December 14, 2009

VIA MAIL and E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli

Re: Ontario Energy Board File no: EB-2009-0143
Essex Powerlines Corporation
Electricity Distribution Rate Application
Responses to Interrogatories from the School Energy Coalition (SEC)

Please find enclosed the Essex Powerlines Corporations' responses to the interrogatories of the School Energy Coalition (SEC) in the above noted proceeding

Respectively submitted,

Richard Dimmel
General Manager
Essex Powerlines Corporation
519-776-8900 ext. 487
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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 Essex Powerlines Corporation for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2010.

ESSEX POWERLINES CORPORATION

RESPONSES TO INTERROGATORIES OF

THE SCHOOL ENERGY COALITION (SEC)

FILED DECEMBER 14, 2009

1. Please confirm that the Applicant has 32 schools operated by publicly funded school boards in its franchise area. Please advise how many schools are in each of the GS<50 and GS>50 classes.

Response:

Essex Powerlines has 29 schools operated by publicly funded school boards in its service territory with 12 in the GS<50 class and 17 in the GS>50 class.

2. Please provide a schedule showing the major drivers of the gross revenue deficiency of $1.791 million.

Response:

SEC Q.2	
Major Cost Drivers of Gross Revenue Deficiency	
Revenue Deficiency	1,791,252

Deficiency Drivers	
PILs	607,958
Additional Positions	275,747
Rehiring vacant Position	73,950
Increased Bad Debt	37,500
Increased Interest Expense	600,881
Increase Depreciation	184,606
Miscellaneous Deficiency	10,610

3. Regarding the changes in 2008 to improve compliance with the Affiliate Relationships Code, please:

(a) State, specifically, what portion of the Code prompted the changes and how the changes were designed to better comply with that section.

Response:

Sections 2.3 Transfer pricing, 2.3.2 Outsourcing to an affiliate, 2.3.3. Where a market exists, 2.3.4 Where no market exists and 2.6 Confidentiality of Confidential Information and Restriction on Provision of System Planning Information.

Under section 2.3, the concerns were with the future additional administration that would be required to be compliant with this section that requires tendering processes for any purchase of services over $500,000 and the requirement for an independent evaluator of each awarding of services. This would create the need for additional resources and subsequent costs that would not be beneficial for EPL, EPSC or EPC as a whole. Under section 2.6, the concern would be for proving that confidential information could be retained effectively without additional administrative processes for both EPL and EPSC.

Consolidating the employees and assets into EPL avoids these additional costs and concerns and did not result in significant costs to the ratepayers.

(b) Provide any report, memos, or other documents in which the need for the changes were discussed.

Response:

Essex is of the opinion that the decision to consolidate is outside the scope of this proceeding. However, we have included highlights of the discussions with the Board on this matter.

EPS and EPL Consolidation Highlights

1) OEB changes to the Affiliate Relationships Code (ARC) will create additional costs in the future to continue with our current structure. These changes will require extensive tendering with required third party reviews and subsequent costs. These additional costs will add no value to the customers.

2) Changes to the ARC will result in more regulatory activity from the Compliance division at the OEB. These changes ensure that there would be no future risk of compliance issues compared to the current structure.

3) Consolidation changes to the corporate structure will not impact customer's rates.

Rate Base and Capital Expenditures

4. Ex. 2: please provide a summary of EPC's annual capital expenditures, by major category, from 2006 to 2010.

Response:

We confirm that the totals in this table are the same as in evidence.

Capital Expenditures by Category					
YEAR	**2006**	**2007**	**2008**	**2009**	**2010**
Residential Expansions	108,856	165,592	17,359	60,600	60,000
Residential Secondary Services	213,634	168,218	52,833	86,025	86,025

Commercial Expansion	418,912	427,020	194,616	161,440	312,500
Commercial Secondary Services	34,249	12,473	31,161	10,000	10,000
Municipal Relocations	145,025	393,482	92,817	134,500	80,000
Capital Additions	2,672,803	2,224,602	2,869,046	2,126,494	2,401,091
General Capital	29,172	185,937	2,817,877	504,886	1,207,428
TOTAL	**3,622,651**	**3,577,324**	**6,075,709**	**3,083,945**	**4,157,044**

5. Ex. 2/1/2, p. 2: regarding the transfer of assets into EPL from EPS (value of $3.1 million), was there a corresponding decrease in affiliate service charges paid to EPS? If so, please identify where it is in the material.

Response:

Under Exhibit 4, Tab 5, Schedule 1, Attachment 1, Chart 7, shows transactions from EPS to EPL that totalled $8,170,033 for 2007. Under Chart 8, there are no affiliate service charges from EPS to EPL in 2008.

OM&A

6. Ex. 4:

(a) Please provide a chart summarising the increases in OM&A per year by major cost driver (NOT by OM&A category), as follows:

Response:

The OM&A cost driver table can be found in Exhibit 4, Tab 2, Schedule 1, Attachment 3 (see attached)

Appendix 2-H
OM&A Cost Driver Table

	2006	2007	2008	2009	2010
Opening Balance	6,724,008	6,466,352	5,938,578	5,718,668	6,062,343

Labour & benefits			2,206,264	(155,273)	420,946
Affiliate Labour Charges			(2,451,201)		
Customer Locates		(40,915)		108,738	
Tree trimming	114,868	(64,397)	(70,551)	85,676	
Regulatory Expenses				62,500	
IFRS				50,000	
Underground Services				38,951	
Maintenance-UG Conductors&Devices				38,303	
UG Distribution Transformers-Operation				38,154	
Pole Maintenance Program				37,802	
Resource Planning Fees				35,000	
Health & Safety Program				27,919	
Community Relations				20,000	
Bad Debts	117,983	(25,808)	125,289	(75,867)	
Energy Manager Fees	108,727				
Transformer Inspections	46,241				
CDM	221,586	(121,006)			
Increases Storm Costs			(119,000)		
Mapping Initiative		(48,316)			
Miscellaneous General Expense	(901,414)	(173,007)			
Maint. of general plant			97,180		
Miscellaneous Variances	34,353	(54,325)	(7,891)	31,772	(42,348)
Closing Balance	6,466,352	5,938,578	5,718,668	6,062,343	6,440,941

(b) Please provide a brief explanation for major increases or decreases in spending for each year. For inflation- or wage-related increases, please set out what assumptions were made.

Response:

Essex used the following standard assumptions:

Wage-related increases – 3% for union employees(per negotiated contract)

- 2.5% for management employees

Non-Wage related increases – 2% incremental

2006 Drivers:

Tree Trimming – Increased spending due to increased incidences

2007 Drivers:

Customer Locates – Higher than normal volume of locates in 2006

Tree Trimming – decrease due to the hiring of one contractor to complete the work at a lower cost than previous contractors.

2008 Drivers:

Labour & Benefits / Affiliated Labour Charges – due to the corporate reorganization charges changed from being affiliated charges for work completed to being actual labour and benefit costs.

Tree Trimming – reduced tree trimming completed compared to 2007

Bad Debt Expense - An intermediate electricity customer went bankrupt and a bad debt charge resulted in 2008 ($113K).

2009 Drivers:

Labour & Benefits – decreased due to the removal of the Operations Managers salary and benefits starting January 1, 2009 and not being replaced until projected 2010.

Customer Locates – Due to a number of municipal infrastructure projects and the impending Detroit River International Crossing project, which are expected to span 3 to 4 years, the number of locate requests is increasing

Tree Trimming – refocus on our tree trimming program see Exhibit 4/Tab1/Schedule 1 pg 3 and pg 6.

Regulatory Expense – increase due to the allocation of total costs to complete this rate rebasing application ($250K), being split over the four years of the application (2010 – 2013)

IFRS – Essex estimates the cost of conversion to IFRS will be $200K, being split over the next 4 years

2010 Drivers:

Labour & Benefits – Increasing due to the addition of 3 new employees as justified in Exhibit 4, Tab 4, Schedule 1 and the re-hiring of the Operations Manager

7. Ex. 4: Please provide a copy of EPL's incentive compensation policy.

Response:

The 2008 Incentive Compensation Policy is included and is in effect for 2009 and 2010. The Incentive plan for EPC covers all subsidiary companies. The plan is not automatic and is at the discretion of the Board to review and issue any incentive payments on an annual basis.

Incentive Compensation Plan for Senior Management Employees

1. Incentive Compensation Plan – An Overview

Essex Power Corporation (EPC) elects to invest in their Senior Management employees and to reward strong, consistent performance of those employees who are fully competent in their roles and who are positively contributing to organization success. Furthermore, it is recognized to be a strategic initiative that contributes to attraction and retention of talent. EPC is proud to be unique within its industry with respect to offering an Incentive Compensation Plan to the qualifying Senior Management employees.

2. Eligibility for Incentive Compensation

New Senior Management employees are not eligible for inclusion in the Incentive Compensation Plan until they have completed three months of continuous employment except with the express prior written approval of the President. The eligibility date is defined as being the first day of the month following qualification. For clarification should a new employee begin his/her employment on April 19, he/she would qualify for eligibility effective August 1.

There are varying levels of incentive compensation available to eligible Senior Management employees, depending on the level of position that the Senior Management employee holds. The incentive compensation eligible is as follows:

Salary Band Level	Individual Performance Component (% of Base Salary)	Corporate Performance Component (% of Base Salary)	Total Amount Eligible (% of Base Salary)
9	Up to a maximum of 12.5%	Up to a maximum of 12.5%	Up to a maximum of 25%
8	Up to a maximum of 7.5%	Up to a maximum of 7.5%	Up to a maximum of 15%
5 through 7	Up to a maximum of 5%	Up to a maximum of 5%	Up to a maximum of 10%

3. Incentive Compensation Plan Details

The basis for earning incentive compensation will be comprised of two components:

1. Individual performance, which allows for a bonus earnings up to 50% of the total amount eligible, and
2. Corporate performance, which allows for bonus earnings up to 50% of the total amount eligible.

The maximum bonus earnings eligible is the total of earnings related to individual performance and corporate performance (as outlined in the table in section 2).

In the event that the corporate performance amount is not achieved, or in the event of unexpected or extraordinary business conditions, it may be that no bonuses are paid (even when individual performance meets or exceeds expectations).

Individual Performance

The most significant factor in determining the individual performance component is the employee's annual performance evaluation. The performance evaluation assesses: the employee's commitment to demonstrate leadership behaviours/abilities; the employee's achievement of individual objectives, projects and/or special assignments; contribution to team and organization results; and adherence to company values.

The amount of bonus earnings for the individual performance component will be determined as follows:

Overall Performance Evaluation	% of the maximum Individual Component
Exceeds Expectations	76% to 100%
Meets Expectations	51% to 75%
Partially Meets Expectations	1% to 50%
Does Not Meet Expectations	0%

Corporate Performance

Corporate performance is measured by the amount of achievement of the EPC Corporate Objectives as set out in the annual EPC Business Plan. The level of achievement will be determined based on assessing results against the measures defined for each of the pertinent EPC Corporate Objectives. The level of achievement will be determined by the President and validated by the Board.

The amount of bonus earnings for corporate performance will be determined as follows:

EPC Achievement of Corporate Objectives	% of the maximum Corporate Performance Component
Greater than 120% achievement	51% to 100%
100% - 120% achievement	50%
Less than 100% achievement	0%

In the event that the corporate performance amount is not achieved, or in the event of unexpected or extraordinary business conditions, it may be that no bonuses are paid (even when individual performance meets or exceeds expectations).

Example:

A Senior Management employee is in a position at a Salary Band Level 7. The Senior Management employee earns an annual base salary of $ 85,000. Employee's overall performance evaluation rating is "Meets Expectations". Corporate performance achievement is deemed to be 110%.

Individual Component	Corporate Performance	Total bonus earnings
• 60% is recommended (eligible range of 51% - 75%) • 60% of the maximum individual performance component of 5%, which is 3% • 3% of $ 85,000 is $ 2,550	• 50% of the maximum corporate performance component of 5% which is 2.5% • 2.5% of $ 85,000 is $ 2,125	$ 4,675

This Senior Management employee earns a total bonus of $ 4,675, which is equivalent to 5.5% of his/her annual base salary.

4. Accountability for Incentive Compensation Plan Decisions and Communications

The President recommends incentive compensation decisions to the Board for approval.

5. Incentive Compensation Plan Rules

1. The EPC Incentive Compensation Plan for Senior Management Employees is totally discretionary, is not legally binding in any way. A separate decision will be made by the President and Board each year on whether, and in what form, to renew this Incentive Compensation Plan.

2. No Senior Management employee is eligible for incentive compensation/bonus unless he/she is in the employ of EPC on the last day of the bonus period, and in the employ of EPC when payment is made.

3. Senior Management employees who retire during a bonus period, may be paid a share of the bonus earned based on the proportion of the bonus period actively worked, and with the approval of the President.
4. All bonus payments are subject to the withholding of income tax, and other required statutory withholdings.

5. All bonus payments are subject to review by the President and the Board. It is the intent to manage Incentive Compensation for Senior Management employees as expressed however, EPC reserves the right to modify or adjust the Incentive Compensation Plan without notice in the event of unexpected or extraordinary business conditions. Moreover, the Incentive Compensation Plan is assessed annually and EPC reserves the right to modify or adjust the Incentive Compensation Plan to be competitive and/or to best achieve the goals of the program and the objectives of EPC.

<u>Cost Allocation</u>

8. The revenue to cost ratio for the GS<50kW rate class is increasing from 46% to 80% in one year. As a result, these customers face extraordinary rate increases: GS<50kW customers with 15,000kWh consumption, for example, face a distribution rate increase of 75% and a total bill increase of 16.4%. Given these increases please explain why the movement to 80% R/C ratio was not staggered over one or more years as has been the norm in other proceedings involving the revenue to cost ratios of street lighting customers?

Response:

EPL is in fact proposing to stagger the increase in the revenue to cost ratio for the GS<50 kW class over two years, as noted in Exhibit 7 / Schedule 2 / Tab 2, Table 5. Sheet F9 of the RateMaker model shows an increase of 16.4% in total “Delivery” charges in 2010 for a GS<50kW customer with 15,000 kWh consumption, but a total bill increase of only 2.9%.

9. Please redo the bill impacts in Exhibit 8/4/4/2 assuming the GS<50kW customers were moved to 63% (half way between existing and bottom of the prescribed range) in 2010 (with a further increase to 80% in 2011).

Response:

The bill impacts in Exhibit 8/4/4/2 already reflect a revenue to cost ratio of 63% in 2010, as shown in Table 3 as well as sheet F9 of the RateMaker model.

Rate Design

10. Please provide the Lower and Upper Bound for the fixed charge for the GS>50kW rate class as defined in the Report of the Board on Cost Allocatioin for Electricity Distributors (EB-2007-0667)

Response:

Section 4.2.1 of the Report of the Board states that avoided costs should be used as the lower bound for the fixed charge. In section 4.2.2, the Board chose not to make any changes to the ceiling for the fixed charge, and also stated that *the Board does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling.* Thus EPL has designated the upper bound for the fixed charge in each class to be the greater of (i) the maximum value shown on sheet O2 of the Cost Allocation model (EPL-2010) and (ii) the existing fixed charge.

The Cost Allocation boundary values for the fixed charge are shown on sheet F3 of the RateMaker model: for the GS>50kW class, these are $48.29 and $137.39. However, as the existing fixed charge is $342.13, this charge level represents the effective ceiling given the Board's direction described above.

11. Please re-do the bill impacts for the GS>50kW rate class (as set out in Ex. 8/4/4/2) assuming the fixed charge for that class is reduced to the Upper Bound level.

Response:

As stated in the response to #10, EPL submits that the proposed fixed charge level for GS>50kW is in fact consistent with the effective ceiling based on the existing fixed charge level. If that charge were reduced to the maximum value from sheet O2 of the Cost Allocation model (EPL-2010), the bill impacts for the GS>50kW class would be as follows:

Volume		Distribution Charges		Delivery Sub-total		Total Bill	
kWh	kW	$ change	% change	$ change	% change	$ change	% change
100,000	500	$523.36	30.6%	$140.06	4.1%	$182.11	1.6%

40,000	100	($58.00)	(9.4%)	($134.66)	(14.1%)	($117.85)	(2.8%)
15,000	60	($116.14)	(22.9%)	($162.14)	(22.9%)	($155.83)	(8.0%)
250,000	750	$886.71	37.0%	$311.77	6.3%	$416.90	1.6%