	<b>65,986</b>	<b>66,105</b>	<b>62,030</b>	<b>80,900</b>	<b>70,700</b>

There was a problem with the table outlining Retailer Services Revenue and STR Revenue in the initial filing. For KW Hydro, revenue is reduced by the excess of revenues over costs and this calculation was not properly computed in the table. See the corrected numbers above. Overall revenue for Retailer Services and STR Revenue is unchanged from the original rate application. KW Hydro expected increased revenues for Retailer Services and STR Revenue of 10% for both 2009 & 2010 due to an increase in new retailers and retailer activities. Costs are expected to only slightly increase as much of the retailer infrastructure has already been built into KW Hydro's system. Since the difference between revenues and costs are transferred to a variance account, it appears as if revenues are decreasing; however, they are, in fact, expected to increase.

- 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?

Response

There are no tables on page 64 of Exhibit 3. The closest table is Table 31 on page 65 of Exhibit 3 and the September values for both 2008 and 2009 are shown below.

Summary of Other Revenues

	September 2008 Actual	September 2009 Actual	2009 Actual vs. 2008 Actual	
			\$	%
<u>Other Revenue</u>				
Late Payment Charge	152,844	159,818	6,974	4.6%
Specific Service Charges	173,847	162,740	(11,107)	-6.4%
Other Distribution Revenue	705,341	779,927	74,586	10.6%
Other Income and Deductions	997,490	679,561	(317,929)	31.9%
<b>Total Other Revenue</b>	<b>2,029,521</b>	<b>1,782,046</b>	<b>(247,475)</b>	<b>12.2%</b>

**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.

Response

Summary of Table 31 - Other Income and Deductions

		2010 Test
<u>Account</u>	<u>Other Revenue</u>	<u>Amount</u>
4355	Gain on Disposition of Utility and Other Property	30,000
4375	Revenues from Non-Utility Operations	2,303,324
4380	Expenses of Non-Utility Operations	(2,222,956)
4390	Miscellaneous Non-Operating Income	75,000
4405	Interest and Dividend Income	256,500
		\$ 441,868

- 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.

Response

Street lighting capital and maintenance services revenue has been adjusted. See Board Staff Interrogatory #9

- 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.

Response

Scrap sales have decreased due to:

- Higher volumes of materials recovery from overhead pole line rebuilds in 2006
- Reduced revenue due to fluctuating market prices for scrap steel, aluminum and copper

Other miscellaneous non-operating revenue is predominantly the balances from Unclaimed Credits from customers. This balance is generated when KW Hydro issues cheques to customers for overpayments and the cheques do not get cashed before they become stale-dated. After a number of years, the outstanding balance is transferred to income. The balance from Unclaimed Credits is therefore hard to predict each year.

A/P Discounts have decreased due to the fact that fewer vendors are offering discounts for prompt payment

- 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.

Response

See below

Gain on Disposition of Utility and Other Property	September 2008	September 2009	\$ Increase/ Decrease	% Increase/ Decrease
Proceeds on Disposal of Assets	35,052	27,672	(7,381)	-21%
Net Book Value of Assets Disposed	(9,026)	(7,161)	1,865	-21%
<b>Total</b>	<b>26,026</b>	<b>20,511</b>	<b>(5,515)</b>	<b>-42%</b>

4375 & 4380 - Non-Utility Operations	September 2008	September 2009	\$ Increase/ Decrease	% Increase/ Decrease
Ontario Power Authority Programs Revenue	283,367	690,012	406,645	144%
Streetlighting Capital & Maintenance Services	860,790	922,989	62,199	7%
Expenses of Above Activities	(1,144,157)	(1,613,001)	(468,844)	41%
<b>Total</b>	<b>(0)</b>	<b>-</b>	<b>0</b>	<b>48%</b>

Miscellaneous Non-Operating Revenue	September 2008	September 2009	\$ Increase/ Decrease	% Increase/ Decrease
Scrap Sales	56,015	48,535	(7,479)	-13%
Other Misc. Non-Operating Revenue	365	1,872	1,507	413%
A/P Discounts Taken/Lost	13,066	14,380	1,314	10%
Lease Option Consideration	7,000	7,500	500	7%
<b>Total</b>	<b>76,446</b>	<b>72,287</b>	<b>(4,158)</b>	<b>417%</b>

Interest & Dividend Income	September 2008	September 2009	\$ Increase/ Decrease	% Increase/ Decrease
Interest Revenue	854,706	476,630	(378,076)	-44%
Interest Revenue on PILS returns	10,830	6,325	(4,505)	-42%
<b>Total</b>	<b>865,536</b>	<b>482,955</b>	<b>(382,581)</b>	<b>-86%</b>

Note profit from OPA programs has been removed as it is a non-distribution activity.

- 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.

Response

The table shows revenues to September of each year 2008 and 2009

**2008 & 2009 Charges to Affiliates for Services Provided  
January to September**

Description	2008 Actual	2009 Actual
<b>Revenue</b>		
City of Kitchener Street Lighting Capital	358,193	193,323
City of Kitchener Street Lighting Maintenance	355,849	511,055
Township of Wilmot Street Lighting Capital	-	16,742
Township of Wilmot Street Lighting Maintenance	12,248	9,389
<b>Operating Revenue from Street Lighting</b>	<b>726,290</b>	<b>730,509</b>

- f) **Please explain why no interest revenue on PILS returns has been forecast for 2009 and 2010 despite revenue for the three previous years.**

*Response*

No interest revenue on PILS returns has been forecast for 2009 and 2010 because it is almost impossible to estimate. In a perfect world, KW Hydro would estimate exactly what its PILS installments have to be and there would be no interest paid or received. The interest amount paid by the Minister of Finance is based on the difference between what was paid in monthly installments and what should have been paid in monthly installments. The interest rate paid is very low and the amounts to be received hard to forecast.

**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?**

*Response*

In the event that the LEAP initiative is cancelled completely and KW Hydro will not be mandated to make additional donations over and above its current levels, KW Hydro agrees that the \$46,976 in LEAP donations should be removed from its 2010 revenue requirement.

The OEB has stated; however, that the Minister is still considering options for low-income energy consumers. Whether the amount should be removed is still to be decided, depending on the timing of the Minister's decision and the monetary effect on KW Hydro. Refer to Board Staff Interrogatory #12

- 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.

Response

The Report of the Board – Transition to International Financial Report Standards was issued just prior to KW Hydro’s rate application filing date of August 31, 2009 and there was insufficient time to incorporate the Board’s report into the rate filing.

In addition, a deferral account was not yet established by the Board for recording IFRS costs at the time of KW Hydro’s rate filing. KW Hydro believes that its estimated IFRS transition costs in its 2010 rate filing are understated. The Board’s recent FAQ on IFRS costs includes both scenarios – (1) distributors who have IFRS costs approved in their rates and (2) distributors who do not.

The IFRS costs that KW Hydro included in its OM&A could be dealt with by (1) moving the full amount out of OM&A and reducing the revenue requirement or (2) leave the amount in the revenue requirement and KW Hydro would record all incremental costs associated with IFRS in the deferral account authorized by the Board

- 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?

Response

Yes, all incremental IFRS transition costs not included in rates should be included in a Board-approved variance account. See above a)

- 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.

Response

Refer to Board Staff Interrogatory #8

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?

Response

Yes, KW Hydro must pay competitive wages within the industry in order to attract and retain skilled and professional staff. The economic wage increase awarded to employees is comparable to other recent settlements within the electrical distribution sector and it is necessary to compete with wages at neighbouring LDC's. Like many other LDC's, KW Hydro is faced with an aging workforce and is competing with other LDC's and local high technology companies for new hires. Other the last three years, several employees have left to take new, higher-paying positions at other LDC's, Hydro One and the IESO

The recent settlement reflects wages that are still well below GTA rates.

- c) **What increase has been budgeted for non-union personnel for 2009 and 2010?**

Response

The same increase has been budgeted for all employees, whether union or non-union (3% annual)

- d) **What is the incremental cost associated with the increase for non-union personnel in 2009 and 2010?**

Response

Note the following estimated amounts include the incremental cost for all employees who are not a member of a union employed by KW Hydro.

2009 - \$48,791

2010 - \$66,107

- e) **Has KW Hydro reached a new agreement with its Outside Union? If yes, please provide the economic increase and term of the new agreement.**

Response

Yes. The economic increase is 3% per annum and it is a three year agreement, expiring March 31, 2012.

**Interrogatory # 23**

**Ref: Exhibit 4, page 9 & 10**

- a) **Have the 2009 positions forecast to be filled actually been filled?**

Response

Not yet. They are expected to be filled by the end of 2009.

- b) Please provide the actual inflationary increases for the first two quarters of 2009 using the Statistics Canada data for the GDP IPP FDD.

Response

KW Hydro has used *Table 30 Implicit Price Indexes, Gross Domestic Product* from Statistics Canada for this calculation. To access this table, the web link is <http://www.statcan.gc.ca/pub/13-019-x/2009002/t/tab0030-eng.htm>. The values for 2009 Q2 and year end 2008 are 114.4 and 112.9 respectively. This calculates to a value of 1.33%.

Using Table 5 from Exhibit 4, page 13 of the original rate filing, total OM&A to the end of Q2 is \$6,666,564. Inflation would then be \$87,502.

- e) 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?

Response

Yes, KW Hydro agrees that the year-to-date inflation factor for 2010 for non-labour expenses should be used as an adjustment when the Board makes its Decision in this case.

**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.**

Response

OM&A Cost per Customer and FTEE					
OM&A	2006 Actual	2007 Actual	2008 Actual	2009 Bridge	2010 Test
Number of Customers	80,961	82,626	84,222	85,426	86,655
Total OM&A	12,662,510.37	13,064,469.80	13,135,656.41	13,861,000.00	14,740,975.59
Number of FTEEs	167	170	171	174	174
FTEEs/Customer	0.002063	0.002057	0.002030	0.002037	0.002008
OM&A Cost per FTEE	75,823.42	76,849.82	76,816.70	79,660.92	84,718.25
OM&A Cost per Customer	156.40	158.12	155.96	162.26	170.11
FTEEs/Customer % Increase from Previous Year		-0.25%	-1.32%	0.32%	-1.42%
OM&A Cost per FTEE % Increase from Previous Year		1.35%	-0.04%	3.70%	6.35%
OM&A/Customer % Increase from Previous Year		1.10%	-1.36%	4.03%	4.84%

**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.**

Response

Detailed, Account by Accounts, OM&A Expense Table				
Expense Description	September 2008	September 2009	\$ Increase / Decrease	% Increase / Decrease
Operation 5005 ~ 5096	2,312,460.63	2,132,917.43	(179,543.20)	-7.76%
Maintenance 5105 ~ 5175	3,035,133.92	2,957,999.04	(77,134.88)	-2.54%
Billing and Collections 5305 ~ 5340	2,017,801.52	2,085,926.13	68,124.61	3.38%
Community Relations 5405 ~ 5520	167,459.28	179,447.47	11,988.19	7.16%
Administrative and General Expenses 5605 ~ 6205	2,380,280.74	2,283,616.55	(96,664.19)	-4.06%
Taxes Other Than Income Taxes 6105	379,891.35	175,860.08	(204,031.27)	-53.71%
<b>Total Operating, Maintenance and Administration Expenses</b>	<b>10,293,027.44</b>	<b>9,815,766.70</b>	<b>(477,260.74)</b>	<b>-4.64%</b>

**Interrogatory # 26**

**Ref: Exhibit 4, pages 27 – 31**

- a) **Has KW Hydro experienced the substantial reduction in billable construction forecast for 2009 (Account 5005)?**

Response

Yes. The balance for Administrative recovery in Account 5005 is 30% lower in 2009 than it was in 2008 (\$76,919 vs \$53,706)

- c) 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?

Response

Administrative recovery is split 3-ways: 5005 (Operation), Engineering (capitalized) and 5615 (Administrative expenses). If the reduction is \$83,103 for account number 5005, then the total reduction expected in Administrative recovery is \$249,309 (\$83,103 x 3). Engineering is capitalized so that portion (\$83,103) will increase capitalization costs.

Based on this split, the overall effect on OM&A expenses (if Administrative recovery declined by \$43,103) would be a reduction to total OM&A expenses of \$86,206.

- d) Please explain what maintenance activities will be undertaken in 2010 when all the meters are relatively new (Account 5065).

Response

Once Smart Metering has been fully deployed, it is expected that the majority of the staff resources from our metering department will be charged to meter maintenance activities and that costs within this account will return to pre-2009 levels. Commencing in 2011, KW Hydro will embark on a five-year program to install interval meters for the remaining General Service >50 kW customers whose meters currently do not support remote interrogation

- e) 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.

Response

See Board Staff Interrogatory #14

- f) Please provide the expenses incurred to date in the same level of detail for the regulatory costs as requested above.

Response

**2010 Rate Rebasing Expense \*  
To September 30, 2009**

Consulting	54,046
Additional Staff	<u>53,453</u>
<b>Total Costs to Date</b>	<b>107,499</b>

\* all costs are incremental

**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.**

Response

**See Board Staff Interrogatory #9**

**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.**

Response

**To date the vacancies have not been filled. It was decided that the Collective Agreement was to be ratified before filling the vacancies. It is anticipated that the job vacancies will be posted in November that that all four vacancies will be filled before Christmas 2009.**

**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?**

Response

See Board Staff Interrogatory #15

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.

Response

See Board Staff Interrogatory #16

- 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.

Response

See Board Staff Interrogatory #16

- 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.

Response

KW Hydro has not historically employed many co-op students and at the time this application was initially filed, the number of co-op students was unknown. In 2009, KW Hydro has employed 3 co-op students and expects to receive a tax credit of \$9,000. For 2010, KW Hydro expects to employ 2 co-op students, earning a tax credit of \$6,000. See Table below.

Co-operative Education Tax Credit				
	2009		2010	
Name of Apprentice	Eligible Costs of Placement	Credit Claimed	Eligible Costs of Placement	Credit Claimed
Co-op 1	13,159	3,000	13,554	3,000
Co-op 2	14,217	3,000	14,644	3,000
Co-op 3	13,262	3,000	-	-
<b>Totals</b>	<b>40,638</b>	<b>9,000</b>	<b>28,197</b>	<b>6,000</b>

**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.**

Response

MUNICIPAL & PROXY TAXES					
CITY OF KITCHENER					
	2006	2007	2008	2009	2010
	FINAL	FINAL	FINAL	FINAL	NOT FINAL
City Levy	0.007069500	0.006903900	0.006722300	0.006153000	-
Regional Levy	0.010875600	0.010574900	0.010213100	0.009276200	-
Education Levy	0.017009800	0.017009800	0.016877600	0.015786300	-
City Levy	0.010876100	0.010621400	0.010242000	0.009466200	-
Regional Levy	0.016731600	0.016269100	0.015712400	0.014271100	-
Education Levy	0.026168900	0.026168900	0.025965500	0.024286600	-
	TAXES	TAXES	TAXES	TAXES	TAXES
				ESTIMATED	ESTIMATED
EBY STREET N. (U.G. TRANSFORMER)	1,171	1,155	1,133	1,046	1,088
OLD #2 & #5 H.T. - 59 GRABER PLACE	57,614	56,845	55,732	51,451	53,509
#6 H.T. - 1425 OTTAWA ST. S.	27,062	26,701	26,178	24,167	25,134
#7 H.T. - '75 FAIRWAY RD. S.	18,401	18,156	17,800	16,433	17,090
#3 H.T.- BLEAMS ROAD & #2 H.T.194 BLEAMS	23,027	22,720	22,275	20,564	21,387
WESTHEIGHTS DRIVE (TRANSFORMER VAULT)	290	286	281	289	300
HALL'S LANE W. (TRANSFORMER VAULT)	140	138	135	110	114
CHARLES ST. E. (TRANSFORMER VAULT)	124	122	120	110	114
#8 H.T. - 665 HURON ROAD	7,094	22,875	11,704	12,138	12,624
301 VICTORIA STREET S.	335,458	330,985	324,500	224,100	233,065
FAIRWAY RD. S.	3,225	10,716	11,071	11,339	11,792
CITY OF KITCHENER TOTAL	473,606	490,699	470,929	361,747	376,217
TOWNSHIP OF WILMOT					
	2006	2007	2008	2009	2010
	FINAL	FINAL	FINAL	FINAL	NOT FINAL
IH-Municipal Levy	0.007483050	0.007186430	0.006796030	0.006034790	-
IH-Regional Levy	0.015708950	0.015281810	0.014665420	0.013217930	-
IH-Education Levy	0.026168900	0.026168900	0.025965520	0.024286590	-
	TAXES	TAXES	TAXES	TAXES	TAXES
				ESTIMATED	ESTIMATED
5 VICTORIA ST. S. TWP OF WILMOT #2 DS	3,900	3,842	3,747	4,136	4,302
TOWNSHIP RD 2 TWP OF WILMOT #5 DS	3,949	3,891	3,794	2,851	2,965
REGIONAL RD 12 TWP OF WILMOT #3 DS	4,775	4,705	4,588	4,212	4,380
81 MILL ST. TWP OF WILMOT #6 DS (BUILDING)	7,107	7,003	6,828	6,268	6,519
25 PEEL ST. TWP (N.H. SERV.CENTRE & # 1DS)	8,836	8,706	8,489	6,415	6,672
HERITAGE DR. NEW HAMBURG #7DS PLAN 885 PT LOT 9	3,215	3,168	3,089	2,836	2,949
REGIONAL RD 5, SOUTH OF ERB #8 DS	5,029	4,956	4,832	4,436	4,613
1805 WILMOT CENTRE RD. NORTH OF BLEAMS RD (#9 DS)		28	225	1,961	2,039
REGIONAL RD 51, C NORTH OF BLEAMS RD L15PT (#9 DS)		10	-	-	-
TOWNSHIP OF WILMOT TOTAL	36,810	36,309	35,593	33,115	34,439
TOTAL	510,416	527,008	506,522	394,862	410,656
Note: MPAC amended its Assessed value of the property at 301 Victoria St. S., Kitchener, for the 2009 tax year.					

d) Please update Table 35 to show the actual 2009 market value assessments.

Response

MUNICIPAL & PROXY TAXES					
	MARKET VALUE ASSESSMENT				
	2006	2007	2008	2009	2010
CITY OF KITCHENER					
EBY STREET N. (U.G. TRANSFORMER)	33,500	33,500	33,500	33,500	33,500
OLD #2 & #5 H.T. - 59 GRABER PLACE	802,000	802,000	802,000	967,500	1,133,000
#6 H.T. - 1425 OTTAWA ST. S.	186,000	186,000	186,000	225,750	265,500
#7 H.T. - '75 FAIRWAY RD. S.	142,000	142,000	142,000	167,000	192,000
#3 H.T.- BLEAMS ROAD & #2 H.T.194 BLEAMS	347,000	347,000	347,000	401,250	455,500
WESTHEIGHTS DRIVE (TRANSFORMER VAULT)	46,000	46,000	8,300	9,250	10,200
HALL'S LANE W. (TRANSFORMER VAULT)	2,600	2,600	2,600	1,000	1,000
CHARLES ST. E. (TRANSFORMER VAULT)	2,300	2,300	2,300	1,200	1,200
#8 H.T. - 665 HURON ROAD	195,000	225,000	225,000	252,750	280,500
301 VICTORIA STREET S.	6,238,000	6,238,000	6,238,000	5,449,250	5,585,501
FAIRWAY RD. S.	244,000	787,000	787,000	820,250	853,500
CITY OF KITCHENER TOTAL - ACTUAL	8,238,400	8,811,400	8,773,700	8,328,700	8,811,401
TOWNSHIP OF WILMOT					
5 VICTORIA ST. S. TWP OF WILMOT #2 DS	79,000	79,000	79,000	95,000	111,000
TOWNSHIP RD 2 TWP OF WILMOT #5 DS	80,000	80,000	80,000	43,000	43,000
REGIONAL RD 12 TWP OF WILMOT #3 DS	80,000	80,000	80,000	41,000	41,000
81 MILL ST. TWP OF WILMOT #6 DS (BUILDING)	65,000	65,000	65,000	39,500	39,500
25 PEEL ST. TWP (N.H. SERV.CENTRE & # 1DS)	179,000	179,000	179,000	89,000	89,000
HERITAGE DR. NEW HAMBURG #7DS PLAN 885 PT LOT 9	33,000	33,000	33,000	34,875	36,750
REGIONAL RD 5, SOUTH OF ERB #8 DS	81,000	81,000	81,000	56,000	56,000
REGIONAL RD 51, C NORTH OF BLEAMS RD L15PT (#9 DS)		12,500	18,700	167,750	187,500
REGIONAL RD 51, C NORTH OF BLEAMS RD L15PT (#9 DS)		5,000	5,000	0	0
TOWNSHIP OF WILMOT TOTAL - ACTUAL	597,000	614,500	620,700	566,125	603,750
TOTAL	8,835,400	9,425,900	9,394,400	8,894,825	9,415,151

e) What increase in the municipal tax rate has KW Hydro forecast for 2010?  
What is the basis for this increase?

Response

A 4% increase was used based on historical trends and actual market value assessments.

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?

Response

KW Hydro used actual market value assessments as issued by the Municipal Property Assessment Corporation (MPAC) as the basis for 2010 taxes, Market values as assessed by MPAC will increase by 5.8% in 2010, 5.5% in 2011 and 5.2% in 2012

**Interrogatory # 32**

**Ref: Exhibit 5, page 4**

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

**Response**

**No**

- 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?**

**Response**

**In the absence of legal advice, it is unclear as to whether KW Hydro has the ability to repay a portion of the promissory note.**

- 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?**

**Response**

**KW Hydro has not taken any action to obtain third-party financing to replace the promissory notes to its Shareholders. See response to VECC Interrogatory #31a) & b) for further discussion**

**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.**

### Response

The \$70K in costs related to the service of the Embedded Distributor *is* included in the Cost Allocation model and has not been removed; however, the Embedded Distributor accounts for less than 1% of total Distribution Revenue. In addition, the revenue requirement is *already* calculated prior to running the Cost Allocation model and this is not recalculated nor added on again later. The percentages for revenue shares are used for the application of Rate Design only. Double recovery of the Embedded Distributors cost does not occur.

### 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.

### Response

Confirmed

- 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.

### Response

KW Hydro tested this scenario in two ways:

- If all other classes were held constant before the adjustments were made by KW Hydro (1) and,
- If the adjustments made to the other rate classes were maintained (2)

The results are shown below:

Revenue to Cost Ratio (%)						
Customer Class	From Cost Allocation Model	Column 1 Revised (Transformer Allowance Removed)	From 2010 Cost Allocation Model before Proposed Adjustments	Proposed for Test Year	(1) Energy Probe Adjustment (no adjustment to other classes)	(2) Energy Probe Adjustment (KW Hydro's adjustment to other classes)
Residential	92.86%	90.28%	88.55%	95.75%	88.66%	95.48%
GS < 50kW	98.06%	95.34%	102.23%	102.23%	102.23%	102.23%
GS > 50kW	131.71%	136.53%	122.09%	107.65%	122.09%	107.65%
Large User	101.15%	117.46%	112.26%	106.24%	112.26%	106.24%
Street Lights	29.02%	26.15%	127.28%	107.80%	120.00%	120.00%
USL	153.04%	150.06%	158.46%	108.03%	120.00%	120.00%

Under Scenario (1), the revenue that would have to be apportioned to the Residential class would be \$74,281, resulting in a revenue to cost ratio of 88.66%. The revenue shortfall for this class under this scenario is \$2,635,927.

Under Scenario (2), the revenue that would have to be apportioned to the Residential class would be \$1,640,856, resulting in a revenue to cost ratio of 95.48% (very close to KW Hydro's original proposed revenue to cost ratio and is a step that moves 50% of the way to a revenue to cost ratio of one (1)). The revenue shortfall for this class under this scenario is \$1,069,352.

### 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?

### Response

Standard Supply Administration charges of \$228,000

### 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.

Response

**Confirmed**

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.

Response

**Confirmed. The tax savings is \$18,750**