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December 11, 2009

BY EMAIL & COURIER

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

Dear Ms. Walli:

**Board File No. EB-2009-0267**  
**Kitchener-Wilmot Hydro Inc. – 2010 Cost of Service Application**  
**Energy Probe Interrogatories # 2**

Pursuant to Procedural Order No. 2, issued by the Board on December 2, 2009, please find two hard copies of the Second Round Interrogatories of Energy Probe Research Foundation (Energy Probe) in the EB-2009-0267 proceeding. An electronic version of this communication will be forwarded in PDF format.

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

Yours truly,

David S. MacIntosh  
Case Manager

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

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**Ontario Energy Board**

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

**AND IN THE MATTER OF** an application by Kitchener-  
Wilmot Hydro Inc. for an order approving just and reasonable  
rates and other charges for electricity distribution to be  
effective May 1, 2010.

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

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**December 11, 2009**

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

**ENERGY PROBE RESEARCH FOUNDATION  
SECOND ROUND INTERROGATORIES**

**Interrogatory # 37**

**Ref: Energy Probe Interrogatory # 1**

In interrogatory responses to Energy Probe interrogatories (Exhibit H, Tab 3, Schedule 12, 21 & 22) as part of its distribution rate case for 2010 and 2011 (EB-2009-0096) Hydro One indicates that a process will be developed to estimate the savings in OM&A and capital expenditure costs after July 1, 2010, that result from the PST/GST harmonization and that such estimated savings will be reflected in the deferral Account 1592.

- a) Does KW Hydro agree that the establishment of such a process is appropriate given the unknown amounts and uncertainty surrounding the impact on costs related to harmonization at this time?
- b) Does KW Hydro have any suggestions as to the most accurate way to estimate the savings in OM&A and capital expenditure costs after July 1, 2010 that result from the PST/GST harmonization? If yes, please provide details.

**Interrogatory # 38**

**Ref: Energy Probe Interrogatory # 3 a**

The response provided that KW Hydro expects to have an update to both the capital and operating budgets by the end of November 2009.

- a) Please provide revised Tables 1, 7 & 8 of Exhibit 2, as well as the fixed asset continuity schedules shown in Tables 15 & 16 that reflect the updated capital budgets for 2009 and 2010.
- b) Please provided revised Tables 1 & 5 of Exhibit 4 that reflects the updated operating budgets for 2009 and 2010.

### Interrogatory # 39

Ref: Energy Probe Interrogatory # 4

- a) The response to part (a) indicates a significant drop between 2008 and 2009 in the aid to construction associated with the accounts show. Please confirm that the figures in the following table are correct. The table totals accounts 1830, 1835, 1840, 1845, 1850, 1855 and 18660. The capital additions are taken from Tables 14, 15 & 16 of Exhibit 2. If the figures are not correct, please provide a table with the correct figures.

	2006	2007	2008	2009	2010
Additions	13,106,200	13,892,432	11,055,257	11,039,255	11,625,627
Contributed Capital	4,989,896	5,162,355	4,498,583	2,800,000	2,800,000
Percentage	38.1%	37.2%	40.7%	25.4%	24.1%

- b) Please explain the significant reduction, in percentage terms, forecast for contributed capital in relation to 2006, 2007 and 2008 levels.
- c) The response to part (a) indicates that KW Hydro is now forecasting contributed capital to decrease to \$2 million for each of 2009 and 2010. Please provide the percentage that this \$2 million represents as compared to the capital additions now forecast for the relevant accounts. In other words, update the table in part (a) to reflect the new addition and contributed capital forecasts for 2009 and 2010.
- d) In the response to part (d) of the interrogatory (labeled as part (f)), it is indicated that the change in WIP in account 1808 was the result of a misclassification in account 1815. Please explain why the figures for account 1815 are unchanged between Tables 5 & 6. Please also explain why the total WIP shown for year-end 2007 in Table 6 is \$92,859 higher than the corresponding figure in Table 5 if this was simply a misclassification between accounts.

### Interrogatory # 40

Ref: Energy Probe Interrogatory # 5

- a) How has KW Hydro determined the percentages associated with Non-RPP consumption and RPP consumption in the first and second tiers? In particular, is the 47.50% share for non-RPP consumption based on historical data or on the 2010 forecast? In either case, does the share reflect the move of more customers to non-RPP status effective November, 2009? If not, please provide an estimate that reflects the movement of these additional volumes to non-RPP.

- b) The price of 0.0607 per new RPP price does not match the \$62.15/MWh shown in the October 15, 2009 regulated price plan report as the average supply cost for RPP consumers. Please explain the difference.
- c) Please explain why the RPP price appears to be applied to the non-RPP consumption volumes.
- d) Please calculate the cost of power and the related impact on the working capital allowance to reflect the non RPP volumes at a price of \$0.05820 per kWh for the non RPP volumes (being the sum of the forecasted average HOEP price of \$0.03326 per kWh and the forecasted global adjustment of \$0.02494 per kWh for the RPP year). Please note that these figure are taken from the October 15, 2009 RPP report. Please comment if KW Hydro has any concerns with this approach for the non-RPP volumes.

#### **Interrogatory # 41**

**Ref: Energy Probe Interrogatory # 7**

The response indicates that accounts 1850 and 1855 are impacted the most by the forecasted 50% reduction in housing starts. A review of Tables 14, 15 & 16 in Exhibit 2 reflect a reduction of 25 to 30% in account 1855 in 2009 and 2010 as compared to 2008 and a reduction of only 3% in 2009 and an increase of 5% in 2010 in account 1850 relative to 2008. Please reconcile these changes with the 50% reduction in housing starts.

#### **Interrogatory # 42**

**Ref: Energy Probe Interrogatory # 8**

- a) Please confirm that the aggregate forecast variance over the five year period 2004 through 2008 based on the KW Hydro equation is 357 GWh and that the forecast was higher than actual purchases for all five years in this period. Please also confirm that the Mean Absolute Percent Error (MAPE) over this period is 3.6%.
- b) Please confirm that the aggregate forecast variance over the five year period 2004 through 2008 based on the equation requested in part (d) of the Energy Probe interrogatory is 252 GWh in absolute terms and 48 in net terms, reflecting that the equation over forecast in 3 years and under forecast in 2 years. Please also confirm that the MAPE over this period is 2.5%.

**Interrogatory # 43**

**Ref: Energy Probe Interrogatory # 11 & 12**

**How did KW Hydro account for the load losses shown for GS > 50 kW and large use customers in late 2005 and through 2006, 2007 and 2008 in relation of the data used by KW Hydro used for the actual GWh purchased in estimating the regression equations? For example, did KW Hydro adjust the historical data for the removal of consumption by the GS > 50 kW and large use customers that ceased operations 2005 through 2008? If not, why not?**

**Interrogatory # 44**

**Ref: Energy Probe Interrogatory # 17**

**In light of the Board suspending the LEAP initiative at the direction of the Minister, and in light of the fact that the late payment charges are approximately 4% higher year to date September in 2009 than in 2008, does KW Hydro agree its forecast for late payment charges decreasing in 2009 and 2010 relative to 2008 may not be accurate?**

**Interrogatory # 45**

**Ref: Energy Probe Interrogatory # 19**

**The response to the questions posed is not clear. The revised table shows an increase in retailer services revenue and service transaction request revenues in 2009 and a decline in 2010, yet the paragraph following the table talks about a 10% increase in these revenues for both 2009 & 2010. In addition, there is reference made to the difference between revenues and costs being transferred to a variance account. Finally the evidence states that these revenues are expected to increase, despite the reduction in the 2010 level shown in the table.**

- a) Please provide more details about the variance account referred to in the response and show the amounts that have accumulated in this account in 2006 through 2008 and the amounts forecasted to be included in this account for 2009 and 2010.**

- b) Please provide, for 2009 and 2010, the gross revenues associated with both retailer services revenue and service transaction request revenue, along with the gross costs associated with these activities. Please show how these figures correspond to the figures shown in the table and the amounts forecast to be included in the variance account.
- c) Please explain why any amounts forecast to be included in the variance account in 2010 should not be reflected in the revenues projection.

**Interrogatory # 46**

**Ref: Energy Probe Interrogatory # 20**

**Please confirm that KW Hydro has revised the Streetlighting capital and maintenance services revenues from \$1,265,524 to \$1,375,808, an increase of \$110,284. Please also confirm that this results in an increase in Other Income and Deductions from \$441,868 shown in Table 31 to \$552,152.**

**Interrogatory # 47**

**Ref: Energy Probe Interrogatory # 23**

**KW Hydro indicates that it 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. However, it is not clear what the impact of a change in the inflation rate forecast shown on page 9 of Exhibit 4 would be.**

- a) **Based on the 2.25% inflation forecast for 2010, please indicate the dollar amount associated with this forecast for non-labour related costs.**
- b) **Please indicate the impact in dollars of a 10 basis point difference in the inflation figure for 2010 (for example, if inflation were 2.15% or 2.35%).**

**Interrogatory # 48**

**Ref: Board Staff Interrogatory # 14 &  
Energy Probe Interrogatory # 26 &  
VECC Interrogatory #28**

- a) Based on the additional \$74,000 for an oral hearing, please confirm that KW Hydro is now proposing to amortization this amount over 4 years and that this would reduce the revenue requirement in 2010 by \$55,500.**
- b) The response to the VECC interrogatory indicates that if there is an oral hearing, costs are expected to increase by \$80,000 for legal costs and by \$15,000 for the rates consultant, for a total increase of \$95,000. Why have no additional costs been forecast for costs for intervenors and/or the OEB?**
- c) Please reconcile the \$74,000 noted in part (a) above with the incremental cost of \$95,000 noted in part (b) above. If the \$95,000 is in addition to the \$74,000, please indicate what the \$74,000 is related to.**

**Interrogatory # 49**

**Ref: Board Staff Interrogatory # 16**

**Please explain the following statement in the response to Board Staff:**

**“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).”**

- a) Why was the forecast ATTC not equal to \$50,000 (\$5,000 x 10 apprentices)?**
- b) Has KW Hydro included the \$2,000 federal training tax credit available for the first 24 months of such positions in its tax calculations? If not, why not? Please provide the number of positions eligible for this credit in 2010.**



**Interrogatory # 50**

**Ref: Energy Probe Interrogatory # 21 b &  
SEC Interrogatory # 6 &  
Exhibit 4, Table 10**

**It is unclear from these responses as to the exact amounts related to IFRS proposed by KW Hydro to be recovered.**

- a) What is the amount currently included in the 2010 revenue requirement related to IFRS?**
- b) Does KW Hydro propose to recover the 2010 forecast of \$43,000 or does it propose to recover the full cost shown for 2009 and 2010 of \$109,650?**
- c) Are there currently any IFRS implementation costs forecast for after 2010?**

**Interrogatory # 51**

**Ref: Board Staff Interrogatory # 9, part e**

- a) The response indicates that difference between the original Table 7 and the corrected version provided in the response is an understatement of \$29,916, yet the corrected 2010 test year total Streetlighting revenue is shown as \$1,375,808, while the corresponding figure in the original Table 7 of Exhibit 4 is only \$1,003,344. Please reconcile.**
- b) Please explain why there is no capital tax shown in the calculations. Has the associated capital tax cost been included as part of the applicable overheads?**

**Interrogatory # 52**

**Ref: Board Staff Interrogatory # 10, part a & Exhibit 4, page 58**

**Please explain why the \$40,000 to complete Garage B in 2010 would not be capitalized.**

**Interrogatory # 53**

**Ref: VECC Interrogatory # 29 &  
Exhibit 4, page 53**

The response to the VECC interrogatory appears to show that capital additions in the test year have a full year of depreciation assigned to the additions. This is in contrast to the evidence at page 53 of Exhibit 4 where it is stated that for this rate application, KW Hydro used the half year rule for calculating depreciation expense for the 2010 test year.

- a) Please clarify this apparent contradiction.
- b) Please consider the following calculations for 2010 test year depreciation expense for account 1815 that yields a total depreciation expense of \$1,192,380:

Opening Balance	\$40,094,599 (Exhibit 2, Table 16)
	<u>x 2.5%</u>
	\$1,002,365

Additions	\$15,201,162 (Exhibit 2, Table 16)
	<u>x 2.5% / 2</u>
	\$190,015

- i) Please confirm that this approach increases the depreciation associated with the assets added in 2009 (i.e. \$1,002,365 as compared to \$989,635 shown in the VECC response).
- ii) If the above approach were applied to the accounts that use the pooling of assets approach, what would be impact on the 2010 depreciation expense?
- iii) If the above approach were applied to the accounts that use the pooling of assets approach, what would be the impact on the 2010 rate base?
- iv) If the above approach were applied to the accounts that use the pooling of assets approach, what would be the impact on the 2010 revenue requirement?
- v) For each account where the pooling approach is NOT used, please indicate the assumptions used for in-service dates for the assets as to when depreciation expense will start to be calculated.