KITCHENER WILMOT HYDRO INC.
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December 1, 2009

BY RESS & COURIER

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

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

Dear Ms. Walli:

On November 16, 2009, Kitchener-Wilmot Hydro Inc. (KWHI) submitted its responses to Board Staff interrogatories as per the Board's Procedural Order #1 dated October 15, 2009.

Following discussion with Board Staff, KWHI now submits a revised version of those responses due to a numbering problem in the original document. In the original, interrogatory #9 on page 12 was not numbered, creating discrepancies with subsequent cross-references to the interrogatories.

A copy of this package has been electronically filed through the Ontario Energy Board's RESS system and emailed to the Board Secretary. The original has been couriered to the Board's offices.

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

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November 16, 2009

BY RESS & COURIER

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 26th Floor, P.O. Box 2319
TORONTO, ON M4P 1E4

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

Dear Ms. Walli:

On August 31, 2009, Kitchener-Wilmot Hydro Inc., referred to herein as the Applicant, filed its application for 2010 electricity distribution rates and, subsequently, on October 23, 2009, Board staff submitted its interrogatories to the Applicant as per the Board's Procedural Order #1 dated October 15, 2009. The Applicant now submits its responses to those interrogatories.

Note that the Applicant 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.

A copy of this package has been electronically filed through the Ontario Energy Board's RESS system and emailed to the Board Secretary. The original has been couriered to the Board's offices.

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

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

Rate Base

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

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

Response

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

	2009		2010	
Commodity Price	0.06072	$/kWh	0.06072	$/kWh
Wholesale Market Service Charge	0.0052	$/kWh	0.0052	$/kWh
Uniform Transmission Rates				
Network Service Charge	2.57	$/kW	2.66	$/kW
Line Connection Charge	0.70	$/kW	0.70	$/kW
Transformation Connection Charge	1.62	$/kW	1.57	$/kW

Capital Expenditures

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

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

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

Capital Expenditures

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

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

a) Please confirm or correct the data shown in the above tables.

Response

Confirmed. Note the amounts do not include reductions for contributed capital and WIP amounts are not included for 2009 and 2010 year-ends in the above table

b) Based on the capital expenditures shown in Table 1 through 9 of **Exhibit 2**, forecasted 2010 test year capital expenditures of $22,457,100 are higher than for historical levels, and higher than the forecasts for 2011 and 2012. Analysis of KW Hydro's pre-filed evidence indicates that the new Wilmot Transformer Station is the main project accounting for 2010 being higher than earlier or succeeding years, but there are other projects identified in **Exhibit 2/pg. 16/Table 1** and discussed subsequently, such as Transportation Equipment, Computer Software, and Meters, which are higher than for prior years. Please provide further explanation of KW Hydro's capital expenditure forecasts for 2010, and the prioritization of projects that would justify that all 2010 capital projects should be scheduled for that year, and that KW Hydro has the resources to carry out these projects.

Response

Please reference Exhibit 2 page 225 which provides a breakdown of expenditures forecast for 2010.

The largest single group of expenditures, $6,495,000, is related to the completion of the Wilmot Transformer Station a.k.a. #9TS. Of this amount, $5,226,400 is for materials and labour supplied by contract. This station is scheduled to go into service in the summer of 2010.

The next largest expenditure for stations is $1,704,300 for progress payments for a main power transformer intended to replace Transformer T5 at #3 Transformer Station. This transformer has been ordered and will be delivered and placed into service in 2011.

Pole line and underground duct and cable system expansion projects are required in 2010 as a result of a couple of key initiatives:

- **Installation of pole lines, ducts and cables connecting the new Wilmot Transformer Station to the existing distribution system. These must be completed when the station goes into service in 2010;**
- **Construction of a new feeder to provide additional capacity for redevelopment in the downtown core of the City of Kitchener This area of Kitchener continues to redevelop despite the economic slowdown and the extra feeder capacity will need to be in place by the time the economy recovers and the pace of redevelopment accelerates.**

Some contract assistance will be required to complete the pole line construction program.

During Smart Meter deployment, a majority of the staff resources from KW Hydro's metering department have/will be charged to the Smart Metering accounts. Once the installation of Smart Meters is completed, staff resources will need to be allocated back into meter maintenance activities. These maintenance activities are specific the GS>50kW customer classification, which is not covered under the Smart Metering mandate. These costs will be ongoing from 2010.

Information Technology costs are higher due to the one-time purchase and implementation of an Outage Management System.

Vehicle expenditures for 2010 are comparable to 2009 when you combine the cost of transportation equipment and power operated equipment.

All other expenditures are within normal limits.

c) The 2010-2019 Capital Expenditures Program provided in **Exhibit 2/Appendix B** has sections labelled "System Expansion to Supply New Development", suggesting that, while the forecast estimates may be in constant dollars, the estimates are adjusted for growth in KW Hydro's customer base.

i) Please confirm whether this is the case, or provide an explanation of these sections of that document.

ii) If yes, then this would suggest that the 2010 forecasted capital expenditure may be higher than on a per customer basis than for all years, possibly until 2019. Please provide KW Hydro's perspective on this, and the justification for 2010 capital expenditures to be the higher than for preceding or succeeding years.

Response

Estimates for system expansion for new development are assumed to be relatively constant ($800,000 per year for pole lines and $300,000 per year for underground duct and cable). The projected increase in expenditures in 2010 reflects the system strengthening initiatives already committed and described in the answer to part (b) above.

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

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

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

Response

The Canada Mortgage and Housing Corporation released its *Preliminary Housing Start Data in Centres 10,000 Population and Over* on October 8, 2009. Their data shows that housing starts in Kitchener from January to September 2009 were down 27% from the previous year during the same time period and down 36% September 2009 from September 2008. See table below.

	Single-Detached			All Others			Total		
	2008	2009	%	2008	2009	%	2008	2009	%
January-September	1,009	756	-25%	1,022	731	-28%	2,031	1,487	-27%
September	127	81	-36%	123	79	-36%	250	160	-36%
* Based on Table 1 Prelimimaru Housing Start Data in Centres 10,000 Population and Over									
Canada Mortgage and Housing Corporation									

b) Please provide KW Hydro's 2009 Year-to-Date contributed capital.

Response

Contributed capital has been reconciled to September 30, 2009. Total is $1,780,987

Service Reliability

4. Ref: Exhibit 1/pg. 48

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

	All Service Interruptions			Service Interruptions excluding Loss of Supply (Cause Code 2)		
	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
2006	0.650938	0.914273	0.712	0.650821	0.914187	0.712
2007	1.090562	0.925999	1.178	1.015859	0.842726	1.205
2008	1.100987	1.227771	0.897	1.075164	1.157915	0.929

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

Response

The years 2007 and 2008 fell below the standard performance for service interruptions (SAIDI, SAIFI and CAIDI) due to a higher volume of total customer hours of interruptions.

In 2007, most of the interruptions occurred during the months of May and June. May experienced quite a bit of adverse weather due to a major lightning storm which significantly increased the number of outage minutes. In June of 2007 a truck hit an 8.3Kv line which broke several poles as well as a lightning storm which caused broken insulators. Kitchener also experienced 7 outages in the month of June and 9 outages in total in 2007 due to Loss of Supply.

In 2008, most of the interruptions occurred during the months of July and December. July experienced adverse weather due to a lightning storm. Trees were hit by lightning causing branches to fall into hydro lines. In December there were numerous outages due to defective equipment. Switches, feeders and insulators were broken. Kitchener also experienced 4 power outages due to Loss of Supply.

All of the problems were caused by storms; accidents and defective equipment and were quickly and efficiently repaired.

The following are a few of the couple of initiatives that KW Hydro has undertaken to improve/maintain reliability:

1. **KW Hydro has identified animal contacts, particularly squirrels shorting out fused cutouts and load interrupter switches, as a significant cause of interruptions on some feeders. KW Hydro began experimenting with animal guarding in 2008. In 2008, KW Hydro spent $50,000 on a pilot project to install animal guarding on approximately 50 fused cutouts on the feeder with the highest incidence of outages caused by animal contacts. KW Hydro will spend $80,000 in 2009 and $150,000 in 2010, targeting the two worst feeders. In 2009, KW Hydro also installed animal guarding on 19 Load interrupter Switches and have budgeted to install animal guarding on 20 more in 2010.**

2. **KW Hydro is in the process of replacing approximately 3,300 metres of primary feeder cable in our 4M27 circuit. This cable has had a number of failures in recent years and has been deemed to be at end of life.**

3. **Approximately half of the network transformers in KW Hydro's network distribution system are in excess of 50 years old. A transformer fire in the network distribution system would likely result in an extended outage to a large part of the downtown area of the City of Kitchener. Beginning in 2008, KW Hydro will begin proactively replacing the oldest network transformers.**

4. Large sections of KW Hydro's overhead distribution system were installed in the years immediately following World War II. Approximately 4,000 poles are currently more than 50 years old. KW Hydro is ramping up its pole replacement activity to replace these poles before pole failures seriously decrease reliability

Customer and Load Forecast

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

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

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

a) Please provide further explanation and support for KW Hydro's views that CDM impacts and the economic downturn, the latter of which occurred only in the beginning of the second half of 2008, are major factors for the anomalous model estimates when the data range is extended to 2008.

Response

Based on KW Hydro's internal calculations and those of Enerspectrum Group, the impact from CDM and OPA programs in 2007 accounts for a significant consumption.

The economic downturn significantly reduced the demand for the GS > 50 kW class since in excess of 50% of GS>50 kW customers are manufacturing companies. In 2008, seven GS>50 customers ceased operations, accounting for a kW reduction to the entire rate class of 1.96%.

The number of Large User customers has been reduced from four to two in 2009 and kW demand reduced by more than 40%. As mentioned in KW Hydro's rate application, its second largest Large Use customer closed its operations in August 2007. Following that, in December of 2008, its largest Large Use customer discontinued production at its Kitchener plant.

Combining these two factors, the years from 2006 to 2008 cannot be treated as normal years for the regression model.

b) Please provide KW Hydro's views about whether the poorer fit when more recent data is used, could be indicative that the model is not properly specified.

Response

KW Hydro believes that the model is properly specified and reliable. Weather normalization is performed to remove the fluctuation of weather conditions and, as long as the recent drop in total purchases does not largely result from climate change, the regression equation generated from the data up to December 2005 can still be correctly applied to 2006 ~ 2008.

The regression model itself is being used for weather normalization purposes only and has not been used for load forecasting.

KW Hydro submits that the model can be improved and intends to try to improve it for its next rebasing but believes that the end results are reliable.

c) Please describe what alternative modelling efforts, such as alternative econometric model forms or additional variables, were examined by KW Hydro to improve the system load regression model including data to 2008.

Response

KW Hydro tested three alternative models:

i) replaced the population variable with the number of year-end customers (excluding street lighting and USL connections);

ii) left the population variable in the equation, added a "dummy" variable that had a value of 1 in all months in 2006, 2007 and 2008 and had a value of 0 in all other months; and,

iii) replaced the population variable with the number of year-end customers as in (i) above and added the "dummy" variable as in (ii) above.

A dummy variable is a numerical variable used in regression analysis to represent subgroups used in the sample of a study.

None of the three regression equations estimated above had an adjusted R-square of 0.9 or greater after including 2006 to 2008 data, demonstrating that under the three alternative models, the resulting data and results were less reliable.

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

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

a) Given that Unmetered Scattered Load is not metered and that the consumption is estimated, please explain the difference between the 2006 Board-approved amount of 10,000 kWh per connection per year and the 2006 and 2007 actuals of about 6,000 kWh per connection per year.

Response

See below b)

b) What was the basis for the renegotiation of the assumed or estimated load per connection from 875 Watts to 562 Watts (i.e., review of nameplate ratings, temporary measurement of a sample of devices)? Please provide detailed support for your response.

Response

Unmetered Scattered Load (USL) class was removed from the GS<50 rate classification into its own rate class in 2006. The 2006 Board-Approved amount of 10,000 kWh per connection per year was derived from an estimation based on 2004 actuals of the GS<50 class. Actual billed consumption decreased due to the renegotiation explained below.

Based on a long-standing disagreement with a commercial customer regarding the rated power consumption of its unmetered power supply units, the customer responded to our request by temporarily installing approved test meters at 14 various locations within KW Hydro's service territory.

As a result, the test data substantiated that the average consumption for the approximately 500 installations was 410 kWh per month, compared to the 840 kWh per month being billed based on the service size rating.

Thus the agreed-upon adjustment between the parties for the average monthly kWh per non-metered power supply is 410 kWh per unit (equivalent of 562 watts).

Operating Expenses

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

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

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

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

Response

KW Hydro has amongst the lowest controllable costs per customer in the province and the lowest in its cohort group. Continuous productivity improvements are a long standing commitment of KW Hydro's operations and as such, many efficiency improvements and productivity gains have been implemented over the years. These efficiencies have allowed KW Hydro to delay the hiring of additional staff or redeploy new hires to new areas of responsibility as the need arises. Future efficiencies will increasingly depend on technological improvements which will require additional investments to implement.

The following efficiency improvements and productivity gains have been incorporated into KW Hydro's OM&A expenses:

- **Automated customer bank payment processes to interface to KW Hydro's CIS System to avoid manual keying of payments.**

- **An electronic bill presentment and payment system was launched (e-Bill service) to not only improve customer service, but as a cost containment measure to reduce billing and collecting costs.**

- **A bar-coding system was implemented in the warehouse to improve efficiencies in material issues and returns and prevent manual coding errors**

- **The establishment of a combined Powerline Technician trade position that performs both overhead and underground distribution work which allows us to use our existing staff to operate and maintain an expanding distribution network including an additional transformer station.**

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

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

a) Please provide the historical level of meter maintenance costs for each year from 2006 actual to 2010 test year.

Response

OEB Account	2006 Actual	2007 Actual	2008 Actual	2009 Bridge	2010 Test
5065	520,537	638,218	611,648	220,000	320,000

b) Please provide further details on what meter maintenance KW Hydro will need to catch up on, indicating:

i) For what period maintenance activities have been delayed or deferred;
ii) The reasons for these delays or deferment; and
iii) The types of meters involved (wholesale meters, interval meters, etc.)

c) Please identify if the incremental OM&A expense is needed only for 2010. If KW Hydro expects to incur costs for "catch-up" meter maintenance beyond 2010, please explain the time period involved and the reasons.

Response

During Smart Meter deployment, a majority of the staff resources from KW Hydro's metering department have/will be charged to the Smart Metering accounts. Once the installation of Smart Meters is completed, staff resources will need to be allocated back into meter maintenance activities. These maintenance activities are specific to the General Service > 50kW

customer classification, which is not covered under the Smart Metering mandate. These costs will be ongoing from 2010

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

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

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

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

*** 2 year average**
**** 2% inflation added to Bridge Year**

a) KW Hydro only shows a profit added to streetlighting operating revenue for the 2009 bridge and 2010 test years. Does the absence of this mean that, previously, there was no return factored into the costs of the capital services provided under these arrangements?

Response

That is correct. KW Hydro has always charged under a "cost plus" arrangement for street lighting capital and maintenance services. Revenues have been based on fully allocated costs (labour, materials, applicable overheads plus an administration charge). See correction below

b) Please describe the contractual arrangements under which KW Hydro provides these services to the shareholding municipalities. Please also describe the pricing arrangements and the basis for current pricing.

Response

KW Hydro provides street lighting services in the City of Kitchener and Township of Wilmot on a cost plus basis via an approved Budget and Purchase Order arrangement. The development of a Services Agreement has been initiated but is on hold pending a decision by KW Hydro on the Electrical Safety Authority's requirement for a Master Electrician upon expiry of the current Provisional License. See previous answer for the answer to the second part of this question.

c) Please augment the information in Table 7 by breaking out the capital and operating/maintenance services provided, or estimated to be provided, to each of the shareholding municipalities for each of the 2009 and 2010 years.

Response

KW Hydro has split projected revenue for 2009 and 2010 between capital and operating activities based on the actual average of 2007 and 2008. See table below:

2006 ~ 2010 Charges to Affiliates for Services Provided

Description	2006 Actual	2007 Actual	2008 Actual	2009 Bridge *	2010 Test **
Revenue					
City of Kitchener Street Lighting Capital	96,180	416,429	401,171	408,800	416,976
City of Kitchener Street Lighting Maintenance	441,712	537,857	504,259	521,058	531,479
Township of Wilmot Street Lighting Capital	7,542	20,560	2,888	11,724	11,959
Township of Wilmot Street Lighting Maintenance	27,106	67,862	16,317	42,090	42,932
Operating Revenue from Street Lighting	572,540	1,042,708	924,635	983,672	1,003,345

d) Given that the operating revenue is to recover both operating/maintenance and capital-related expenses for services rendered, please explain why KW Hydro has applied the ROE to determine the profit on these operating revenues. In particular, if a return is appropriate, please explain:

i) why the ROE is preferable to the Weighted Average Cost of Capital;

Response

The weighted average cost of capital should have been used in the calculation

ii) whether the return should only be applied to capital-related costs for the services provided; and

Response

KW Hydro's assets are used to provide the service; thus a rate of return should be applied

iii) whether operating and maintenance expenses include, or should include, overheads.

Response

The operating and maintenance expenses do include all applicable overheads.

e) Please provide further explanation of the calculation of the PILs shown in Table 7. Is this grossed up income taxes or does it also include the Ontario Capital Tax component?

Response

PILS should have been grossed up. Upon receiving its interrogatories, KW Hydro identified an error in the formula and has recalculated the final results. The difference between the original Table 7 and the corrected version is an understatement of $29,916. See corrected version below:

2006 ~ 2010 Charges to Affiliates for Services Provided

Description	2006 Actual	2007 Actual	2008 Actual	2009 Bridge *	2010 Test **
Revenue					
City of Kitchener Street Lighting Capital	96,180	416,429	401,171	408,800	416,976
City of Kitchener Street Lighting Maintenance	441,712	537,857	504,259	521,058	531,479
Township of Wilmot Street Lighting Capital	7,542	20,560	2,888	11,724	11,959
Township of Wilmot Street Lighting Maintenance	27,106	67,862	16,317	42,090	42,932
Unaffiliated Transactions	602,024	498,373	173,288	231,037	237,273
Operating Revenue from Street Lighting	1,174,564	1,541,081	1,097,923	1,214,709	1,240,618
Profit on Street Lighting (7.52% Rate of Return)				91,346	93,294
PILs before Gross Up				30,144	28,912
Grossed Up PILS				44,991	41,895
Total Streetlighting Revenue	1,174,564	1,541,081	1,097,923	1,351,046	1,375,808

f) On **Exhibit 4/page 32**, KW Hydro states: "As a result of recent changes to the Affiliate Relationships Code, KW Hydro is reviewing its provision of services to its shareholders in respect of Street Light Capital and Maintenance services and these services may be outsourced in the future." Please explain further why the recent changes to the *Affiliate Relationship Code* are driving KW Hydro and its shareholders to review the arrangements? If known, what timeframe is contemplated for possible outsourcing?

Response

Currently, KW Hydro provides street lighting services to the municipalities via a provisional Electrical Contractor's License issued by the Electrical Safety Authority which is valid until 2010. Thereafter, KW Hydro will require a Designated Master Electrician on staff with a Master Electrician License to carry out electrical work on the street lighting system. KW Hydro does not currently have a Master Electrician on staff so a decision will have to be made in 2010 whether or not KW Hydro will qualify one of its employees as a Master Electrician so that it can continue to provide street light services to the municipalities. If the decision is to continue providing street light services with our own staff, a Services Agreement will be finalized with the respective municipalities.

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

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

Service Centre Building Maintenance

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

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

a) The cost increases documented in the exhibit account for only part of the annual increases in the costs shown in the table. Board staff has calculated a 14.8% annual increase in expenses over this period. Some of the identified projects, such as warehouse dock size reduction, stairway construction, and catch basin replacements would seem to be one-time costs, which would not recur at least for several years, once completed.

i) Please explain if this is the situation. If so, please identify how these expenses are removed in subsequent years and what new costs are being incurred to explain the observed year-over-year increases.

Response

It is correct that the costs identified above would be considered to be one-time costs. Through the budgeting process, one-time projects of the previous year are replaced by one-time projects in the next year. Where no one-time projects are identified, the costs are removed from the budget

ii) In the alternative, please explain why these costs are ongoing.

Response

N/A

iii) Please explain why costs for projects such as warehouse dock size reduction, stairway construction, and catch basin replacements are not capitalized, as it would seem that these projects replace or refurbish the building and property, which are capital assets.

Response

Other than the warehouse dock size reduction which was driven by vehicle safety issues, these activities would be normal maintenance or repair items due to general use and wear and tear over time, and do not necessarily extend the economic or service life of the building from the current 50 year expectation.

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

Response

The service centre building is only 24 years old requiring increased maintenance but not anywhere near a point where it needs to be reconstructed. It has an estimated 50 years economic life expectancy, housing approximately 80 vehicles. Costs to replace this facility would be prohibitive and unnecessary

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

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

Response

Year	2006 actual	2007 actual	2008 actual	2009 YTD SEPT 30, 2009	2009 Bridge (forecast)	2010 Test (forecast)
Total Purchases from non-affiliates	$12,308,856	$13,916,071.90	$18,507,733	**$12,309.261**	**$16,500,000**	**$16,500,000**

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

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

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

See attached table below

12. Ref: Exhibit 4/pg. 7 – LEAP

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

Response

The LEAP program would be a new program; however, the Board has suspended this initiative as the Minister is exploring alternatives regarding offering Low Income Energy Assistance at a provincial level.

KW Hydro submits that this amount should be removed from the OM&A for 2010

Corporate Cost Allocation

13. Ref: Exhibit 4/page 63

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

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

Response

KW Hydro's parent company is named Kitchener Power Corporation. Assets reside in KW Hydro as the distribution company and there are no fixed assets in the parent company. There are no allocated costs from the parent company to the distribution company.

Regulatory Costs

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

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

a) Please provide further explanation of the additional staff required for this current application.

Response

KW Hydro hired one additional full-time staff position to assist with the preparation of its 2010 rate application at a cost of $53,453. Additional costs are expected as the next phases of the project are completed.

Total incremental costs related to KW Hydro's 2010 rate application to October 31, 2009 are $107,499.

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

Response

For 2008, the actual amount recorded for regular hearing (oral and written was $2,500. KW Hydro expects that this amount would be the same for 2009 and 2010.

Therefore, $74,000 ($76,500 less $2,500) relates to this application.

Regulatory expenses budgeted for the 2010 rate application should then be $302,000, amortizing $75,500 per year for four years ($228K + $74K)

PILs

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

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

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

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

Response

Confirmed

b) In **Exhibit 4/page 66/Table 27**, provides the calculation of the estimated Ontario Capital Tax of $222,170 as 0.150% of the Taxable Capital of $148,113,438, derived as Total Rate Base of $163,113,488 less the Exemption of $15,000,000. Ontario's Economic Statement of December 13, 2007 became Bill 44 and received Royal Assent on May 14, 2008. Bill 44 as enacted eliminates the Ontario Capital Tax effective July 1, 2010.

i) Please provide KW Hydro's reasons for calculating the capital tax allowance for the whole 2010 calendar year.

Response

The Ontario Capital Tax elimination at July 1, 2010 was not included in the calculation and should have been

ii) Please provide KW Hydro's estimates of the Ontario Capital Tax payable for the period January 1 to June 30, 2010.

Response

The Ontario Capital Tax payable for 2010 should be half of what was forecast at $111,085 (from $222,170)

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

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

Number of Apprentices

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

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

Response

See the table showing the detail on the Apprenticeship Training Tax Credit for 2007 and 2008:

Apprenticeship Training Tax Credit

	2007			2008		
Name of Apprentice	Employment Period	Eligible Costs of Placement	Credit Claimed	Employment Period	Eligible Costs of Placement	Credit Claimed
Apprentice 1	Year	63,830	5,000	From Sept 15	13,730	1,475
Apprentice 2	To 05/17/07	25,438	1,885	From Sept 2	16,608	1,653
Apprentice 3	Year	57,868	5,000	Year	56,175	5,000
Apprentice 4	Year	64,232	5,000	Year	64,232	1,475
Apprentice 5	Year	73,732	5,000	To July 7	73,732	2,582
Apprentice 6	To 05/17/07	26,497	1,885	Year	26,497	5,000
Apprentice 7	To 05/17/07	26,706	1,885	Year	26,706	5,000
Totals		338,303	25,655		277,681	22,185

KW Hydro originally estimated a credit of $5,000 per year per apprentice. For 2009 and 2010, KW Hydro expected to increase the number of apprentices that it would employ, estimating a credit of $25,000 ($5,000 x 10 apprentices).

Due to delays on hiring due to Union Contract negotiations, KW Hydro will only employ 5 apprentices in 2009; however, due to recent changes to the ATTC, the amount now deductible for tax purposes is a maximum of $10,000 or 35% of wages paid. The original deduction limit still applies to wages paid prior to March 27, 2009. KW Hydro now estimates its ATTC for 2009 to be $44,175.

Now that contract negotiations are complete, KW Hydro expects to fill its vacant positions. For 2010, KW Hydro estimates that it will employ 10 apprentices and estimating an ATTC of $100,000

Apprenticeship Training Tax Credit				
	2009		2010	
Name of Apprentice	Eligible Costs of Placement	Credit Claimed	Eligible Costs of Placement	Credit Claimed
Apprentice 1	48,110	8,835	55,060	10,000
Apprentice 2	48,110	8,835	55,060	10,000
Apprentice 3	53,456	8,835	61,166	10,000
Apprentice 4	48,110	8,835	55,060	10,000
Apprentice 5	59,384	8,835	67,957	10,000
Apprentice 6	N/A	-	49,554	10,000
Apprentice 7	N/A	-	49,554	10,000
Apprentice 8	N/A	-	49,554	10,000
Apprentice 9	N/A	-	49,554	10,000
Apprentice 10	N/A	-	49,554	10,000
Totals	257,171	44,175	542,070	100,000

Cost of Capital

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

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

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

a) Please provide KW Hydro's estimates of its actual capitalization for the 2009 bridge and 2010 test years.

Response

KW Hydro currently has $76,962,142 in long-term debt and is currently in discussions for a loan from Infrastructure Ontario to assist with its financing of the Smart Meter Initiative (see Board Staff Interrogatory #18 below). If KW Hydro receives the $10M loan, its long-term debt will increase to $86,962,142 with a debt/equity ratio of 53 / 47. The final cost of this new debt is unknown to date.

b) Given that KW Hydro has less debt and correspondingly more equity than the deemed capital structure, please comment on how this factors into the lower actual returns that KW Hydro has reported.

Response

Due to KW Hydro's current capitalization structure, KW Hydro pays less interest on its long-term debt than it would if it was leveraged to the deemed amount. The reduced interest expense increases PILS expense in each year.

c) In **Exhibit 2/page 30**, KW Hydro documents that: "[it] does not capitalize interest costs where capital assets are financed internally from working capital and, to date, KW Hydro has not borrowed funds for the purpose of financing a large project and therefore does not have a policy on capitalization of interest costs. When that occurs, KW Hydro expects that it would then capitalize the interest costs associated with the borrowed funds." Please provide further explanation on why KW Hydro has decided, to date, not to seek debt financing for major projects such as the Wilmot T.S. or smart meters, but is funding capital additions through working capital (when CWIP) or retained earnings when in service.

Response

KW Hydro has effectively controlled its operating costs for many years while still maintaining a reliable and safe distribution system. As a result, sufficient working capital has been available to finance its capital infrastructure investments including the construction of the new Wilmot T.S. which commenced in 2007.

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

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

a) Please confirm whether KW Hydro is forecasting any new debt financing for capital projects in the 2010 year. If new debt is anticipated, please provide any available information on such debt (e.g. principal, term, rate, whether the debt-holder is affiliated or third-party, etc.)

Response

KW Hydro is in the process of conducting discussions with Infrastructure Ontario on the possibility of financing $10M for its Smart Meter program through a ten-year debenture, late in 2010. It is premature to determine the final interest rate to be charged by Infrastructure Ontario

b) The Promissory Notes documented in Exhibit 5/Appendix A each have a term "This Promissory Note is open and may be repaid by Kitchener-Wilmot Hydro at any time without notice or bonus." Please explain, with reasons, whether KW Hydro has taken advantage of, or contemplated, retiring and replacing the existing debt if it could be replaced at a lower rate and with fixed terms. Would such refinancing improve KW Hydro's financial performance metrics, such as the Interest Coverage Ratio and provide it with a better opportunity to improve its actual ROE?

Response

Replacing the existing debt (promissory note held by our shareholders) at a lower fixed rate may improve certain financial performance metrics. However, in the current economic climate of tight liquidity in the financial markets, third party lenders such as banks would require very restrictive financial covenants, possible guarantees from our shareholders, and security interest over our assets (currently unencumbered), which would result in upward cost pressure on financing costs and restrictions on future borrowing if required (i.e. Green Energy Act initiatives).

Please also refer to response to VECC question #31 a) & b) for further discussion.

Retail Transmission Service Rates

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

On **Exhibit 4/page 6**, KW Hydro proposes to reduce its Network Transmission Rate by 5% and its Line and Connection Transformation Rate by 22%. Tables 5 to 8 on the following pages in this Exhibit provide summaries of costs, revenues, rate increases and revenue-to-cost ratios related to the Retail Transmission Service Rates ("RTSRs"). However, the basis for the proposed rate reductions is not shown in these tables. Please provide a detailed derivation of the proposed RTSR rate reductions.

Response

2008 actual revenues and costs were the base used for projected revenue.

Estimated revenue for 2009 was calculated by multiplying 2008's actual revenue by the current rates as approved by the Board.

KW Hydro's cost was estimated by multiplying the 2008 values by the known changes to UTR's effective January 1 and July 1, 2009. Anticipated changes to the UTR's effective January 1, 2010 are not yet known and therefore the values for UTR's effective July 1, 2009 were used throughout 2010.

Following this calculation, the residual values showed the continued trend of increased revenues over costs. The revenues were then decreased until the cost to revenue ratio was equal (or as close to) one (1) as possible.

KW Hydro plans to update the UTR cost ratios following the Board's decision on UTR's effective January 1, 2010 and expects that the applied for values will change upon the Board's decision.

Loss Factors

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

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

Total Loss Factors

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

a) Please confirm or correct the numbers shown in the table.

Total Loss Factors

	Current Board Approved Decision and Order EB-2008-0192		Proposed Tariff Sheets Exhibit 8/pg. 25		Proposed Total Loss Factor Exhibit 8/pg. 11/Table 9
Secondary Metered Customer < 5000 kW	**1.0329**		**1.0320**		**1.0320**
Secondary Metered Customer > 5000 kW	**1.0154**		**1.0154**		**1.0154**
Primary Metered Customer < 5000 kW	**1.0226**		**1.0217**		**1.0217**
Primary Metered Customer > 5000 kW	**1.0053**		**1.0053**		**1.0053**

b) Please confirm the total loss factors that KW Hydro is seeking approval for in this application. As necessary, please update **Exhibit 8/pp. 10-12** to provide the proposed loss factors and their derivation.

Proposed Total Loss Factor	
	Proposed May 1, 2010
Supply Facility Loss Factor	1.0053
Distribution Loss Factor	
Distribution Loss Factor - Secondary Metered Customer < 5,000kW	0.0000
Distribution Loss Factor - Primary Metered Customer < 5,000kW	0.0000
Distribution Loss Factor - Secondary Metered Customer > 5,000kW	1.0100
Distribution Loss Factor - Primary Metered Customer > 5,000kW	1.0000
Total Loss Factor	
Total Loss Factor - Secondary Metered Customer < 5,000kW	0.0000
Distribution Loss Factor - Primary Metered Customer < 5,000kW	0.0000
Distribution Loss Factor - Secondary Metered Customer > 5,000kW	1.0154
Distribution Loss Factor - Primary Metered Customer > 5,000kW	1.0053

Table 10

Loss Factors

		2004	2005	2006	2007	2008	5 Year Average
	Losses in Distributor's System						
A1	"Wholesale" kWh delivered to distributor (higher value)	2,009,932,333	2,085,131,141	1,983,321,474	1,978,989,948	1,939,064,404	1,999,287,860
A2	"Wholesale" kWh delivered to distributor (lower value)	1,999,279,692	2,074,079,946	1,972,809,870	1,968,501,301	1,928,787,363	1,988,691,634
B	Portion of "Wholesale" kWh delivered to distributor for Large Use Customer(s)	238,337,760	234,378,988	183,795,557	159,257,585	148,398,065	192,833,591
C	Net "Wholesale" kWh delivered to distributor (A2)-(B)	1,760,941,932	1,839,700,958	1,789,014,313	1,809,243,717	1,780,389,298	1,795,858,043
D	"Retail" kWh delivered by distributor	1,947,739,693	2,040,872,519	1,917,735,011	1,918,190,357	1,877,404,166	1,940,388,349
E	Portion of "Retail" kWh delivered by distributor for Large Use Customer(s)	235,977,980	232,058,404	181,975,799	157,680,777	146,928,777	190,924,347
F	Net "Retail" kWh delivered by distributor (D)-(E)	1,711,761,713	1,808,814,115	1,735,759,212	1,760,509,580	1,730,475,389	1,749,464,002
G	Loss Factor in distributor's system [(C)/(F)]	1.0287	1.0171	1.0307	1.0277	1.0288	1.0266
	Losses Upstream of Distributor's System						
H	Supply Facility Loss Factor	1.0053	1.0053	1.0053	1.0053	1.0053	1.0053
	Total Losses						
I	Total Loss Factor [(G)x(H)]	1.0342	1.0225	1.0361	1.0331	1.0343	1.0320

c) Please confirm the loss factors used in the calculation of estimated bill impacts as shown in the Bill Impacts (**Exhibit 8/Tables 15 to 18** and **Exhibit 8/Appendix A**).

Response

Confirmed

Embedded Distributor

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

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

Board staff has prepared the following table for the Embedded Distributor rates from 2006 to 2009 and 2010 proposed, based on the Decisions and Rate Orders for KW Hydro's distribution rates in recent years and as proposed in this application. The rates for 2006 to 2009 are taken from the Board-approved Tariff of Rates and Charges publicly available from the Board's website www.oeb.gov.on.ca .

		2006 EDR EB-2005-0386	00	2007 IRM EB-2007-0549	00	2008 IRM EB-2007-0883	2009 IRM EB-2008-0992	2010 CoS EB-2008-0267
Embedded Distributor								
Shared line	per kW	$ 0.1000		$ 0.1005		$ 0.0998	$ 0.0999	$ 0.1400
Dedicated line	per kW	$ 1.1300		$ 1.1360		$ 1.1280	$ 1.1290	$ 1.2900

a) Please confirm or correct the rates shown in the above table.

Response

Confirmed

b) Please explain, as necessary, differences between the numbers shown in the above table and the 2007 and 2008 rates referenced in **Exhibit 3/Table 25**.

Response

The differences are simply caused by rounding due to the number of decimal places used in the table.

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

Response

KW Hydro agrees that as new values are released by the Board, the values used in the calculation for rates for the Embedded Distributor should also be adjusted to reflect those changes.

22. Ref: Exhibit 7/page 9

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

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

Response

KW Hydro does, in fact, charge revenues from its Embedded Distributor under Account 4080 for RRR reporting

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

a) why KW Hydro believes that it cannot accurately reflect the Embedded Distributor rate class in the Cost Allocation model; and

b) why KW Hydro has decided on its treatment that separates the costs, where possible, and revenues differently than for other customers of KW Hydro.

Response

Below the arrangement with the Embedded Distributor for wheeling services is explained (with excerpts from the application filed with the Board through the 2006 EDR process EB-2005-0386).

History

Section 2.6 of the Municipal Service Guide provided that any municipal utility using its own transformation facilities for supply of a load transfer on behalf of another utility could require compensation for the costs determined to be associated with the use of their transformation facilities or shared distribution system costs. The Municipal Service Guide provided that a municipal utility wheeling power through its distribution system on behalf of the then former Ontario Hydro or another utility, could be compensated by means of a wheeling charge. The Service Guide stated that the party receiving the load transfer was responsible for payment of any wheeling charges proposed. The Municipal Services Guide also

provided a formula that could be used as a basis for calculating such wheeling charges. KW Hydro used the formula, slightly modified and used in the 2006 EDR (and developed by Board Staff) for the basis of its existing rates and has consistently applied a similar formula since 1985, which is slightly modified from the formula described in the Municipal Services Guide. The formula historically used by the Applicant met the approval of the former Ontario Hydro, now Hydro One Network Services Inc. ("Hydro One Networks") and the former Hydro-Electric Commission.

KW Hydro's treatment of its Embedded Distributor follows the Decision of the Board in RP-2000-0023/EB-2001-0016, which set out two principles, the compliance with which the Board had asked any Applicants to provide evidence on, or if the Applicant was not in compliance, the justification as to why the principles were not being followed. Those principles are set out below:

- **that only customers who are physically connected to the L.V. facilities should be included in the L.V. cost pool;**

- **that the use of 1999 data is the preferred alternative as the beginning point of introducing the L.V. rates. The Board expects that in the longer term the use of current data may be more appropriate.**

KW Hydro submits that the Embedded Distributor is physically connected to the L.V. facilities and because of the fact that KW Hydro is simply wheeling the power through its lines to its Embedded Distributor, that the relationship is different from that of the other customers of KW Hydro.

The fact that the relationship is different with the Embedded Distributor than that of KW Hydro's other customers was reinforced through the initial Cost Allocation Informational Filing. In Run 2, upon adding the Embedded Distributor into the Cost Allocation model, the resulting revenue requirement as calculated by the model was $286,692 and the revenue to cost ratio was 4.35% (showing a revenue shortfall of $274,218). In contrast, the formula that had been initially designed by the former Ontario Hydro and modified by Board Staff in the 2006 EDR, generated a revenue requirement of $49,258, significantly less than the Cost Allocation model calculated. KW Hydro submits that the Cost Allocation model, as it was designed, does not accurately reflect the cost and revenues associated with the special wheeling arrangement KW Hydro has with its Embedded Distributor. KW Hydro has therefore excluded the Embedded Distributor from the model so as not to skew the results of the other rate classes.

Deferral and Variance Accounts

23. Ref: Exhibit 9

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

Response

KW Hydro does not expect to make any changes to its filing with respect to Account 1588.

LRAM/SSM

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

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

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

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

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

> The timing at which changes in assumptions become effective will differ depending on the use of the assumption, as follows:
>
> **Program Design and Implementation**
> Distributors should design, screen and evaluate programs using the best available information known to them at the relevant time. Therefore, it is expected that distributors will incorporate new information into program design and implementation as soon as feasible, subject to relevant operational considerations. In considering the prudence of any spending in excess of an approved budget that has been tracked in a CDM variance

account, the Board will consider the information available to the distributor at the time the program was implemented. That is, when amounts in a CDM variance account are being reviewed for the purposes of disposition, the Board will consider the information available to the distributor at the time the spending decision was made by the distributor. This will apply even if the input assumptions have changed since that time.

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

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

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

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

Response

Due to the changes stemming from the Horizon decision (EB-2009-0158 / EB-2009-0192) and Board direction, KW Hydro has received a revised report from the Enerspectrum Group, now known as Burman Energy Consultants Group Inc. ("BECGI"), and is filing an Addendum to its rate filing, adjusting its LRAM and SSM claim. Please refer to the adjustments in the Addendum filed