**EB-2011-0099**

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

**AND IN THE MATTER OF** an Application by E.L.K. Energy Inc. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective on October 1, 2012.

**INTERROGATORIES**

**FROM THE**

**SCHOOL ENERGY COALITION**

*[Note: All questions have been assigned to Exhibits for ease of reference. However, please provide answers that respond to each question in full, without being restricted by the issue or category. Many questions have application to multiple issues and exhibits, but all have been asked only once to avoid duplication.]*

***Exhibit 1 – Administrative Documents***

SEC - 1 [General] With respect to the table attached to these interrogatories and marked "E.L.K. Timeline Data":

a. Please confirm that the data in the table correctly transposes the data from the 2008 through 2011 Electricity Yearbooks relative to the Applicant, or performs correct calculations on that data. If any of the data is incorrect, please provide the correct information. A live copy of the Excel spreadsheet has been provided for assistance in responding.

b. Please complete the column for 2012 with actuals or estimates for each of the line items, calculated on the same basis as the past data.

c. Please reconcile the Total Losses percentages (the % difference between reported purchases and sales) with the loss factor information contained in the Application. Please explain the high differences between purchases and sales, particularly in 2010. Please estimate the impact on these percentages, to date and in the future, of the Applicant's strategy of converting its entire system to 27.6kV service.

d. Please reconcile the figures (from "Statistics by Customer Class" in the Yearbooks) for Distribution Revenues by class with the total distribution revenues (from the Income Statements for each year) and with Table 3-1 in the

Application. Please provide a consistent set of data that shows distribution revenue by class for each of the four years, plus 2012, and reconciles that data with the RRR reporting and the income statement.

e. Please explain why Net PP&E is declining while customer numbers are increasing, and PP&E per customer dropped more than 15% from 2008 to 2011. Please provide details of any accounting adjustments made in any year that caused all or any part of this decline.

f. Please explain why the Applicant's capital additions in each year except 2008 were less than depreciation. Please also explain the Applicant's low level of capital additions relative to the average in the industry over the last four years of more than 180% of depreciation.

g. Please explain the drops in Maintenance and Admin expenses in 2010.

h. Please confirm that the large shifts in the shareholders' equity, the equity thickness and the long term debt between 2008 and 2009 came about in whole or in part because of the consolidation of ownership approved by the Board in EB-2008-0310. Please provide details of the major transactions that effected these changes, such as returns of capital or dividends, new long term borrowing transactions, etc.

i. Please advise whether the increase in actual equity thickness from 2009 to 2011 (28.6% to 34.8%) was part of a plan to reduce leveraging over time. If that was the case, please provide the planning and/or approval document related to the de-leveraging plan. If it was not part of a plan, please advise the reasons for the increase in equity thickness over those two years. In either case, please advise whether the Applicant plans to bring equity thickness up to the Board-approved level of 40%, and if so on what schedule and by what means.

j. Please confirm that the rapid drop on ROE in 2011, from overearning in all prior years, was the result of much lower distribution revenues plus higher OM&A, partially offset by much lower PILs. Please describe the main reasons for the lower 2011 distribution revenues compared to prior years.

k. Please confirm that, even if the Net Income in 2011 had been sufficient to earn the Board-approved ROE, the total carrying cost of capital (ROE, interest, and PILs) would have been been about $1.2 million, substantially less than for prior years. Please explain where the reductions in the carrying cost of capital have been returned to ratepayers in the form of lower overall revenue requirement for 2012.

SEC - 2 [1/2/1, p. 1] Please provide copies of:

a. The current Shareholder Direction, and any previous Shareholder Direction dated after 2000.

b. The current Corporate Strategic Plan.

SEC - 3 [I/2/1, p. 2] Please confirm that the Applicant is seeking to recover its calendar 2012 revenue requirement over a rate period of October 1, 2012, to September 30, 2013, but with any change in rates for any customer class actually applying only for the period from the Board's decision to September 30, 2013. Please confirm that the Applicant is proposing that the Applicant's interim rates for the period prior to October 1, 2012 be declared final, and that no adjustment should be made to account for any over or under collection from ratepayers of any class during that period.

SEC - 4 [1/2/2] With respect to this exhibit:

a. Please explain how "indirect costs [are] allocated to direct costs for budget presentation". Please provide the budget presentation referred to.

b. Please reconcile the statement "indirect costs are allocated to direct costs in the capital budget" with the statement in 2/1/1, p. 6, that the Applicant does not capitalize indirect costs.

SEC - 5 [1/2/4, p. 3] Please explain why the drivers of the deficiency do not take into account changes in gross distribution revenues over the period from the last time the Applicant's rates were set by the Board.

SEC - 6 [1/2/4, p. 3] Please restate the table of drivers of the deficiency to take account of:

a. Reductions in rates of PILs and interest rates since the Applicant's rates were last set by the Board;

b. The Applicant's overearning history for at least 2008 through 2010.

***<u>Exhibit 2 – Rate Base</u>***

SEC - 7 [2/1/1] With respect to this exhibit:

a. p. 1 Please restate the working capital allowance, rate base, ROE, interest cost, and PILs on the basis of the new Board default WCA, rather than the previous 15%.

b. p. 1 Please provide all asset condition assessments or similar documents prepared with respect to all or any significant portion of the Applicant's assets at any time since 2005, including without limitation any ACAs or similar documents prepared by third parties, or the Applicant's present or former shareholders, with respect to potential M&A or similar activities.

c. p. 3 Please provide the capital budget for 2012 and long range forecast provided to the Board of Directors for approval, as well as all powerpoints or other presentation materials provided along with the budget and forecast. Please provide the date of that approval.

d. p. 3 Please provide the "total labour budget" for 2012.

e. p. 6. Please advise whether, as a result of the Applicant's existing accounting approach to capitalization of overheads, its capitalization policy is already substantially IFRS compliant. If there are any material differences between the Applicant's policy and an IFRS compliant policy, please provide details with estimated impacts.

SEC - 8 [2/1/2, p. 3] Please explain the main reasons why outages caused by defective equipment and tree contacts have increased substantially over the nine years reported. Please describe the Applicant's current plan to bring these levels back down.

SEC - 9 [2/1/3] With respect to this exhibit:

a. p. 8 Please confirm that the Harris Northstar CIS completed in 2008 remains suitable for current regulatory requirements, including time of use billing and migration to IFRS accounting.

b. p. 14 Please provide any reports, presentations or other analyses that consider the lifecycle costs and benefits of the two Hybrid SUVs compared to conventional vehicles.

c. p. 16 Please explain why there is a "contribution" of $187,820 in Table 2-17 that is apparently not a credit.

d. p. 22 Please provide any plan, memo, presentation or other document detailing the full Viscount Estates project, not just for 2012 but for all years, including without limitation any multi-year budgets for the project. Please provide details of the evidence used to determine that "the underground infrastructure within Viscount Estates is at or near life expectancy". Please provide a status update on this project.

SEC - 10 [2/1, App. 2-A] With respect to the Asset Management Plan:

a. Please advise who prepared this plan. Please provide details of any third parties who assisted in the development or drafting of this plan.

b. p. 7 Please provide any analysis prepared for the Applicant, before or after the fact, showing the costs and benefits of converting the system to 27.6kV. Please provide the approval, and supporting presentations and other documents, with respect to the 27.6kV conversion project.

c. p. 8/11 Please confirm that this document is not intended to be an operating document, but is instead a communication document for third parties such as the Board and other stakeholders. Please provide any asset management plans, strategies, or other documents that are relied on for operational decision-making.

d. p. 9 Please advise why the Applicant does not have a SCADA system. Please advise when, if at all, the Applicant plans to invest in a SCADA system, and provide details of that plan. Please provide any analyses, proposals, or similar documents related to past consideration by the Applicant of investing in SCADA.

e. p. 10 Please provide a list of all asset categories of the Applicant that, prior to 2012, were operated on a "run to failure" basis. Please provide a list of all such categories for which the "run to failure" basis is proposed to be changed, either in 2012 or in subsequent years.

f. p. 14 Please provide the 2012 "asset condition assessment and detailed budgets" referred to. If the 2013 documents have been prepared, please provide those documents as well.

g. p. 16 Please provide details of the 2006 customer survey, including a full set of results.

h. p. 19. Please provide the most recent monthly report to the Board of Directors on "maintenance, operational, and capital programs".

i. p. 21 Please advise what version of AutoCAD Map 3D is the basis of the Applicant's asset management system. If it is not the recently released 2013 version, please advise if the Applicant plans to upgrade, if so when, and provide a cost estimate.

j. p. 29/31/33 Please provide age distribution curves for the currently installed

   i. pole-mounted transformers,

   ii. single phase pad mounted transformers, and

   iii. three phase pad mounted transformers.

k. p. 35 and others. Please explain the accounting basis for treating as O&M costs replacements of three phase pad mounted transformers, and other assets, that have failed. Please advise the total value of replacement assets in 2012 that are being included in O&M.

l. p. 35 Please advise why, if the life of poles is actually expected to be 35-75 years, the TUL assumed is 25 years.

m. p. 39 Please explain how a system with only one pad mounted switchgear can have a failure rate or an "increasing trend" relating to that asset category.

***Exhibit 3 – Operating Revenue***

***Exhibit 4 – Operating Costs***

SEC - 11 [4/2/1] With respect to this exhibit:

a. p. 2 Please provide details of the "time and condition based methodologies".

b. p. 3 Please provide the overhead percentage for each of 2008 through 2012, and the calculation of that percentage for 2012 and for any of the other years that is materially different from 2012.

c. p. 6 Please provide details of the costs of redesigning the website, and where those costs appear in Tables 2-19 and 2-21.

d. p. 7 Please advise who on the Management Team is responsible for Operations and Maintenance.

SEC - 12 [4/2/4] Please provide the last three years' financial statements for E.L.K Solutions. Please provide all current service level agreements between the Applicant and E.L.K Solutions, and any between the Applicant and any other affiliate or shareholder. Please also provide the immediately preceding service level agreement between the Applicant and E.L.K Solutions.

SEC - 13 [4/2/5, p. 2] Please advise the annual dues payable by the Applicant in 2012 to the EDA. Please confirm that the Applicant is prohibited from using MEARIE in any year that it is not an EDA member.

SEC - 14 [4/2/6] With respect to this exhibit:

a. p. 1 Please provide the pay equity plan referred to.

b. P. 4/5 Please clarify the status of the position of Director of Finance, including when the incumbent left, how long it has been vacant, when it was or will be filled, and the cost consequences of each of these (and any other relevant) steps for 2010, 2011 and 2012.

SEC - 15 [4, App. 4-B, p. 3] Please advise the basis for the 3% inflation assumption. Please recalculate the valuation using a 2% inflation assumption, or estimate the impact of that assumption on the figures in the report.

SEC - 16 [4/2/7, p., 9] Please recalculate Table 4.35 using the useful lives set out in the Board's Kinectrics Report.

SEC - 17 [4/3/1] Please reconcile the income tax figures in Table 4.39 with the income tax amounts reported by the Applicant in its RRR filings, and reported by the Board in its annual electricity yearbooks.

***<u>Exhibit 5 – Cost of Capital and Rate of Return</u>***

***<u>Exhibit 6 – Calculation of Revenue Deficiency or Sufficiency</u>***

***<u>Exhibit 7 – Cost Allocation</u>***

***<u>Exhibit 8 – Rate Design</u>***

SEC - 18 [8/1/1, p. 4/5] Please confirm that, if the GS>50 monthly service charge is set at $127.68, the volumetric charge for that class has to be set at $2.2460/kW to remain revenue neutral.

SEC - 19 [8/1/8, p. 5] Please recalculate the GS>50 table on this page including the Global Adjustment rider.

***<u>Exhibit 9 – Deferral and Variance Accounts</u>***

Respectfully submitted on behalf of the School Energy Coalition this 8$^{th}$ day of January, 2013

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Jay Shepherd

## E.L.K. Timeline Data

| Comparator | | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Customers | | 10,853 | 11,112 | 11,205 | 11,276 | |
| | Residential | 9,638 | 9,843 | 9,899 | 9,964 | |
| | GS<50 | 1,099 | 1,148 | 1,187 | 1,201 | |
| | GS>50 | 116 | 121 | 119 | 111 | |
| | Percentage Increase | | 2.39% | 0.84% | 0.63% | |
| Volumes Sold (kwh) (000s omitted) | | 251,163 | 233,194 | 238,626 | 242,066 | |
| | Total Losses | 4.37% | 6.29% | 9.50% | 5.09% | |
| | Average Peak Demand | 44,779 | 42,694 | 47,798 | 45,507 | |
| DX Revenues (000s omitted) | | $4,869 | $4,622 | $4,554 | $3,621 | |
| | Residential | $877 | $843 | $784 | $2,522 | |
| | GS<50 | $87 | $83 | $59 | $385 | |
| | GS>50 | $558 | $590 | $482 | $1,534 | |
| | Other | $3,347 | $3,106 | $3,229 | -$820 | |
| Property, Plant & Equipment (000s omitted) | | $8,810 | $8,527 | $8,117 | $7,757 | |
| | PP&E per Customer | $811.76 | $767.37 | $724.41 | $687.92 | |
| | Percentage Decrease | | 5.47% | 5.60% | 5.04% | |
| | Capital Additions/Depreciation | 147.4% | 66.8% | 98.3% | 57.2% | |
| OM&A (000s omitted) | | $2,173 | $2,517 | $2,115 | $2,452 | |
| | Operations | $211 | $299 | $237 | $247 | |
| | Maintenance | $409 | $507 | $310 | $524 | |
| | Administration | $1,552 | $1,692 | $1,536 | $1,648 | |
| | Other | $0 | $19 | $32 | $33 | |
| | OM&A per Customer | $200.22 | $226.51 | $188.76 | $217.45 | |
| Actual Shareholders' Equity (000s omitted) | | $14,816 | $6,208 | $7,386 | $6,795 | |
| | Equity Thickness | 63.3% | 28.6% | 31.8% | 34.8% | |
| | Long Term Debt (000s omitted) | $3,900 | $9,900 | $7,200 | $8,300 | |
| | Net Income (000s omitted) | $1,232 | $983 | $1,178 | $317 | |
| | Financial ROE | 8.32% | 15.83% | 15.95% | 4.67% | |
| | Interest Cost (000s omitted) | $292 | $233 | $290 | $307 | |
| | PILs (000s omitted) | $854 | $562 | $580 | $217 | |
| | Total Cost of Capital | $2,378 | $1,778 | $2,048 | $841 | |