EB-2007-0746

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 Barrie Hydro Distribution Inc. for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity commencing May 1, 2008.

INTERROGATORIES OF THE SCHOOL ENERGY COALITION

1. General

It appears in many areas in the Application (OM&A, Shared Services, purchase of services), the Barrie Hydro Distribution ("BHD") has inflated 2007 actual results by inflationary amount (usually 1.9%) to determine the 2008 forecast. Please advise whether BHD applied a productivity factor to its inflationary increases. If so, what is it?

2. Capital Structure
Ref: Ex6/T1/S1/pg2

The Evidence states tha "BHD's" current capital structure for rate-making purposes is 55% debt / 45% equity. BHD has used 57.5% debt / 42.5% equity in its 2008 Distribution rate application. BHD will move to the OEB single capital structure for rate-making purposes of 60% debt and 40% equity over 2 years.

a. Please advise how BHD proposes to complete this phase-in by 2010 given that its 2009 and 2010 rates will be based on the 3rd Generation IRM mechanism.

b. Please reconcile BHD's 2006 actual and 2007 bridge year rate base amounts shown in Table 1 of Ex 6/T1/S2/pg 4 of 8 with the amounts shown in Ex 2 /T1/S2/pg 3 of 43.

	2006 Actual Rate Base	2007 Bridge Rate Base
Ref: Ex2/T1/S2/pg3	$136,470,233	$143,977,551
Ref: Ex6/T1/S2/pg4	$140,128,892	$143,519,903

3. Cost of Equity
Ref: Ex6/T1/S1/pg2

BHD has used a return on equity of 9% in the design of its proposed 2008 distribution rates. BHD states that the return on equity for its 2008 rates will be established based on January 2008 Consensus Forecasts data in accordance with the Board's December 20, 2006 Report on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Report").

a. Please confirm that BHD will update its ROE using the January 2008 data from Consensus Forecast and the Bank of Canada, in accordance with the "Report".

4. Cost of Debt
Ref: Exhibit 6/ Tab 1/Schedule 1

a. Please provide copies of the $20 million Promissory Note to the City of Barrie issued January 1, 2004 and the $25 million unsecured debt instrument issued August 1, 2002 to EDFIN.
b. Ref: Exhibit 6/ Tab 1/Schedule 3, pg. 7 of 8: it appears the $20 million Promissory Note is renewed annually, and is set to be renewed again as of January 1, 2008. Would this not make the Promissory Note new affiliate debt and not embedded debt as stated in the application?
c. What would the cost rate on the Promissory Note be if it was deemed to be new affiliate debt as opposed to embedded affiliate debt?

5. Distribution Loss Factor
Ref a: Ex4/T2/S9/pg16
Ref b: Ex4/T3/Appendix 4-7

BHD has proposed a change to its distribution loss factor applied to billed consumption. The Evidence states that the increase of total loss factor (TLF) is due to load growth in areas distant from the transformer stations, and the problem of theft of power due to illegal marijuana grow operations.

Total loss factor for secondary metered customers <5000 has been increased from 1.051 to 1.0565 (Ref b). Total loss factor for primary metered customers <5000 has been increased from 1.0405 to 1.0462 (Ref b).

a. When was the last time BHD proposed an increase in total loss factor? What was the rationale for BHD's previous proposal to increase the distribution loss factor? Was it approved or not?

b. Does BHD know of regulatory precedent for factoring in theft of power into the determination of loss factors?

c. How was theft of power from marijuana grow houses factored into BHD's line loss factor calculation?

d. What would be BHD's line loss estimate not including any influence from theft of power from marijuana grow houses?

e. Please provide BHD's loss factor each year from 2003-2007, and the fixed five-year average. Is the year over year variation of loss factor also explained by the two reasons identified in BHD's 2008 distribution application – "load growth in areas distant from the transformer stations", and/or "the problem of theft of power due to illegal marijuana grow operations"? If not, what are the other factors contributing to the change in loss factor over the past 5 years?

f. Line loss is an input for a distribution utility. The Board's "2006 Electricity Distribution Rate Handbook" (RP-2004-0188) states that, "currently, distributors have a limited incentive to reduce line losses". The Board also expects a distributor to "take action where losses can be reduced." Please advise whether BHD has an action plan to reduce the level of distribution line losses.

g. Does BHD have a variance account to record the difference between forecast and actual line losses?

6. Smart Metering
Ref: Ex 1/T1/S6/ pg17

BHD has stated that its Smart Meter Pilot project will be initiated in 2008. The forecasted cost of the pilot project is $600,000 to install approximately 5,000 smart meters. The pilot project will be funded through the current smart meter rider of $0.27 per month per metered customer initiated May 2006.

a. Please file BHD's 2007-2008 Smart Meter Implementation Plan.

b. Please calculate BHD's smart meter capital unit cost, breaking down into sub-components such as meter purchase, meter installation, capitalized overhead, software and hardware, and other.

c. Please advise and justify the smart meter technology that will be implemented by BHD.

7. Weather Normalized Forecasting Methodology
Ref: Ex3/T2/S1/pg6

BHD uses a simple trend growth in customer connections by class to forecast bridge and test year customer counts. 2007 counts are based on May YTD actual growth factors prorated for the entire year. 2008 increases are based on the actual number of new connections forecasted in the capital plan. Normalized volume forecasts for 2007 & 2008 represent the same percentage as the customer growth.

BHD also stated that the weather-normalized throughput was generated by Hydro One using their weather normalization model.

a. Please explain in detail the methodology used to derive the weather-normalized consumption shown at Ex3/T2/S1/pg10.

b. Ref: Exhibit 3/ Tab 2/Schedule 4, pg. 13 of 19: it appears that BHD has under-forecasted the number of Residential, GS<50, and GS>50 customers in 2006 and 2007. For 2008, these customer classes are projected to increase by 2.1%, 0.6% and 0.6% respectively over the 2007 Bridge year. For 2007 vs. 2006, the increases were 1.6% for Residential, 2.2% for GS<50, and 2.2% for GS>50. Please provide a more detailed explanation as to what methodology BHD used to determine the 2008 forecast customer count for GS<50 and GS>50.

8. Related Party Transactions
Ref a: Ex 1/T3/Appendix 1-7, Note 6 of Barrie Hydro Distribution Inc. Audited Financial Statements for the year ended December 31, 2006
Ref b: Ex 4/T2/S4/pg 9 of 18, Shared Services

BHD's related party transactions for the year included:

- Electricity and services to the Corporation of the City of Barrie, owner of Barrie Hydro Holdings Inc. (BHD's parent company);
- Billing and collection services to Barrie Hydro Energy Service Inc;

The Evidence states that the transactions are in the normal course of operations and are measured at fair value.

In Ref b, BHD stated that "the actual cost per bill is determined including overheads and a profit of 9% if added,… every month the number of bills sent on behalf of BHESI are determined and the costs per bill is charged from BHDI to BHESI".

a. How is the 9% mark-up or return determined? Please provide any source documents detailing how the amount, percentage, or formula for any mark-up or return was initially established.

b. Please provide both the overhead rate and amount of overhead included in the billing costs charged from BHD to BHESI.

9. Dividends

Ref: Ex 1/T3/Appendix 1-7, Note 15 of Barrie Hydro Distribution Inc. Audited Financial Statements for the year ended December 31, 2006

a. Please complete the following table.

	2005	2006
Net Income (A)	$5,776,206	$4,485,905
Dividends Declared and Reported (B)	$1,829,000	$2,900,000
Dividends Paid		$3,100,000
Dividends Payout (B/A)	32%	65%

c. The Evidence states that during 2004, a dividend policy was adopted by the Board of Directors of Barrie Hydro Holdings Inc. stating that the amount of dividends payable by the corporation (BHD) to the Corporation of the City of Barrie is equal to 30% of the corporation's (BHD) audited net income after extraordinary items for the year.

Please provide a copy of BHD's dividend policy adopted in 2004.

	2006 Dividend Paid	2006 Dividend Declared
	$1,650,000 (declared in 2005)	
	$82,900 (declared in 2006)	$82,900
	$1,167,000 (one-time additional)	$1,167,000
	$200,000	$200,000
		$1,450,000 (additional)
Total	$3,100,000	$2,900,000

The Evidence states that the one-time extra dividend of $1,167,000 was approved by the Board to increase the dividend payment with respect to 2005 to 50% of net income.

The Evidence also states that the additional $1,450,000 dividend declared was under the policy calculated using management's best estimate.

a. Please advise whether BHD has adopted a new dividend payment policy that allows a 50% dividend payment. If yes, please describe the changes to the previously adopted dividend policy and attach a copy of the policy.

b. 2006 dividend payment ratio is 65%, which is even higher than the approved 50% level in 2005. Please explain.

c. What are the expected dividend payout ratios for 2007 & 2008?

10. Rate Base
Ref a: Ex 2/T1/S2/pg 3 of 43, "Rate Base Summary Table"
Ref b: Ex 2/T2/S1/pg 11 of 43, "Continuity Statements"

In Ref a, BHD indicated that the "amounts presented for gross asset and accumulated depreciation are averages of beginning and ending year balances".

Rate Base (Ref a: Ex2/T1/S2/pg3 of 43)

	2006 Board Approved	*2006 Actual*	*2007 Bridge*	*2008 Test*
Avg of Beg. & End. Gross Asset	168,079,366	202,460,515	217,936,337	232,600,914
Avg of Beg. & End Accum. Dep'n	68,624,019	83,832,452	92,716,252	102,212,866
Avg Net Fixed Asets	**99,455,347**	**118,628,063**	**125,220,085**	**130,388,048**

In Ref b, opening and closing balances for gross assets, accumulated depreciation, and NBV were provided from 2006-2008.

Continuity Statement (Ref b: Ex2/T2/S1/pg11)

2006 Actual			*2007 Bridge*			*2008 Test*		
Gross	*Accum. Dep'n*	*NBV*	*Gross*	*Accum. Dep'n*	*NBV*	*Gross*	*Accum. Dep'n*	*NBV*

Opening Bal	194,339,531	80,014,812	114,324,719	211,319,887	88,294,682	123,025,205	225,291,269	97,137,821	128,153,448
Additions	16,241,873			13,971,382			14,619,289		
Dep'n		8,279,870			9,243,092			10,150,089	
Adjustments	738,483				399,953				
Closing Bal	211,319,887	88,294,682	123,025,205	225,291,269	97,137,821	128,153,448	239,910,558	107,287,910	132,622,648
Avg of Beg. & Closing Bal.	**202,829,709**	**84,154,747**	**118,674,962**	**218,305,578**	**92,716,252**	**125,589,327**	**232,600,914**	**102,212,866**	**130,388,048**

Please reconcile the average of opening and closing NBV balance as derived from Ref. B with Ref A, for 2006 actual and 2007 bridge.

11. Rate Base
Ref a: Ex 2/T2/S1/pg 11 of 43, "Continuity Statement"
Ref b: Ex 2/T2/S2/pg 13 of 43, "Gross Asset Table"

In Ref b, 2006 actual gross asset totals $210,581,404.
In Ref a, 2006 actual gross asset closing balance totals $211,319,887. The difference is $738K.

Please reconcile the $738K as identified above, or confirm the correct closing balance of 2006 gross assets and make corresponding adjustments/revision to other affected sections in the Evidence

12. Rate Base

a. Please confirm that no projects will be added to rate base before they are commercially in service.

b. Please advise whether BHD has conducted a Distribution Asset Condition Assessment. If yes, please provide a copy. If no, please explain how BHD assessed the need to replace/rebuild various components of its Distribution Assets?

13. Rate Base – Materiality Analysis on Gross Asset
Ref: Ex 2/T2/S3/pg 16 of 43

BHD's 2006 actual spending on #1835 Underground Conductors & Devices was $8.4M above its 2006 Board approved level.

BHD's 2006 actual spending on #1840 Underground conduit was $10.7M above its 2006 Board approved level.
BHD's 2006 actual spending on #1845 was $7.4M above the approved amount.

a. BHD has identified that the above variances are partly due to an adjustment from 2004 CWIP. Please provide a detailed explanation

14. Working Capital Allowance
Ref: Ex2/T4/S1/pg 43 of 43

LV charges (#4750) were not a component of working capital provision in 2006. LV charges (#4705) were forecasted to be approximately $1M for 2007 and 2008 and were included in working capital provision. Please explain why.

15. 2008 Capital Budget Proposal for Rebasing
Ref: Ex 2/T4/S1/Appendix 2-1, Table "2008 Capital Budget Proposal for Rebasing"

A list of 2008 additions to gross capital assets for rebasing is provided Ex 2/T4/S1/Appendix 2-1.

a. Please confirm that the amount of $14,619,289 is closed to 2008 rate base.
b. Line 4 of Ref b: 2008 capital budget for City Road Relocation Projects is $3.175 million. BHD states in the "Notes" column "see below for details". Please provide such details.
c. Line 5 of Ref b: 2008 capital budget for Transformer Betterment is $600K. BHD mentioned in the "Notes" column that "2007 was estimated 80 units @ $7,500 per, (2008) 70 units @ $8,600 per".

    (i) Should 2008 capital budget be $602,000 rather than $600,000?
    (ii) Please explain the 15% increase in unit cost, from $7500 per unit in 2007 to $8600 per unit in 2008.

d. Line 7 of Ref b: 2008 capital budget for "Pole Replacement" is $506,800. BHD states in the "Notes" column that "2007 was estimated 67 poles @ $7462 per – details required, (2008) 100 poles @ $5068".

    i. Please provide such details.
    ii. Please explain the 32% decrease in unit cost, from $7462 per unit in 2007 to $5068 in 2008.

e. Line 8 of Ref b: 2008 capital budget for "MS835 Upgrade" is $500K. BHD states in the "Notes" column "Property resolved, no SCADA nor relays". Please explain.

f. Line 10 of Ref b, 2008: capital budget for "Underground Primary Cable Betterment" is $300K. BHD states in the "Notes" column "an allowance – no identified project yet".

   i. Why should an allowance for a non-identified project be included in the test year rate base?

g. Line 16 of Ref b: 2008 capital budget for "13.8KV Switch Installations" is $150K. BHD states in the "Notes" column "2007 was estimated 12 units @ $11,000 per, (2008) 10 units @ $15,000 per".

   i. Please explain the 36% increase in unit cost, from $11K per unit in 2007 to $15K per unit in 2008.

h. Line 19 of Ref b, 2008: capital budget for "2009 Pre-design capital" is $75K. BHD states in the "Notes" column "Engineering hours surveying".

   i. Why did BHD include budget spending for 2009 design in 2008 rate base?.

i. Line 23 of Ref b, 2008: capital budget for "Unplanned minor capital upgrades" is $50K. BHD states in the "Notes" column "allowance due to rejected insurance claims & BHDI upgrades". Please explain what is meant by "rejected insurance claims"?

j. Line 33 of Ref b: 2008 capital budget for "Meters" is $150K.

   i. Is this amount related to BHD's smart meter plan?
   ii. If yes, please provide BHD's 2007-2008 Smart Meter Implementation Plan.
   iii. If yes, please advise the number of smart meters to be added to rate base, its capital unit cost (separating unit purchase price, installation, overhead, and other).
   iv. Otherwise please explain in detail what has been included in the budgeted amount.

16. Wages and Compensation
Ref: Ex 4/T2/S7/pg12 of 18

Total Salaries & Wages	***2006 Board Approved***	***2006 Actual***	***2006 Actual vs. Board Approved***

	Total	Average	Total	Average	$	%
Executive	593,814	129,090	404,400	134,800	5,710	4%
Mgmt	1,774,877	77,169	1,929,461	83,890	6,721	9%
Non-unionized	643,204	46,274	672,710	51,747	5,473	12%
Unionized	4,563,111	57,398	4,822,664	61,046	3,649	6%
	7,575,006	62,603	7,829,235	66,349	3,746	6%

a. 2006 actual average salaries for Management are 9% higher than Board approved level. 2006 actual average salaries for Non-unionized employees is 12% higher than Board approved level. Please explain.

Total Benefits	***2006 Board Approved***		***2006 Actual***		***2006 Actual vs. Board Approved***	
	Total	***Average***	***Total***	***Average***	***$***	***%***
Executive	106,088	23,063	75,843	25,281	2,218	10%
Mgmt	372,288	16,186	429,288	18,665	2,478	15%
Non-unionized	107,970	7,768	124,202	9,554	1,786	23%
Unionized	1,044,622	13,140	1,301,200	16,471	3,331	25%
	1,630,968	13,479	1,930,533	16,360	2,881	21%

b. 2006 actual benefits for Executive, Management, Unionized and Non-unionized employees appear to have been significantly higher than the Board approved level. Please explain.

17. OM&A
Ref: Ex. 4/Tab 1/Schedule 2, pg. 3

a. Please provide a further breakdown of the category "Other Operating Costs (taxes and donations)" in the amount of $402,500 for 2008. What portion is taxes and what portion is donations?
b. Please provide details of the donations.

18. OM&A
Ref: Ex. 4/Tab 1/Schedule 2, pg. 3

a. Please explain the $200k increase in Operation expenses, from $2,479,722 in 2007, to $2,679,417 in 2008.
b. Please explain the $411,458 increase in Administrative and General Expenses from $3,345,343 million in 2007 to $3,756,801 million in 2008 (a 12.3% increase in one year.)

19. OM&A
Ref: Ex. 4/Tab 1/Schedule 3: "Collections Charges"

a. The evidence states that Collections Charges were moved to "Miscellaneous Revenue" in 2007. Please provide what amounts have been assumed for 2007 and 2008 for Collections Charges. Please explain any variation from the 2006 level of $430,854.
b. If $431,000 of the variation from 2006 Board approved to 2006 actual OM&A is accounted for as a result of the re-allocation of Collections charges, the net change to revenue requirement for 2006 should be neutral (because the item was moved from an expense to a negative expense to a revenue)- please confirm.

20. OM&A
Ex. 4/ Tab 1/ Schedule 2, pg. 5

a. The evidence states that the 2007 OM&A of $9,847,153 is $1,490,368 "or 15%" over the 2006 actual OM&A of $8,356,785. The year over year increase, however, appears to be 17.8% and not 15%. Is this just a calculation error or was the 15% figure based on some other number for 2006 actual?

21. OM&A
Ex. 4/Tab 2/Schedule 2, pg. 5: 2008 vs. 2007 variance explanation

a. Since 2007 OM&A expenses contain an expense item for energy conservation that does not appear in 2008, is it correct that the best way to compare 2007 expenditures to the 2008 forecast on an "apples to apples" basis is to remove the 2007 energy conservation expense of $460,000, giving a "net" OM&A of $9.387 million for 2007, compared to 2008 spending of $10.050 million?
b. Please explain why 2008 OM&A net of energy conservation expenses increase 7% in one year.

22. PILS
Ref: Exhibit 4/Tab 3/Schedule 1

a. Has BHD incorporated the recently-announced changes to the federal corporate income tax rate into its PILS calculation? If not, how does BHD intend to incorporate the tax rate changes into its revenue requirement?
b. Would the deferral account 1592 "PILs and Tax Variance" take into account differences in tax rates due to legislative changes?

c. To the extent that the Goods and Services Tax is embedded in any of the cost items in BHD's revenue requirement, how does BHD propose to incorporate the recently-announced decrease in the GST from 6% to 5%?

23. Cost Allocation
Ref: Exhibit 8/ Tab 1/ Schedule 2- Cost Allocation

a. BHD's evidence is that the GS>50kW rate class under-contributes to distribution revenue in the amount of $1.461 million and that Street Lighting class under-contributes by $1.102 million. However, the adjustments BHD proposes to make would collect an additional $427,555 from the GS>50kW class and only $20,000 from Street Lighting. The resulting revenue to cost ratios would put the GS>50kW class at 86.3%, which is above the minimum acceptable range, and leave Street Lighting at 10.8%, which is far below the minimum acceptable range. Please explain.
b. What would the revenue cost ratios for all rate classes be if street Lighting were increased to 80%?