

**Waterloo North Hydro Inc.
2011 EDR
EB-2010-0144**

Board staff Interrogatories

General

1. Responses to Letters of Comment

Following publication of the Notice of Application, did Waterloo North Hydro Inc. ("WN Hydro") receive any letters of comment? If so, please confirm whether a reply was sent from the applicant to the author of the letter. If confirmed, please file that reply with the Board. If not confirmed, please explain why a response was not sent and confirm if the applicant intends to respond.

2. Conditions of Service

On its website, www.wnhydro.com, WN Hydro provides its Conditions of Service at <http://www.wnhydro.com/residential/conditionsofservice.pdf> and http://www.wnhydro.com/commercial_industrial/conditionsofservice.pdf.

- a) Please confirm that the version of the Conditions of Service published on its website is the most current one. If not, please provide an explanation.
- b) Please identify any rates and charges that are included in the applicant's conditions of service and provide an explanation for the nature of the costs being recovered.
- c) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.
- d) Please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.
- e) Please identify if WN Hydro's Conditions of Service will need to change if WN Hydro's application is approved as filed. If the Conditions of Service will need to change, please identify the expected changes.

Exhibit 1 – Administration

3. Ref: Exhibit 1/page 19 – Calculation of Revenue Requirement

In describing the drivers for the increase in the revenue requirement and the determination of the revenue deficiency, WN Hydro states that direct and indirect labour costs are one factor, and further states:

Effective April 1 of each year, economic increases negotiated through collective agreements were 3.5%, 3.3% and 3.3% for 2006, 2007 and 2008 respectively. WNH has a 3% annual increase in estimating its incremental payroll for 2010 and 2011.

What was the actual negotiated increase for 2009?

Exhibit 2 – Rate Base

4. Ref: Exhibit 2/pages 8-9, Exhibit 2/page 55 and Exhibit 3/page 38 – Existing Northfield Drive Administration and Operations Building

WN Hydro has documented that it has removed the Gross Book Value and accumulated depreciation for its existing Northfield Drive operations and administration building from 2011 test year fixed assets while including the new operations and administration centre to be occupied expected for December 1, 2011.

In **Exhibit 3/page 38**, WN Hydro has proposed that, since the existing Northfield Drive building will not be sold in the 2011 test year, it be allowed to record net proceeds from any sale in a deferral account with 50% of such proceeds to be refunded to customers upon disposition in a subsequent rate application.

In the case of Toronto Hydro-Electric System Limited's ("THESL's") 2008 Cost of Service application considered under File No. EB-2007-0680, the Board determined that 100% of the net proceeds from the sale of existing administration and operations centre no longer "used and useful" would be refunded to customers upon replacement by newer or refurbished centres to effect consolidation of staff:

At the time the Applicant's 2006 rates were set, there was no provision made for the ratemaking treatment of capital gains on sale of property. Also, there is no provision in any other Board-issued document which would have made it a requirement for the Applicant to bring forward any capital gains for disposition. To direct sharing of any capital gains in 2006 and 2007 would be out of period ratemaking.

Therefore, with respect to the Belfield property sold in 2006, the Board will not direct any sharing of the capital gains.

The Company's reply argument confirms that the 228 Wilson Ave. and 175 Goddard St. work centres were not sold in 2007. **The Board agrees with intervenors that these two properties, as well as 28 Underwriters Road and 60 Eglinton West, have been rendered redundant and have been or will be sold as part of the Company's Facilities Consolidation and Renewal Plan (the "Plan"). If it were not for the Plan, the properties would continue to be used and useful. The properties' functions are useful and will be transferred to or replaced by other facilities, at a substantial cost to the ratepayer.** The total capital cost of the Plan to 2011 is estimated at \$105 Million. The estimated capital cost of the Plan up to and including 2009 is \$62.5 Million.

To defray these substantial costs to the ratepayer, the Board finds that 100% of the net after tax gains from the sale of 228 Wilson Avenue, 175 Goddard Street, and 28 Underwriters Road, the properties that are planned to be sold in 2008, should go to the ratepayer. The Company's revenue requirement for the 2008 test year shall be adjusted downward by \$10.3 Million to reflect this finding. As the sale of 60 Eglinton West is planned for 2010, it does not impact the rates being set in this proceeding. [Emphasis added, footnotes omitted]¹

- a) Please provide the estimated Gross Book Value and Accumulated Depreciation associated with the Northfield Drive centre and contents as of January 1, 2011 and December 31, 2011 as if they were retained in rate base.
- b) Please provide the estimated remaining service life of the Northfield Drive centre as of December 31, 2011.
- c) Please provide WN Hydro's reasons for omitting the Northfield Drive building from its 2011 rate base. Please provide any precedents of similar treatment that WN Hydro is aware of.
- d) Please provide WN Hydro's views, with reasons as to why, given the THESL decision, should WN Hydro refund only 50% of net proceeds from the sale of Northfield Drive to ratepayers to defray the costs of the replacement operations centre.

¹ Decision with Reasons, File No. EB-2007-0680, May 15, 2008, page 27

5. Ref: Exhibit 2/page 87 – Administration and Operations Centre

On **Exhibit 2/page 87**, WN Hydro provides the following table of the four options considered:

Option 1	Renovate existing space; add new space to current building standards	\$18.2 million
Option 2	Renovate existing space; add new space to LEED standards (new space only)	\$19.8 million
Option 3	Build new building to current building standards	\$21.6 million
Option 4	Build new building to LEED standards	\$23.6 million

WN Hydro opted for option 4, noting that its existing building would need further updates to meet building codes with renovation.

- a) It appears that WN Hydro has considered only the options whereby all employees are centrally located in one location. Given the relative size of its service area, consisting of both urban and rural areas in the City of Waterloo and the Townships of Wellesley and Woolwich, did WN Hydro consider options of a satellite operations centre elsewhere while maintaining the Northfield Drive administration and operations centre?
- b) If yes, please document the options considered.
- c) If no, please explain why this option was not considered.

6. Ref: Exhibit 2/pages 21 to 29 – Capital Expenditures and Additions

Board staff has prepared the following table summarizing annual capital expenditures per year from 2004 actual to 2013 forecasts from the data shown in Tables 2-3 to 2-11.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Capex	\$ 6,331,739	\$ 7,135,384	\$ 11,678,980	\$ 10,104,075	\$ 12,481,008	\$ 19,161,112	\$ 29,907,392	\$ 31,261,380	\$ 13,325,500	\$ 11,778,000
CWIP										
Start			\$ 5,128	\$ 2,983,947	\$ -	\$ 1,216,890	\$ 6,151,497	\$ 13,661,662	\$ 1,229,133	\$ -
End			-\$ 2,983,947		-\$ 1,216,890	-\$ 6,151,497	-\$ 13,661,662	-\$ 1,229,133		
Capital Additions	\$ 6,331,739	\$ 7,135,384	\$ 8,700,161	\$ 13,088,022	\$ 11,264,118	\$ 14,226,505	\$ 22,397,227	\$ 43,693,909	\$ 14,554,633	\$ 11,778,000
Change in Capex		\$ 803,645	\$ 4,543,596	-\$ 1,574,905	\$ 2,376,933	\$ 6,680,104	\$ 10,746,280	\$ 1,353,988	-\$ 17,935,880	-\$ 1,547,500
% Change in Capex		12.7%	63.7%	-13.5%	23.5%	53.5%	56.1%	4.5%	-57.4%	-11.6%
Average Annual % change since 2006								21.8%		

Source: Exhibit 2/Tables 2-3 to 2-11

WN Hydro shows increased capex in the 2010 bridge and 2011 test years, with capex in 2012 and 2013 decreasing towards levels in 2008 and 2009. WN Hydro explains that the rebuilding and upgrading of a Transformer Station and 2009 to 2011 capex are largely impacted by the building of the new administration and operations centre.

WN Hydro's rate base, summarized in Table 2-12, shows the impacts of the capital additions as shown in the following table:

Rate Base (Table 2-12)							
Description	2006 OEB Approved	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Bridge Year	2011 Test Year
Gross Fixed Assets	\$ 148,725,569	\$ 164,297,813	\$ 177,181,864	\$ 188,120,009	\$ 202,017,817	\$ 223,954,642	\$ 262,219,694
Accumulated Depreciation	\$ 65,162,758	\$ 77,523,158	\$ 83,930,906	\$ 90,632,779	\$ 97,965,764	\$ 105,748,291	\$ 112,488,866
Net Book Value	\$ 83,562,811	\$ 86,774,655	\$ 93,250,959	\$ 97,487,230	\$ 104,052,053	\$ 118,206,351	\$ 149,730,828
Average Net Book Value	\$ 83,075,300	\$ 85,689,030	\$ 90,012,807	\$ 95,369,094	\$ 100,769,641	\$ 111,129,202	\$ 133,968,589
Working Capital	\$ 97,230,451	\$ 102,692,215	\$ 102,519,646	\$ 101,936,330	\$ 88,782,187	\$ 126,842,329	\$ 125,598,185
Working Capital Allowance	\$ 14,584,568	\$ 15,403,832	\$ 15,377,947	\$ 15,290,450	\$ 13,317,328	\$ 19,026,349	\$ 18,839,728
Rate Base	\$ 97,659,868	\$ 101,092,863	\$ 105,390,754	\$ 110,659,544	\$ 114,086,970	\$ 130,155,551	\$ 152,808,317
Variances (Year-over-year)							2006 to 2011 change
Average Net Book Value		\$ 2,613,730	\$ 4,323,777	\$ 5,356,287	\$ 5,400,547	\$ 10,359,561	\$ 22,839,387
Working Capital Allowance		\$ 819,264	\$ 25,885	\$ 87,497	\$ 1,973,122	\$ 5,709,021	\$ 186,621
Rate Base		\$ 3,432,995	\$ 4,297,891	\$ 5,268,790	\$ 3,427,426	\$ 16,068,581	\$ 22,652,766
Annual Percentage Changes							Average Annual Change (2006 to 2011)
Average Net Book Value		3.15%	5.05%	5.95%	5.66%	10.28%	20.55%
Working Capital Allowance		5.62%	-0.17%	-0.57%	-12.90%	42.87%	-0.98%
Rate Base		3.52%	4.25%	5.00%	3.10%	14.08%	17.40%

Average net book value of assets increases from about \$85 million in 2006 by about \$5 million per year, with an increase in 2010 of \$11 million to \$111 million and then a \$22 million increase in the 2011 test year.

WN Hydro also notes that the data shown exclude smart meter capex.

- a) Given the "lumpiness" in the numbers shown above, please confirm or correct the data shown.
- b) Please provide a similar table including smart meter capital expenditures.
- c) Noting that the construction of the new administration and operations centre may not, in large part, utilize WN Hydro's own staff, and that WN Hydro has also largely been involved in smart meter deployment in 2009 and 2010, but these activities are not reflected in the tables in Exhibit 2; the increased capex and capital additions in 2010 and 2011 appear to be unprecedented for WN Hydro.
 - i. Please provide WN Hydro's capex and capital additions to year-to-date (e.g. October 31, 2010 or November 30, 2010). Please provide WN Hydro's current estimate of its expected 2010 year end capex.
 - ii. Accepting that there may be some "lumpiness" due to major projects like the TS rebuild and the administration and operations centre build, what prioritization did WN Hydro do to consider deferring capital projects from 2010 and 2011 to try to stabilize the level of capital expenditures?

7. Ref: Exhibit 2/page 90/Table 2-31.45 – Costs of New Administration and Operations Centre

Table 2-31.45 shows projected costs for the new administration and operations centre as \$26,476,961, comprised of \$2.038 million for land, \$22,738,961 for the building and fixtures, and \$1.7 million for furniture and equipment.

\$26.5 million is about double what WN Hydro has typically incurred as average annual capex for its whole distribution system, or forecasts as capex in 2012 and 2013.

- a) Please provide details on and justification for the \$1.7 million in furniture and equipment for the new centre in 2011.
- b) Please explain what is happening to existing furniture and equipment in the Northfield Drive building. Is WN Hydro keeping the furniture, or is it disposing it? If the latter, what is WN Hydro proposing regarding treatment of net proceeds from such disposition?

Working Capital Allowance

8. Ref: Exhibit 2/page 58 and Table 2-24 – Working Capital Allowance

WN Hydro has used the standard formula of 15% of the sum of cost of power and controllable expenses to determine its working capital allowance.

- a) Please update Table 2-24 based on the latest Regulated Price Plan Report issued by the Board on October 18, 2010 and available at http://www.oeb.gov.on.ca/OEB/Documents/EB-2004-0205/RPP_Price_Report_20101018.pdf.
- b) Please provide the derivation of the Cost of Power components shown in Table 2-24, showing the commodity prices, wholesale market service rates, transmission charges and LV rates used to derive the cost of power components, by account, for each of the 2010 bridge and 2011 test years.

Service Reliability

9. Ref: Exhibit 2/page 2 – Service Reliability

WN Hydro states:

System reliability and performance is monitored via a variety of daily, weekly, monthly, annual and on-demand reports and is supported by the Supervisory Control and Data Acquisition (SCADA) system and GIS. Reliability issues are identified by root cause and reviewed by engineering and operations staff at

weekly meetings. Service Quality Indicators such as SAIDI, SAIFI and CAIDI are tracked and reported monthly on a rolling basis to the Board of Directors and annually to the OEB.

- a) Please provide reliability performance for the period 2006 to 2009 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						
2007						
2008						
2009						

- b) For any instances where reliability performance is worse than the historical performance of at least three prior years, please identify the cause of degraded service reliability, actions taken by WN Hydro to remedy such service degradation, and any outcomes.

Exhibit 3 - Operating Revenues and Customer and Load Forecast

10. Ref: Exhibit 3/page 2/Table 3-1

In Table 3-1: Summary of Operating Revenue, the column “2007 Actual vs. 2006 Actual” appears to be calculated as the variance between “2007 Actual” versus “2006 Actual vs. 2006 Board Approved”. Please confirm this. If confirmed, please provide an updated Table 3-1 to correctly show the variance between 2007 Actuals over 2006 Actuals.

Exhibit 4 – Operating Expenses

Operating Expenses

11. Exhibit 4/page 5 – Donations

WN Hydro has identified an annual donation of \$10,000 which is paid to Waterloo Regional Energy Assistance, an organization that assists customers pay their energy bills. This expense is reflected in USoA 5410.

- a) Is 2011 the first year that Waterloo North is making this donation?
 b) If no, please provide the actual amounts for each year from 2006 to 2010.

12. Donations

Please identify whether or not the applicant has included any other charitable or political donations as part of its forecast OM&A expense for the Test Year. If yes, please identify the amounts and the account in which the donations are recorded, and whether the amounts are compliant with Section 2.5.2 of the Filing Requirements.

13. Ref: Exhibit 4/page 14 – Inflation on Non-Labour OM&A Expenses

Please provide the source for the 2.0% estimate for inflation in 2011 for OM&A costs other than labour.

14. Ref: Exhibit 4/page 17 – Meter Expense

WN Hydro has identified an increase of \$192,081 to OM&A in 2011 for the maintenance of its non-smart meters.

- a) Please provide an explanation of how the increase was determined.
- b) Please explain why this amount would not be classified as a one-time cost as opposed to an ongoing expense.

15. Ref: Exhibit 4/page 21 – Regulatory Expense

WN Hydro shows the following for regulatory expenses in Table 4-5:

	2006 Actual (Rebasing Year)	2007	2008	2009	2010	2011 Forecast (Rebasing Year)
5655 - Regulatory Expenses	\$ 312,703	\$ 398,144	\$ 377,610	\$ 393,922	\$ 431,430	\$ 471,686

- a) Please provide an itemized breakdown, with explanations, of account 5655 for each of the years 2007 to 2010.
- b) Waterloo North has identified a one-time cost of \$160,000 for the preparation its 2011 cost of service application. Please provide a breakdown of the expense (e.g., legal, intervenors, consultants, Board costs).

16. Ref: Exhibit 4/page 68 – Expense Capitalization

WN Hydro is proposing to capitalize approximately 36% of its compensation costs for 2011. This is about 7% lower than its 2009 approach.

- a) Please explain the change in capitalization from 2009 to 2011.

- b) Please confirm that WN Hydro has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2008. If any accounting policy changes or any significant changes in accounting estimates have been made post 2008 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

17. Low Income Energy Assistance Program (LEAP)

Please state whether or not WN Hydro has included an amount in its 2011 Test year revenue requirement for the emergency financial assistance component of the Low Income Energy Assistance Program.

- a) If yes, please identify the amount included for LEAP emergency financial assistance, and identify the percentage of total distribution rates.
- b) If no, please provide the following calculation: 0.12% of the total distribution revenue proposed by the applicant for the 2011 Test Year.
- c) Please state whether or not WN Hydro has included an amount in its 2011 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

18. Harmonized Sales Tax (HST) – Exhibit 4/pages 8-9

The PST and GST were harmonized effective July 1, 2010. Historically, unlike the GST, the PST was included as an OM&A expense and was also included in capital expenditures. Due to the harmonization of the PST and GST, regulated utilities may benefit from a reduction in OM&A expenses and capital expenditures on an actual basis.

The Board's decision on the WN Hydro's 2010 IRM application established a deferral account and directed the applicant to record the incremental input tax credits it receives on distribution revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts would continue in the deferral account until the effective date of the applicant's next cost of service rate order.

- a) Has WN Hydro recorded any HST Input Tax Credits ("ITCs") or other HST-related items in PILs account 1592? If yes, please describe what

has been recorded and provide supporting evidence showing how the tracking was done. If not, please explain why not.

- b) WN Hydro states that it has reviewed each line item in its 2011 Rate Base and OM&A Test Year Costs and adjusted for impacts of the HST. It further states that, since it will have gross revenues exceeding \$10 million, it is subject to restrictions on ITCs, and that the HST increases its costs.
 - i. Please identify the adjustments to each of the 2011 test year rate base and OM&A expenses due to the impact of the HST.
 - ii. Please provide WN Hydro's estimate of the increase to costs due to the ITC restrictions, including a comparison to the amounts of OM&A and capital that would have been subject to PST in the past (i.e. if no restrictions applied). Please provide further explanation and support for your response.

19. International Financial Reporting Standards (IFRS)

- a) Please identify the fiscal year in which WN Hydro intends to begin reporting its audited actual results on an IFRS basis.
- b) Please state whether or not WN Hydro has included an amount for IFRS transition costs in its Test Year revenue requirement.
 - i. If yes, please identify the amount and provide a breakdown with a detailed explanation of each cost item.
 - ii. If no, has WN Hydro recorded IFRS transition costs in the deferral account established by the Board in October 2009?

20. Exhibit 4/ Pages 98 - 101 – Purchases of Products and Services from Non-Affiliates

Board staff notes that Waterloo North has not provided the requested information for the 2010 bridge and 2011 test years, as identified in section 2.5.6 of the Filing Requirements.

Subject to the Board's determination on WN Hydro's claim for confidentiality, for 2010 and 2011, please provide the following information:

- a) identity of each company transacting with WN Hydro subject to the applicable materiality threshold;
- b) summary of the nature of the product/service that is the subject of the transaction;
- c) annual dollar amount related to each company (by transaction); and
- d) A description of the specific methodology used in determining the vendor (including a summary of the tendering process/cost approach, etc.)

21. Ontario Municipal Employees Retirement System Pension Costs

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. Please state whether or not WN Hydro's proposed pension costs include this increase. If so, please provide the forecasted increase by years and the documentation to support the increases. If not, please state how WN Hydro proposes to deal with this increase.

Taxes/PILs

22. Ref: Exhibit 1/page 81/Table 1-8 and Exhibit 4/page 90/Table 4-26 – Taxes/PILs

In Table 1-8, providing WN Hydro's 2010 pro forma Income Statement, the utility documents \$1,035,086 as its 2010 Income Taxes. In Table 4-26, WN Hydro documents an estimated PILs expense for 2010 of \$198,809. Please provide an explanation of the variance between the two tables.

23. Ref: Exhibit 4/page 90/Table 4-26 – Taxes/PILs

WN Hydro documents actual taxes/PILs paid of over \$2 million per year for each of 2006 to 2009 actuals. It forecasts taxes/PILs of \$198,809 for the 2010 bridge year and \$1,212,310 for the 2011 test year. The phasing out of the Ontario Capital tax explains part of the reduction in PILs, and part may also be accounted for by reductions in tax rates over this period.

Please provide a detailed discussion of the drivers for the reduced taxes/PILs estimates for 2010 and 2011 compared to previous historical actuals.

Exhibit 5 – Cost of Capital

24. Ref: Exhibit 5/page 9/Table 5-4 – Long-term Debt Cost

In Table 5-4, WN Hydro documents its existing and forecasted long-term debt in the 2011 test year. WN Hydro calculates a weighted average cost of long-term debt of 5.47% (based on the January 2010 deemed long-term debt rate of 5.87%, and subject to updating at the time of the Board's decision on this application). However, the Infrastructure Ontario loan for \$26,300,000 @ 4.95% is documented as being issued on December 31, 2011, and so will incur interest expense for only one day during the 2011 test year.

Board staff has prepared the following table based on Table 5-4 which calculates the weighted cost of long-term debt based also on the duration of the debt in the test year, and have calculated a weighted average long-term debt rate of 5.76%,

subject to updating of the Cost of Capital parameters at the time of the Board's decision.

Long-term Debt Instruments (based on Table 5-4)

Debt Holder	Is Debt Holder Affiliated?	Date of Issuance of Debt	Principal (\$)	Term (Years)	Actual Rate in 2009	Actual Rate in 2011	Rate Filing	Interest Expense in 2011
Waterloo North Hydro Holding Company	Y	01-Jul-09	\$ 17,266,271	N/A	6%	6%	5.87%	\$ 1,013,530
Waterloo North Hydro Holding Company	Y	01-May-00	\$ 16,246,940	N/A	8.38%	8.38%	5.87%	\$ 953,695
Infrastructure Ontario	N	31-Dec-11	\$ 26,300,000	25	N/A	4.95%	4.95%	\$ 3,567

Average daily debt	\$ 34,243,767	5.47%	\$ 1,970,792	5.76%
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- a) Please confirm or correct the calculations shown above.
- b) Please explain the rationale for WN Hydro's weighted average cost of long term debt as documented in its application, including the proposed treatment of the Infrastructure Ontario debt.

25. Exhibit 5/page 7 and Exhibit 5/Appendix A

In Exhibit 5, WN Hydro documents that the promissory note of \$17,266,271 @ 6.0% payable to its shareholder, Waterloo North Hydro Holding Company, was a recommencement or replacement of an earlier note, effective January 1, 2009. In Exhibit 5/Appendix A, the copy of the Senior Promissory Note for that principal and rate is dated July 1, 2009.

- a) Please confirm the date of issuance of the replacement or recommenced note.
- b) Please explain why the previous note was replaced or recommenced.
- c) What terms and conditions changed between the earlier note and the replaced or recommenced note?
- d) Please provide further explanation or support for the interest rate of 6.0% for this note at the time of issuance.

26. Exhibit 5/page 7 and page 10 – Actual return and long-term debt rates

On page 10, WN Hydro documents that its earned ROE was 8.24% in 2006, 8.83% in 2007, 9.28% in 2008 and 7.78% in 2009. It states that it underearned below the allowed deemed ROE of 9%, except in 2008, and that the major item affecting earned returns was a growing rate base.

From 2007 to 2010, WN Hydro has had distribution rates adjusted by the 2nd Generation Incentive Regulation Mechanism price cap formula of GDP-IPI – X.

The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "2006 Board Report"), issued December 20, 2006 states, at page 30:

For 2nd Generation IRM, the Board is satisfied that during the term of the plan changes in GDP-IPI will implicitly recognize changes in the ROE and debt rates, and that therefore no further adjustment will be required.

- a) Please confirm whether WN Hydro believes that GDP-IPI, used as the measure of input price inflation in the price cap adjustment under IRM, is affected by changes in the cost of capital in the Canadian economy..
 - i. If yes, please explain how the actual ROE earned in 2007 to 2009 can be compared to the allowed ROE of 9.00% from the 2006 EDR process. Please provide further support that WN Hydro actually underearned in each of these years.
 - ii. If no, please explain why WH Hydro does not believe that the price cap formula adjusts for changes in the cost of capital in the market.
- b) WN Hydro has an unsecured promissory note payable to its shareholder, Waterloo North Hydro Holding Corporation, issued May 1, 2000 for a principal of \$16,246,940 at a rate of 8.38%, calculated as $11/8$ (1.125%) above the deemed long-term debt rate of 7.25% allowed in the 2000 Distribution Rate Handbook. While the actual rate of 8.28% is thus above a market-based rate of 7.25% at the time of issuance, the deemed rate of 6.0% was used for establishing WN Hydro's revenue requirement and distribution rates in its 2006 EDR application (RP-2005-0020/EB-2007-448). Please comment on the extent to which paying interest expense at above a market-based rate contributes to underearning the allowed ROE.
- c) In Exhibit 5/Appendix A/page 17, the terms of the promissory note referred to in b) is stated as:

Interest on the principal sum shall accrue from first day of the month which immediately follows the month in which the Ontario Energy Board approves the distribution rates for the Corporation in response to the initial rate application filed by the Corporation and shall be payable at a rate per annum equal to a rate which is one and one-eighth percent ($1\frac{1}{8}\%$) per annum above the interest rate on debt (the "Debt Rate") which the Ontario Energy Board or its successor may permit the Corporation to pay for rate making purposes in the establishment of distribution rates, and the interest rate as aforesaid shall change from time to time with changes in the Debt Rate approved by the Ontario Energy Board.

- The terms state that the rate shall change in accordance with the debt rate approved by the Board. Please explain why WN Hydro documents the rate as 8.38%, or 7.25% (from the 2000 Distribution Rate Handbook) + 1.125%, when the Board has published updated deemed long-term debt rates in 2006 and annually beginning in 2008.
- d) Since the unsecured promissory note referred to in b) is callable on 270 days notice, and is payable by WN Hydro without notice or bonus, and attracts a rate higher than a market-based rate, please explain whether WN Hydro has investigated replacing this note with one based on terms reflective of current market conditions. If WN Hydro has not considered or investigated note replacement, please explain.

Exhibit 7 - Cost Allocation

27. Ref: Exhibit 7/page 5/Table 7-3 – Revenue-to-Cost Ratios - Residential

In Table 7-3, WN Hydro shows the revenue-to-cost (“R/C”) ratio for the residential class increasing from 98.58% in the 2007 Informational Filing, after adjustments to remove the Transformer Allowance, to 108.24 for the 2011 Cost Allocation study. WN Hydro is proposing an R/C ratio of 108.17% for the residential class.

Please explain the increase in the R/C ratio for the residential class from the 2007 Informational Filing to the updated Cost Allocation study.

28. Ref: Exhibit 7/page 5/Table 7-3 – Revenue-to-Cost Ratios – Streetlighting

In Table 7-3, WN Hydro shows the revenue-to-cost (“R/C”) ratio for the streetlighting class decreasing from 89.02% in the 2007 Informational Filing, after adjustments to remove the Transformer Allowance, to 55.92 for the 2011 Cost Allocation study. WN Hydro is proposing an R/C ratio of 60.60% for the streetlighting class for 2011, and migrating to the lower threshold of 70% by 2013.

Please explain the decrease in the R/C ratio for the streetlighting class from the 2007 Informational Filing to the updated Cost Allocation study.

29. Ref: Exhibit 7/page 10 – Streetlighting Cost Allocation

WN Hydro notes, in its 2007 Informational Cost Allocation Filing, that streetlighting connections were reflected as relay-controlled streetlights. The number of streetlighting connections was estimated as 1,032 (12,091 street light

connections divided by an average ratio of 11.7 street light connections per relay-controlled street light.

WN Hydro notes that it has shifted its focus to solely installing streetlights individually controlled by photo-sensors. For the updated 2011 Cost Allocation study, WN Hydro has used 2,644 streetlight connections, composed of 1,357 individually controlled streetlights and 1,287 relay-controlled connections.

- a) Please confirm that the relay-controlled arrangement constituted a “daisy-chain” whereby WN Hydro’s network connected to the relay-controlled streetlight, which in turn controlled a series of streetlights. Each relay-controlled streetlight series was then either all on or all off at a time.
- b) Who owns and operates the wires and other facilities connecting the relay-controlled streetlight to other streetlights in its daisy-chain? How are these assets treated in the Cost Allocation study methodology?
- c) When did WN Hydro commence installation of individually photo sensor controlled streetlights, and why is it converting to individually controlled streetlights? Is there any change in ownership of assets such as wires when installing or converting to individually-controlled streetlights?
- d) Does the installation of individually controlled streetlights involve the conversion of existing relay-controlled daisy-chains to individually-controlled streetlights? Please explain your response.
- e) The number of relay-controlled connections used in the 2011 Cost Allocation study is higher (1,287 versus 1,032) than in the 2007 Informational Filing. Please explain and provide the derivation (total number of streetlights in relay-controlled daisy-chains and average series length).

Embedded Distributor

30. Ref: Exhibit 1/page 52, Exhibit 7/page 2 and Exhibit 8/pages 15/Table 8-15

In Exhibit 7/page 2, WN Hydro states:

On May 1, 2006 WNH became a host distributor, and in accordance with the Board’s filing guidelines, it has included the Embedded Distributor rate class in its 2011 Cost Allocation model. WNH notes that the Embedded Distributor rate class was not included in its original Cost Allocation Informational Filing. WNH has not billed the Embedded Distributor any distribution charges since it became the host distributor.

In Exhibit 8/page 16/Table 8-15, WN Hydro documents its proposed rates for the new Embedded Distributor class, as follows:

EMBEDDED DISTRIBUTOR SERVICE CLASSIFICATION		
MONTHLY RATES AND CHARGES – Delivery Component		
Distribution Volumetric Rate	\$/kW	0.0118
Rate Rider for Global Adjustment Sub-Account Disposition – effective until April 30, 2014	\$/kW	0.1297
Rate Rider for Deferral/Variance Account Disposition (2010) – effective until April 30, 2014	\$/kW	(1.1063)
Rate Rider for Global Adjustment Sub-Account Disposition – effective until April 30, 2015	\$/kW	0.0005
Rate Rider for Deferral/Variance Account Disposition (2010) – effective until April 30, 2015	\$/kW	(0.0458)
MONTHLY RATES AND CHARGES – Regulatory Component		
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0013
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

In Tables 8-2, 8-3 and 8-4, WN Hydro documents a 2011 base revenue requirement for the embedded distributor class of \$846 dollars.

In Exhibit 7/page 10, under the discussion of its 2011 Cost Allocation Model, WN Hydro states:

WNH became a Host Distributor in May 2006, however, WNH's costs are extremely minimal. WNH does not have any capital costs as the Embedded Distributor owns its own circuits. WNH, thus, did not include load data in I-8 for this customer, as no plant capital costs or O&M costs were to be assigned to this class. The Embedded Distributor's wires are attached to WNH poles and the Embedded Distributor pays pole rental revenue to WNH. WNH reads and bills this one account monthly.

- a) If the Embedded Distributor, Hydro One Networks, Inc., owns its own circuits and power is not supplied through any distribution assets of WN Hydro, please explain how this is a host distributor/embedded distributor relationship.
- b) May 1, 2006, when WN Hydro became a host distributor, coincides with the effective date for WN Hydro's 2006 EDR distribution rates. Please confirm whether WN Hydro becoming a host distributor was in evidence in its 2006 EDR application considered under Board File No. RP-2005-0020/EB-2005-0448. If this was not considered in its 2006 EDR application, please explain why not.
- c) Why did WN Hydro not seek approval for an embedded distributor class and rates to charge the embedded distributor since 2006?
- d) Please estimate the revenues that WN Hydro has foregone or will forego from May 1, 2006 to April 30, 2011 due to not charging the embedded distributor. Have these revenues been foregone or have they been recovered from other existing ratepayer classes, or have they been recovered as pole rental charges at the approved rate? Please explain your response.

- e) In Exhibit 1/page 52, WN Hydro explains that it receives pole rental charges from the embedded distributor for the Embedded Distributor's circuits residing on WN Hydro's poles. Is the proposed Embedded Distributor charge incremental to, or a replacement for, the Pole Rental Charge. Please explain your response.
- f) If the embedded distributor owns its own circuits and WN Hydro provides poles that the embedded distributor attaches its circuits and facilities to, please explain:
 - i. How the cost for attaching to the poles depends on kW of demand; and
 - ii. How the power on the embedded distributor's circuits are metered for WN Hydro to bill on a per kW basis for pole attachment services.
- g) Please provide the derivation and reasonableness of the proposed volumetric rate of \$0.0118/kW.
- h) If all proposed rate riders shown in Table 8-15 apply, the aggregate distribution charge applicable to the embedded distributor from May 1, 2011 to April 30, 2014 would work out to (\$1.0219)/kW and (\$0.03)/kW from May 1, 2014 to April 30, 2015.
 - i. Please identify which rate riders would apply to the embedded distributor.
 - ii. If the embedded distributor did not exist prior to May 1, 2006 and has not been charged for distribution services to date, please explain the appropriateness of negative rate riders to refund credit balances for deferral and variance accounts, when the embedded customer has not paid (or overpaid).
 - iii. If all rate riders would apply, please comment on the reasonableness of the situation of an overall "negative" tariff applying to this customer.

Exhibit 8 - Rate Design

Distribution Rates

31. Ref: Exhibit 8/page 15/Table 8-15 – microFIT Generator

In Table 8-15 "2011 Proposed Rate Schedule", WN Hydro shows a rate of \$6.25 per month for the microFIT Generator Service Classification. WN Hydro's existing approved rate for the microFIT Generator Service Classification is \$5.25 per month, pursuant to the Board's Rate Order under File No. EB-2009-0326, located at http://www.oeb.gov.on.ca/OEB/Documents/EB-2009-0326/Rate_Order_microFIT_20100317.pdf.

Please explain in detail WN Hydro's proposal to increase the microFIT Generator Service monthly rate. Please include all supporting rationale for this request.

Loss Factors

32. Ref: Exhibit 8/page 10 – Supply Facility Loss Factor

On Exhibit 8/page 10, WN Hydro states:

The actual SFLF [Supply Facility Loss Factor] for 2008, 2009 and January to May 2010 are 1.0051, 1.0050 and 1.0050 respectively. Thus, WNH had determined that the five year average SFLF of 1.050 is representative of its two most recent actual years and the first five months of 2010 and has applied this factor in its loss factor calculation.

Please confirm that the SFLF used is 1.0050 as shown in Table 8-12 and not 1.050 as shown on page 10 of this exhibit.

33. Ref: Exhibit 8/page 11/Table 8-12 and Exhibit 8/page 16/Table 8-15

In Table 8-12, WN Hydro calculates a Total Loss Factor of 1.0151 for a Secondary Metered Customer > 5,000 kW. However, the proposed tariff documented in Table 8-15 shows a Total Loss Factor of 1.0150 for a Secondary Metered Customer > 5,000 kW. Please confirm the proposed Total Loss Factor for a Secondary Metered Customer > 5,000 kW.

34. Ref: Exhibit 1/page 60 and Exhibit 3/pp. 34-35 – Specific Service Charges

WN Hydro proposes to include two new Specific Service Charges

- Duplicate Invoice Charge (\$15); and
- Income Tax Letter (\$15).

In Exhibit 3/pages 34-35, WN Hydro states that the proposed charge \$15 is taken from the standard charge as documented in the 2006 Electricity Distribution Rate Handbook. Given that the 2006 Electricity Distribution Rate Handbook is five years old at this time, and the default rates have not been updated to reflect inflation or technological or operation productivity improvements, does WN Hydro have any evidence (i.e. time and materials) to support the proposed rates of \$15?

35. Ref: Exhibit 3/page 34 – Specific Service Charges

WN Hydro documents revenues in 2009 of \$57,233 for Property Tax Rebate for Previous Years.

- a) Please explain this entry as a source of specific service charge revenues.
- b) With which Board-approved Specific Service Charge(s) is(are) the revenues associated?
- c) Please explain why no revenues are recorded in the 2006 to 2008 actuals, nor forecasted for the 2010 bridge and 2011 test years for this line item.

Exhibit 9 – Deferral and Variance Accounts

36. Ref: Exhibit 9/page 8/II. 9-25

WN Hydro has proposed that the Global Adjustment sub-account balance and other deferral and variance (“D/V”) balances be disposed over a four-year period, from May 1, 2011 to April 30, 2015. The default period per the Board’s EDDVAR report and the usual practice for the disposition period is 1 year.

- a) Why does WN Hydro consider it appropriate that the proposed rate rider have a period of 4 years?
- b) Please re-estimate the rate riders to dispose of the Global Adjustment and D/V account balances assuming a one-year disposition period (i.e. from May 1, 2011 to April 30, 2012).
- c) Please re-estimate the rate riders to dispose of the Global Adjustment and D/V account balances assuming a two-year disposition period (i.e. from May 1, 2011 to April 30, 2013).

37. Ref: Exhibit 9/page 3/II. 8-9

WN Hydro has indicated that an adjustment was made to the 2009 balance of USoA Account 1508 Other Regulatory Assets to reallocate costs to the proper account, and that this account balance differs from the 2009 RRR Section 2.1.7 filing.

- a) Please state the amount reported to the Board for the account in WN Hydro’s 2009 annual filing pursuant to RRR section 2.1.7.
- b) Please identify the components of any differences between the amount in a) and the amount reported in Exhibit 3 of this rate application. Please explain each component of any difference identified in b).

38. Account 1592 – PILs and Tax Variances for 2006 and Subsequent Years

- a) Please identify whether WN Hydro has posted any amounts to account 1592 since April 2006.
- b) If yes, please provide the following:

- i. Please revise the deferral and variance account continuity schedule to include Account 1592 as a Group 2 account and enter all the relevant information for transactions, adjustments, etc. for all the relevant years.
- ii. Please describe each type of tax item that has been accounted for in Account 1592.
- iii. Please provide the calculations that show how each item was determined, and provide any pertinent supporting evidence.
- iv. Did WN Hydro follow the guidance provided in FAQ July 2007? If not, please explain why not.
- v. Please identify the account balance for Account 1592 as of December 31, 2009 as per the 2009 audited financial statements. Please identify the account balance as of December 31, 2009 as per the April 2010 2.1.7 RRR filing to the Board. Please provide a reconciliation if the balances provided in the above documents are not identical to each other and to the total amount shown on the continuity schedule.
- vi. Should the Board wish to dispose of this account at this time, please identify the allocator that, in WN Hydro's view, would be most appropriate in allocating the balance to the rate classes. Please identify the disposition period for recovery or refund that WN Hydro would prefer if different from the period proposed for the remaining deferral and variance accounts. Please identify the billing determinant that, in WN Hydro's view, would be most appropriate to use.
- vii. Please complete, as applicable, the following table based on the previous answers. Add rows as required to complete the analysis in an informative manner. Where WN Hydro has no entry for a cell, please provide an explanation. If WN Hydro uses Microsoft Excel to prepare the table, please submit the live Excel workbook.

Tax Item	\$ Principal As of [December 31, 2009]
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	
Large Corporation Tax from 2005 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4 /12ths of approved grossed-up proxy) if not recorded in PILs account 1562	
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2006	
Capital Cost Allowance class changes from 2006 EDR application for 2007	
Capital Cost Allowance class changes from 2006 EDR application for 2008	
Capital Cost Allowance class changes from 2006 EDR application for 2009	
Capital Cost Allowance class changes from 2006 EDR application for 2010	
Capital Cost Allowance class changes from any prior application not recorded above.	
Insert description of next item(s)	
Insert description of next item(s) and new rows if needed.	
Total	

Smart Meters

39. Ref: Exhibit 9/page 17 – Smart Meters

WN Hydro has proposed to continue the smart meter funding adder of \$1.00 per month per metered customer. It stated that it has not provided a completed schedule per Appendix 2-R of the Filing Requirements as it is not seeking an increase in the funding adder or seeking full or partial disposition of accounts 1555 and 1556.

However, WN Hydro states that it plans to complete smart meter deployment by the end of 2010.

The purpose of the funding adder was, when first approved by the Board in 2006, two-fold: first, to provide some “seed funding” for smart meter investments; and, second, to phase-in any increases due to increased costs arising from smart meters to mitigate the increases when the smart meters are fully recognized in rate base and revenue requirement.

To assist the Board in understanding the quanta of smart meter costs incurred and to assess the likelihood of potential future rate increase levels upon disposition, and given that WN Hydro has largely completed its smart meter deployment, please provide a completed schedule per Appendix 2-R of the Filing Requirements.

40. Stranded Meter Costs

Regarding the regulatory ratemaking treatment of stranded meter costs, some distributors have transferred the cost of stranded meters from Account 1860, Meters, to "Sub-account Stranded Meter Costs" of Account 1555, while in some cases distributors have left these costs in Account 1860. Depending on which treatment the applicant has chosen, please provide the information under the two scenarios (a) and b)) below, as applicable to the applicant.

- a) If the stranded meter costs were transferred to "Sub-account Stranded Meter Costs" of Account 1555, answer the following questions:
 - i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.
 - ii. Please provide the amount of the pooled residual net book value of the removed from service stranded meters, less any sale proceeds and contributed capital, which were transferred to this sub-account as of December 31, 2009.
 - iii. Since transferring the removed stranded meter costs to the sub-account, was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, please provide the total depreciation expense amount for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
 - iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, please provide the total depreciation expense amount that would have been applicable for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
 - v. Were carrying charges recorded for the stranded meter cost balances in the sub-account, and if so, please provide the total carrying charges recorded to December 31, 2009.
 - vi. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.

- vii. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
 - viii. In the outlined format of the table shown below (after b.), Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.
- b) If the stranded meter costs remained recorded in Account 1860, Meters, please answer the following questions:
- i. Please describe the accounting treatment followed by the applicant on stranded meter costs for financial accounting and reporting purposes.
 - ii. Please provide the amount of the pooled residual net book value of removed from service stranded meters, less any sale proceeds and contributed capital as of December 31, 2009.
 - iii. Was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, provide the total depreciation expense amount for the period from the time the meters became stranded to December 31, 2009.
 - iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, provide the total depreciation expense amount that would have been applicable for the period from the time the meters became stranded to December 31, 2009.
 - v. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
 - vi. Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
 - vii. In the outlined format of the table shown below, Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

Summary the Residual Net Book Value of Stranded Meter Costs

Year	Gross Asset (A)	Accumulated Amortization (B)	Net Asset (C = A-B)	Proceeds on Disposition (D)	Contributed Capital (E)	Residual Net Book Value (F=C-D-E)
2006						
2007						
2008						
2009						
2010 (1)						
Total						

(1) For 2010, please indicate whether the amounts provided are on a forecast or actual basis.

Exhibit 10 – LRAM and SSM Recovery

41. Ref: Exhibit 10/pp. 10-17 – Third Party Review of LRAM/SSM Claim

In support of its claim for recovery of Lost Revenue Adjustment Mechanism (“LRAM”) and Shared Savings Mechanism (“SSM”) costs for the period 2006 to 2009, WN Hydro has filed a third party review by Burman Energy Consultants Group Inc. The report filed does not include the Attachments A through E listed in the Table of Contents (**Exhibit 10/page 11**). Please file all attachments listed in the Table of Contents of the Burman Energy Consultants Group Inc. report.