

**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
Brantford Power 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. Shared Service Agreement

Ref a: Ex 1/3/13

Ref b: Ex 1/3/1/Appendix A/pg12 (Audited Financial Statements for 2006)

In Ref a, it states that Brantford Power Inc. purchases services under a Service Agreement from its affiliate service provider (the City).

In Ref b, Note 4 to Brantford Power Inc.'s 2006 Audited Financial Statements, it also states that BPI has entered into a shared service agreement with the City, whereby the City provide administrative, customer care, maintenance and operational services for BPI.

- a. Please provide a copy of the afore-mentioned Service Agreement.
- b. Please provide a schedule showing payments by BPI under the Service agreement from 2002 (or earliest year available) to 2008.
- c. Please provide a schedule showing, for the years 2002 (or earliest year available) to 2008, the proportion of each of BPI's Operation, Maintenance, Billing and Collections, Community Relations, and Administrative and General Expenses represent payments to the City of Brantford and/or Brantford Hydro Inc. and/or Brantford Energy Corporation.
- d. Please provide a schedule, for the years 2002 to 2008, showing payments to Brantford Power Inc. for any services provided to any of the entities mentioned above.

2. Fixed Assets Continuity Schedule

Ref a: Ex 2/2/1/pg10, 11

Ref b: Ex 2/2/2/pg3

Ref c: Ex 2/1/2

There appears to be an error in Ref a in the calculation of the closing balances for gross asset, accumulated depreciation and NBV for 2007 & 2008. The amount of “total adjustments” does not appear to be included in the calculation of the closing balances. This also affects the calculations in Ref b and Ref c.

Please confirm. If the above statement is correct, please provide restated schedules.

3. Materiality Analysis on Gross Asset Value – 2006 Actual to 2006 Approved Variance

Ref: Ex 2/2/3/pg1

The 2006 actual gross asset closing balance has increased by \$15,220,324 or 29% compared to 2006 approved level. BPI has identified the following factors contributing to the increase:

- 2006 actual gross assets value comprises two years of spending (2005 & 2006);
 - Revised capitalization policy has improved the recognition in capital costs of indirect / overhead costs related to BPI’s capital program;
 - Mayfair Phase 2 voltage conversion project;
 - General inflation;
- a. Please separately provide 2005 and 2006 gross asset value by line item.
 - b. Please separately provide the capitalized indirect/overhead costs (which was fully expensed under the previous policy) subsequent to the change in BPI’s capitalization policy.
 - c. Please separately provide the cost of Mayfair Phase 2 voltage conversion project included in 2006 rate base;
 - d. Has BPI conducted any study justifying the change of its capitalization policy? If yes, please provide a copy of the study. If no, please also justify the necessity of the change.

4. Materiality Analysis on Gross Asset Value – 2007 to 2006 Actual Variance

Ref: Ex 2/2/3/pg5

BPI has stated in the Evidence that part of the 2007 bridge year over 2006 actual variance for gross assets is caused by a change in accounting practice. Specifically, costs pertaining to overhead assets had been combined and apportioned on a percentage basis to Accounts #1830, #1835, #1840, and #1845 prior to 2007. Starting in 2007, such asset costs were booked directly to the appropriate UsoA account through the internal work order system.

SEC has hence checked both the 2007 opening and 2006 closing gross asset balances and identified the following discrepancies.

Reconciliation of Gross Asset 2006 Closing Bal and 2007 Opening Bal by Account:

Account	2006 Closing Bal	2007 Opening Bal	Diff
#1805	208,241	208,241	-
#1815	4,469,541	4,229,079	240,462
#1820	140,683	140,683	-
#1830	2,508	11,920,113	(11,917,605)
#1835	18,450,940	9,279,964	9,170,976
#1840	10,164	9,941,502	(9,931,338)
#1845	21,951,877	9,273,909	12,677,968
#1850	12,422,296	12,422,296	-
#1855	470,619	470,619	-
#1860	6,499,397	6,499,397	-
#1930	2,297,774	2,297,774	-
#1940	90,072	90,072	-
#1955	1,176	1,176	-
#1970	547,972	547,972	-
#1995	(1,015,463)	(1,015,463)	-
#1808	1,192,568	1,192,568	-
Total	67,740,365	67,499,902	240,463

Please confirm if the above table is correct or not. If yes, the rate base calculation will also need to be corrected.

5. Revised Accounting Treatment for Capitalization

Ref: Ex 2/3/4

BPI has adopted a revised capitalization policy since September 2006, to allocate its capital project related indirect and overhead costs to OM&A and capital. Prior to the change in capitalization policy, all capital project related indirect and overhead costs were fully expensed.

- e. Please quantify revenue requirement impact of this change.
- f. Please provide the impact that this change will have on BPI's OM&A per customer- i.e. what would BPI's 2008 OM&A per customer be as-filed and what would it be assuming the old capitalization method?

6. Capital Expenditures

Ref: Exhibit 2/3/1, pp. 26-35

- a. Under “New Lines and Equipment”, BPI lists the “potential projects to be undertaken in 2008”. Does BPI have specific projects it intends to undertake in 2008. If not, why should (half of) \$1,238,811 be added to the test year rate base for this item?

7. Load Forecast

Ref: Ex 3/2/2/pg3

BPI has stated that the retail NAC is calculated by dividing the class weather normal retail KWh for 2004 by the number of customers in class in 2004. The class weather normal retail KWh for 2004 is determined by dividing the class weather normal wholesale KWh for 2004 by the class loss factor.

Data from the following table was extracted from Ex 3/2/2/pg3, Table 3.2.2-2 & 3.

There appears to be a difference between the “Retail NAC calculated” as per the methodology described above and the “Retail NAC” reported on Ex 3/2/2/pg3 Table 3.2.2-3.

- a. Please verify the calculation in the table below.
- b. If the Retail NAC will have to be revised, please confirm or provide updated Table 3.2.2-4 and other affected calculations in the Application.

	2004 Weather Actual			2004 Weather Normal			Retail NAC Calculated	Retail NAC
	Wholesale KWh	Retail KWh	Loss Factor	Wholesale KWh	Customer	Retail KWh		
	A	B	C=A/B	D	E	F=D/C	F/E	
	Ex 3/2/2/pg3			Ex 3/2/2/pg3				Ex 3/2/2/pg3
Residential	280,077,031	272,962,945	1.0261	284,000,199	31,901	276,786,463	723	732
GS<50	101,415,303	97,811,277	1.0368	104,878,351	2,454	101,151,258	3,435	3,464
GS>50	583,207,331	553,624,643	1.0534	587,883,379	391	558,063,503	118,939	118,939

8. OM&A Costs – Meter Expense Variance: 2006 Actual vs. 2006 Approved

Ref: Ex 4/2/3/pg2

	2006 Approved	2006 Actual	Variance
Account 5065 Meter Expense	\$187,306	\$359,201	\$171,895

BPI has stated that the variance was driven by the following 3 factors:

- Allocation of indirect costs in accordance with the new capitalization policy,
 - Inventory write off in 2006 to account for scrap meter inventory,
 - Increase in FTE complement by one position.
- a. Please separately provide the amount of variance for the 3 factors mentioned above.
- b. BPI has stated in Ex 4/2/3 that the impact of the new capitalization policy in 2006 was to redistribute indirect costs to both OM&A and capital. As a result, OM&A costs declined and capital expenditures increased by a comparable amount. It appears that the increase in Meter expense is not a direct result of the change in capitalization policy. Please explain.

9. OM&A Costs – Miscellaneous Customer Account Expenses Variance: 2006 Actual vs. 2006 Approved

Ref: Ex 4/2/3/pg5

	2006 Approved	2006 Actual	Variance
Account 5340 Misc. Customer Accounts Expense	\$124,472	\$503,980	\$379,508

BPI has stated that the variance was driven by the following 4 factors:

- Additional costs for 2 FTE positions,
 - Increased inter-department charges from Metering Business Unit to Customer Service Business Unit,
 - Reclassification of Customer Service Related costs,
 - Allocation of indirect costs in accordance with the new capitalization policy,
- a. Please separately provide the amount of variance for the 4 factors mentioned above.
- b. Please provide reasons justifying the increase on inter-department charges. Does the change only affect Metering Business Unit and Customer Service Business Unit or is this a company-wide change affecting all internal service receivers and providers?

- c. BPI has stated in Ex 4/2/3 that the impact of the new capitalization policy in 2006 was to redistribute indirect costs to both OM&A and capital. As a result, OM&A costs declined and capital expenditures increased by a comparable amount. It appears that the increase in Misc. Customer Accounts Expense is not a direct result of the change in capitalization policy. Please explain.

10. OM&A – Employee Pensions and Benefits Variance: 2006 Actual vs. 2006 Approved

Ref: Ex 4/2/3/pg7

	2006 Approved	2006 Actual	Variance
Account 5645 Employee Pensions and Benefits	\$156,243	\$49,204	-\$107,039

BPI has stated that the variance was driven by a reduction in present value of future benefits.

Pension Expense is a net amount calculated by adding together five factors, including service cost, interest on the projected benefit obligation, expected return on plan assets, amortization of unrecognized prior service cost, and amortization of the cumulative unrecognized net gain or loss from previous periods.

Please explain:

- How employee pensions and benefits flow through to BPI directly when the majority of its services are provided under the Service Agreement with the City of Brantford.
- If BPI tracks employee pensions and benefits costs, why does it not also track staff compensation costs generally?
- Whether BPI's pension plan is a defined benefit or defined contribution plan,
- On a weighted-average basis, the rates used for the assumed discount rate, rate of compensation increase, and expected long-term rate of return on plan assets, and the assumptions used to determine benefit obligations and net benefit cost;
- Any substantive commitments, such as past practice or history of regular benefit increases used to account for benefit obligation;
- An explanation of any significant changes in the plan assets or the benefit obligation.

11. OM&A Costs – Meter Expense Variance: 2007 vs. 2006 Actual

Ref: Ex 4/2/3/pg9

	2006 Actual	2007	Variance
Account 5065 Meter Expenses	\$359,201	\$544,927	\$186,726

BPI has stated that the variance was driven by 2 factors:

- Increase in labour and material costs due to change in business unit work plans,
 - Increases in standard fleet charges
- a. Please separately provide the amount of variance for each factor identified above.
 - b. By how much has standard fleet charge been increased in 2007? Is the increase of the standard charge related to any change (decrease) of the estimated volume of activity?

12. OM&A Costs – Regulatory Expenses Variance: 2007 vs. 2006 Actual

Ref: Ex 4/2/3/pg10

	2006 Actual	2007	Variance
Account 5655 Regulatory Expenses	\$88,064	\$207,954	\$119,890

BPI has stated that its 2006 actual balance is anomalous as no major regulatory projects were completed in 2006.

- a. Please explain what major regulatory projects requiring external contracted resources were completed in 2007.
- b. Please explain whether BPI requires any external contracted resources for its 2008, 2009 & 2010 regulatory activities, and if yes, what is BPI's best estimate of the amount to be spent in those years.

13. OM&A Expense

Ref. Exhibit 4/2/1 and 4/2/3

Account 5665- Miscellaneous General Expenses

The balance for this account is \$1,036,833 in 2006 Board approved, (\$112,105) in 2006 actual, \$172,618 in 2007, and \$187,617 in 2008. The evidence states that there was a reallocation of costs out of this account in 2006 that accounts for the large variance from 2006 Board approved to 2006 actual. [see Exhibit 4/2/3, pg. 7]. For 2007, the evidence states that the accounting treatment for standard fleet charges “was substantially revised in 2007 through the creation of Fleet Business Unit, which

collects all costs related to fleet. Those costs are subsequently charged to specific direct and capital costs through standard fleet charges.” [Ex. 4/2/3, pg. 10] Please:

- a. Provide a more detailed explanation as to why this account went from a negative balance in 2006 actual to a positive balance of \$172,618 in 2007.
- b. Explain the 2008 forecast of \$187,617.

14. OM&A Expenses

Ref. Exhibit 4/2/3

Re Account 5340- increase from \$536,497 in 2007 to \$709,340 in 2008 (variance of \$172,843). Please:

- a. separately identify what portion of the increase is due to increase in customer service fees and what portion is due to resulting increased allocation of indirect costs (and identify what they are);
- b. explain why customer service fees are increasing by such an extent.

15. OM&A Expenses

	<i>2006 Actual</i>	<i>2007</i>	<i>2008</i>	% Change 2007 vs. 2006	%Change 2008 vs. 2006
Operating	793,192	1,176,926	1,090,412	48.38%	37.47%
Maintenance	1,521,089	1,870,016	1,884,681	22.94%	23.90%
Billing & Collections	1,900,231	2,145,847	2,302,509	12.93%	21.17%
Community Relations	326,422	190,140	139,091	-41.75%	-57.39%
Admin and General	1,984,087	2,634,367	2,783,384	32.77%	40.29%
Total	6,525,021	8,017,296	8,200,077	22.87%	25.67%
2007 vs. 2006 (\$)		\$1,492,275			

Variance explained in Ex. 4/2/3:

<u>Account</u>	<u>Variance</u>
5065 Meter Expense	\$186,726
5150- Maintenance Line Transformers	\$99,948
5415- Energy Conservation	(\$179,751)
5655- Regulatory Expenses	\$119,890
5665- Miscellaneous General	\$284,723
<u>Total Variance explained</u>	<u>\$511,536</u>
Unexplained variance- 2007 vs. 2006 (\$1,492,275 less \$511,536)	<u>\$980,739</u>

- a. As is shown from the tables above, the variance explanations in provided at Exhibit 4/2/3 do not explain the large percentage increases Operating, Maintenance, Billings and Collections, and Administrative and General expenditures from 2006 to 2007. The OM&A cost table at Exhibit 4/2/1, pg. 1-4 show large percentage increases in many of the line items (eg. 38% increase for account 5005; 521% increase in account 5010, etc.) Please provide a detailed explanation for the increase in each account that increases by more than 5% in a single year. Please explain the drivers for the increase, and what proportion represents increased payments to the City of Brantford.
- b. Please provide a similar explanation for the increase from 2007 to 2008.

16. Intra-Company Cost Allocation

Ref: Ex. 4/2/4, pg. 6

- a. Please explain why “% of Total Assets” or “% of square footage utilized” is used as the allocator rather than time estimates for Records Management, Telephone services, general financial services, inventory and stores, legal services, and human resources services.
- b. Please explain the 15% increase in shared services costs (from \$4.1 million to \$4.7 million) between 2006 and 2008 .

17. Purchase of Services

Ref. A: Ex. 4/2/5, pg. 3

Ref. B: Ex. 4/2/6

Ref C: Exhibit 4/3/1

- a. Ref. A: Please provide a detailed explanation for the 37% increase (from \$2.120 million to \$2.898 million) in services purchased from the City of Brantford between 2006 and 2008. Please provide a breakdown by inflationary increases and increases in the amount of work performed. Where increased work is the driver for the increase, please explain the reason for the increased work.
- b. Ref. B: Please provide a breakdown of the total services purchased from the City of Brantford that represent compensation costs. Please breakdown compensation costs by base pay, overtime, benefits and incentive compensation.
- c. Please explain why, if BPI has only one employee, the Income Tax, Large Corporation Tax and Ontario Capital Tax Table contains an entry entitled “Employee Benefit Plans- accrued, not paid”, which ranges from \$474,521 in 2006 Board approved to \$849,005 in 2008.

18. Cost Allocation

Ref: Ex 8/1/2

The existing Revenue to Cost ratio for GS >50 rate class is 140%.

- a. Please confirm that the Streetlighting ratepayer is an affiliate of BPI.
- b. What would be the resulting revenue to cost ratios if the StreetLighting rate class were moved to 100% and the extra revenue from Streetlighting were assigned to the GS>50 rate class? What would it be if StreetLighting were moved to 80%?

19. Rate Design

Ref.: Exhibit 9/1/5 and Exhibit 9/1/7

- a. Please complete the following table with data from existing rates:

<u>Revenue by Rate Class</u>	<u>Existing Rates</u>		<u>Proposed Rates</u>	
	<u>\$'s from Class</u>	<u>\$ of Total RR</u>	<u>\$'s from class</u>	<u>% of Total RR</u>
Residential			\$937,0830	54.39%
GS<50			1,616,827	9.39%
GS>50			6,025,107	34.97%
Street Lights			79,168	0.46%
Sentinel Lights			5,967	0.03%
Unmetered Scattered Load			87,487	0.51%
Back-up/Standby Power			41,993	0.24%
Total			\$17,227,379	100.00%

Source for proposed rates: Exhibit 8/1/2, pg. 3 and Exhibit 9/1/1, pg. 5.

- b. Please explain why the volumetric rate for the GS>50 rate class increases by 20.1% in 2008 (from \$2.4818/kW to \$2.9797/kW) compared to a 7.7% increase in the volumetric rate for the GS<50kW rate class and 7.1% for the Residential rate class. The fixed charge increases by about 7% for all three rate classes.

20. Capital Expenditures

Ref. Ex. 2/3/1

- a. BPI appears to be replacing 1,300 traditional meters whose seals have expired and installing an additional 1,200 traditional meters for new connections. These expenditures appear to be wasteful as all meters will likely be replaced with smart meters by 2009. Has BPI considered asking Measurement Canada for an exemption from having to replace meters

whose seals have expired (as Hydro One has done) so as to avoid having to replace a meter that will have to be replaced in less than two years?

- b. With respect to new connections, has BPI considered installing smart meters for all new connections?