EB-2012-0107

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 Bluewater Power Distribution Corp. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity, effective on May 1, 2013.

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] Please confirm that there are 43 schools in the Applicant's service area. Please provide a breakdown of the rate classes of those schools between GS<50 and GS>50.

SEC - 2 [General] With respect to the table attached to these interrogatories and marked "Bluewater 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 columns for 2012 and 2013 with actuals or forecasts for each of the line items, calculated on the same basis as the past data.

c. 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 the Application. Please provide a consistent set of data that shows distribution revenue by class for each of the four years, plus 2012 and 2013, and reconciles that data with the RRR reporting and the income statement.

d. Please provide any reasons known to the Applicant to explain the unusual pattern of Average Peak Demand over the past four years.

e. Please explain why actual losses experienced in 2010 were outside of the pattern of all other years.

f. Please explain the large increase in PP&E from 2009 to 2010. If the primary reason for that increase was information technology projects, please provide details of those projects or provide evidence references in the Application.

g. Please explain the large increase in Operations spending from 2008 to 2009, and the large increase in G&A spending from 2010 to 2011.

h. Please advise whether the decrease in actual equity thickness from 2008 to 2011 (37.4% to 30.9%) was part of a plan to increase actual leveraging over time. If that was the case, please provide the planning and/or approval document related to the leveraging plan. If it was not part of a plan, please advise the reasons for the decrease in equity thickness over those four 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.

i. Please reconcile the amount of $26.720 million of shareholders' equity in the RRR filing for 2011 with the amount of $22.996 of shareholders equity in Ex. 1/3/1, Attachment 1.

SEC - 3 [General] Please confirm that the following table correctly sets out the 2011 Yearbook data, and calculations from it, for the Applicant and the other named LDCs.

Comparisons of Distributor Data - Bluewater Power

	OM&A/ Cust 2011	*Rank*	*Net Fixed Ass/Cust.*	*Rank*	*CapAdds/ Depr.*	*Rank*
E.L.K.	$217.48	**6**	$688	**1**	57%	**15**
Wasaga	$183.71	**1**	$727	**2**	102%	**14**
Chatham-Kent	$268.60	**12**	$1,540	**12**	141%	**11**
Peterborough	$212.07	**5**	$1,400	**10**	181%	**7**
Festival	$203.79	**2**	$1,717	**14**	145%	**9**
Welland	$244.88	**9**	$1,035	**4**	142%	**10**
Kingston	$242.86	**8**	$1,135	**5**	288%	**2**
Westario	$209.58	**4**	$1,425	**11**	215%	**4**
COLLUS	$259.70	**11**	$865	**3**	197%	**5**
St. Thomas	$231.19	**7**	$1,163	**6**	147%	**8**
Essex	$205.78	**3**	$1,391	**9**	237%	**3**
Woodstock	$259.27	**10**	$1,673	**13**	297%	**1**
Niagara Peninsula	$275.74	**13**	$1,976	**15**	138%	**12**
Bluewater	$327.42	**15**	$1,200	**7**	127%	**13**
Erie Thames	$321.43	14	$1,300	8	191%	6
Averages	$244.23		$1,282		174%	
Bluewater/Average	134%		94%		73%	

With respect to the information in the table:

a. Please explain the primary reasons, if known, why the Applicant’s OM&A per customer in 2011 is so much higher than that of its peers.

b. Please advise whether the Applicant has a strategy to bring OM&A per customer in line with the levels of its peers in the future, and if so describe that strategy.

c. Please advise why, with an existing PP&E per customer of only $1,200, the capital additions (as a percentage of depreciation) of the Applicant are well below the average of the peer group and the average of the industry (about 243% weighted average, and 185% simple average).

SEC - 4 [1/1/10] Please provide the most recent financial statements (audited, if audits were carried out) for each of:

a. Bluewater Power Services Corporation.

b. Electek Power Services Inc.

c. Bluewater Power Generation Corporation.

d. Bluewater Power Renewable Energy Inc.

e. Bluewater Power Corporation (consolidated and unconsolidated).

SEC - 5 Please provide, with respect to the Applicant and its parent company:

a. Any current Shareholders' Agreement or Direction, and any previous Shareholders' Agreement or Direction dated after 2000.

b. The current Corporate Strategic Plan and/or Business Plan.

SEC - 6 [I/1/14] With respect to the accounting treatment of transactions with affiliates:

a. Please provide a table showing all amounts or value flowing to or from the Applicant from (or to) affiliates or shareholders (including shareholders of the parent company), and showing how each amount or value is being accounted for with respect to the Test Year. For any year prior to the Test Year in which the method of accounting for any part of the table is different, please provide a new table for that year, with the amounts or values for that year, and an explanation of the change from that prior year to the Test Year.

b. Please provide a fuller explanation, with numerical examples, of the "streetlight flow-throughs".

SEC - 7 [1/2/1, p. 5-6] Please confirm that the following percentages are correct, and reconcile these numbers with the statement "Table 4 demonstrates a steady and smooth increase in OM&A from 2009 to 2013":

a. 2.3% drop from 2009 Board approved to 2009 actual.

b. 4.2% increase from 2009 actual to 2010 actual.

c. 7.8% increase from 2010 actual to 2011 actual.

d. 7.7% drop from 2011 actual to 2012 actual (CGAAP).

e. 12.4% increase from 2012 actual (CGAAP) to 2012 actual (MIFRS).

f. 14.2% increase from 2012 actual (MIFRS) to 2013 forecast.

SEC - 8 [1/2/1, p. 7] Please provide a detailed reconciliation of the following estimates of the impact of moving from CGAAP to MIFRS:

a. 1/2/1, p. 7. $957,000 of overheads that would have been capitalized under CGAAP in 2013.

b. 2/2/1, p. 6. $956,578 of overheads expensed rather than capitalized.

c. 4/1/1, Attach. 1. $1,261,328 difference in OM&A in 2012 between CGAAP and MIFRS ("which is the overhead that is not capitalized under MIFRS" – 4/2/1, p. 1).

d. 4/2/2, p. 6. $602,000 of overheads no longer capitalized from 2011 to 2012.

SEC - 9 [1/2/1, p. 7] Please provide a copy of the business case or cost/benefit analysis justifying to the move to monthly billing. Please confirm that the effect of the increased cost is approximately a 3% increase in rates. Please identify the rate classes that will bear the additional $322,641 cost, and the net rate increase for each class resulting from the change. Please provide a detailed calculation of the impact of the change on:

a. Working capital (e.g. billing, payment and other lags);

b. Bad debts;

c. Collection costs; and

d. All other material impacts.

SEC - 10 [1/2/1, p. 13] Please confirm that for a GS>50 customer with a load of 60 kW, the Applicant is proposing to keep the monthly charge at $142.00, but increase the volumetric charge from $3.5617/kW to $4.4311/kW, resulting in an increase in the charges from the Applicant of $52.16 per month, or 14.7%. Please reconcile this result with the figures in Table 9.

SEC - 11 [1/2/3, p. 2] Please provide the separate internal payroll budget referred to.

SEC - 12 [1/2/5, p. 2] Please confirm that the Applicant is proposing a weighted average rate increase in 2013 of 18.8% ($3,456,032/$18,420,658). Please confirm that, but for a decline in grossed-up PILS of $823,295, the weighted average rate increase from 2012 to 2013 would be 23.2%.

SEC - 13 [1/2/8] With respect to each of the affiliates from or to which the Applicant receives or provides goods or services, or with whom the Applicant shares costs, please provide:

a. The last twelve monthly invoices from the Applicant.

b. The last twelve monthly invoices to the Applicant.

c. A detailed reconciliation of the amounts forecast to be paid, received or shared with respect to the affiliate, to the schedule of the Cost Sharing or Management agreement that sets out the fees and charges.

d. The Cost Sharing, Management Services, or other cost-sharing or services agreement immediately preceding the one included in Schedule 8.

SEC - 14 [1/2/8] Please provide, for each year from 2010 through 2013, a table that shows all shared costs or charges/allocations between the companies in the corporate group, including in each case:

a. The nature of the cost being shared, allocated, or charged.

b. The entity that initially incurs the cost (usually the Applicant).

c. The total amount of the cost before sharing, allocations, or charges.

d. The amounts allocated to, shared by, or charged to each of the other companies, and the basis for the allocation, sharing or charge.

e. An explanation of any unusual increases or decreases in any of these amounts from the prior year.

SEC - 15 [1/3/1, Attach 1, p. 3 (unnumbered)] Please explain the substantial increase in dividends paid from 2010 to 2011.

Exhibit 2 – Rate Base

SEC - 16 [2/3/2, Attach. 2-B and 2/2/1, p.5] Please restate these tables in a manner consistent with items #1 and #2 in the Board-approved Supplementary Settlement Agreement for Hydro Ottawa in EB-2011-0054 (a copy of which is attached). That it, please show this continuity without closing out accumulated depreciation and contributed capital to gross fixed assets.

SEC - 17 [2/2/1, p. 6] Please provide a detailed table showing the particular categories of expense that were capitalized in 2011 (i.e. included in direct capitalization or included in the overhead), and indicating those that will not be capitalized under MIFRS in the Test Year. Please be as specific as possible, including at least the categories included in 2/2/2, p. 3.

SEC - 18 [2/2/4] With respect to depreciation policy:

a. Please provide the full "internal analysis" used to establish new depreciation rates.

b. Please advise if any external advice or assistance was obtained in the development of the new depreciation rates. If there was any such advice or assistance, please provide details of the consultants or other persons retained and the nature of their work. Please provide copies of any reports, presentations, memos, or other documents provided to the Applicant by those persons.

c. Please provide any reports, presentations, memos or other documents provided to senior management, the Board of Directors, or the shareholders dealing in whole or in part with the proposed changes in useful lives/depreciation rates.

d. Please explain in more detail why there is no change in depreciation for 2012, the year prior to the Applicant's first MIFRS year. Please confirm that the 2012 depreciation assumed for continuity purposes under MIFRS is $897,014 less than under CGAAP, and as a result net rate base as of January 1, 2013 is increased by that much.

e. Please provide a justification for each change in depreciation rates in 2/2/4, Attach 1.

f. Please add a column to Attachment 1 showing the Kinectrics range applicable to each category of asset.

<u>Exhibit 3 – Operating Revenue</u>

<u>Exhibit 4 – Operating Costs</u>

SEC - 19 [4/1/1, p. 5] Please explain how an increase in capitalized labour constitutes "improved productivity".

SEC - 20 [4/1/1, p. 6] Please provide the legal or other basis for the statement "There is an implied prudence to spending by a utility during an IRM period."

SEC - 21 [4/1/1, p. 8] Please explain the statement "much of the growth in FTEs between 2009 and 2013 was in the area of contract employees", when contract went from 0.88 to 2.00, while total FTEs excluding directors went from 97.67 to 114.50.

SEC - 22 [4/1/1, p. 8] Please identify in detail what OM&A did not get done during 2011 and 2012 due to the capitalized labour allocated to smart meters in those years. Please explain how the work done on smart meters in those years was incremental and thus separately recoverable from ratepayers.

SEC - 23 [4/2/2, p. 2] Please explain the ($57,000) variance under 2009 actuals, in light of the 8.6 FTEE increase from 2009 Board-approved to 2009 actuals.

SEC - 24 [4/2/2, p. 7] Please provide all reports, presentations, memos or other documents provided to senior management or the Board of Directors dealing with the change in focus to increased asset management, and the related changes to personnel.

SEC - 25 [4/2/3, p. 1] Please confirm that the amounts included in the 2012 Bridge Year column were incurred in 2012, and have been included in 2012 OM&A totals.

SEC - 26 [4/2/4, p. 1] Please advise how much of the $270,000 is being borne by affiliates, and the basis for the allocation.

SEC - 27 [4/2/5, p. 2] Please recalculate the value of the increased cash flow using the pre-tax weighted average cost of capital.

SEC - 28 [4/3/1, p. 2] Please explain the basis for multiplying the Board's materiality threshold by the number of years for any given comparison.

SEC - 29 [4/3/1, p. 4] Please recalculate the variance in Account 5605 on the basis that both 2009 and 2013 account for management fees in the same manner.

SEC - 30 [4/4/1, Attach 1] Please restate the Appendix 2-K removing, with respect to all of the employees transferred to affiliates during the period (including but not limited to those referred to in 1/1/10, p. 2), the FTEEs and associated costs applicable to those employees.

SEC - 31 [4/4/1, Attach 2] Please confirm that:

a. If 24% of employees retire over any given ten year period, that implies an average service period of 42 years for all employees;

b. If 20% of employees retire over any given ten year period, that implies an average service period of 50 years for all employees;

SEC - 32 [4/4/1, Attach 2, p. 6] Please provide a vintage table showing the distribution in ages of the existing assets for each of the five largest asset categories by dollars, excluding general plant. If a vintage table or similar document or analysis was prepared for the conversion to IFRS, please provide that table.

SEC - 33 [4/4/2, Attach 2, p. 24] Please provide the Hay analysis showing the 1566 Hay points for the President and CEO.

SEC - 34 [4/5/1, p. 6] Please provide the standard hourly charge for vehicles for each of the years 2009-2013, and the calculation of that charge including all assumptions used.

SEC - 35 [4/5/1, Attach 2, p. 8] Please provide details of all "issues raised in the course of this review", together with copies of all reports, presentations, memos or other documents from the consultant dealing with those issues.

SEC - 36 [4/5/1, Attach 2, p. 12] Please explain by "related overheads" are not included.

SEC - 37 [4/6/1, p. 3] Please advise the amounts paid by the Applicant to EDA as membership fees or dues in each of 2009 through 2012 (actuals), and 2013 (forecast).

Please confirm that the Applicant is unable to obtain insurance from MEARIE if the EDA fees are not paid each year.

Exhibit 5 – Cost of Capital and Rate of Return

Exhibit 6 – Calculation of Revenue Deficiency or Sufficiency

Exhibit 7 – Cost Allocation

SEC - 38 [7/1/1, Attach 1, p. 11] Please provide a summary of the main reasons why the revenue to cost ratio for GS>50 class increased from 88.47% in 2009 to 119.20% in 2013.

Exhibit 8 – Rate Design

SEC - 39 [8/1/1] Please recalculate the volumetric rate for GS>50 on the basis that the monthly fixed charge is set at Minimum system with PLCC, i.e. $52.46.

Exhibit 9 – Deferral and Variance Accounts

Respectfully submitted on behalf of the School Energy Coalition this 16th day of January, 2013

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Jay Shepherd

Bluewater Timeline Data							
Comparator		2008	2009	2010	2011	2012	2013
Customers		36,218	35,323	35,688	35,772		
	Residential	31,626	31,420	31,750	31,841		
	GS<50	4,172	3,505	3,511	3,495		
	GS>50	416	395	424	433		
	Large User	4	3	3	3		
	Percentage Increase		-2.47%	1.03%	0.24%		
Volumes Sold (kwh) (millions)		1,092	1,005	1,043	1,025		
	Total Losses	2.44%	2.67%	3.41%	2.48%		
	Average Peak Demand	128,115	158,646	123,750	163,935		
DX Revenues (000s omitted)		$16,505	$18,850	$19,468	$19,507		
	Residential	$8,150	$9,158	$10,031	$10,032		
	GS<50	$2,605	$2,800	$2,972	$2,822		
	GS>50 and Large	$4,538	$4,441	$4,822	$4,737		
	Other	$1,212	$2,451	$1,643	$1,916		
Property, Plant & Equipment (000s omitted)		$38,952	$38,819	$42,523	$42,915		
	PP&E per Customer	$1,075.49	$1,098.97	$1,191.52	$1,199.68		
	Percentage Increase		2.18%	8.42%	0.68%		
	Capital Additions/Depreciation	123.7%	135.3%	206.8%	126.6%		
OM&A (000s omitted)		$9,108	$10,441	$10,490	$11,712		
	Operations	$2,085	$3,254	$3,136	$3,177		
	Maintenance	$169	$162	$176	$157		
	Administration	$6,854	$6,729	$6,943	$7,729		
	Other	$0	$296	$235	$649		
	OM&A per Customer	$251.48	$295.59	$293.94	$327.41		
Actual Shareholders' Equity (000s omitted)		$21,968	$21,032	$23,364	$22,995		
	Equity Thickness	37.4%	32.6%	30.7%	30.9%		
	LTD & Aff. Debt (000s omitted)	$19,378	$21,253	$25,029	$26,205		
	Net Income (000s omitted)	$1,912	$2,819	$3,498	$2,297		
	Financial ROE	8.70%	13.40%	14.97%	9.99%		
	Interest Cost (000s omitted)	$1,395	$1,472	$1,571	$1,732		
	PILs (000s omitted)	$1,065	$1,293	$906	$525		
	Total Cost of Capital	$4,372	$5,584	$5,975	$4,554		

Proposed Supplementary Settlement Agreement

EB-2011-0054

Issues related to Modified International Financial Reporting Standards ("MIFRS")

This Proposed Supplementary Settlement Agreement incorporates Parts I through VI of the Settlement Agreement filed with the Board on November 1, 2011. This Proposed Supplementary Settlement Agreement is severable in full or in part.

Best efforts have been made to identify all of the evidence that relates to each issue. The supporting evidence for each issue is identified individually by reference to its Exhibit number in an abbreviated format; for example, Exhibit A1, Tab 8, Schedule 1 is referred to as A1-8-1. The interrogatories are listed under the asking party, with their number provided in brackets. For example, K1-1-1 (1) under Board Staff Interrogatories refers to Board Staff interrogatory #1. Under Additional Evidence, D1 and D2 refer to the transcripts from Day 1 and Day 2 of the Technical Conference held on September 26 and 27, 2011. LT refers to Undertakings and MT refers to handouts at the Technical Conference.

The identification and listing of the evidence that relates to each issue is provided to assist the Board. The identification and listing of the evidence that relates to each issue is not intended to limit any Participating Party who wishes to assert that other evidence is relevant to a particular issue.

The Participating Parties are of the view that the evidence provided is sufficient to support the Proposed Settlement Agreement in relation to the settled issues and, moreover, that the quality and detail of the supporting evidence, together with the corresponding rationale, will allow the Board to make findings agreeing with the proposed resolution of the settled issues.

Hydro Ottawa and Intervenors ("the Participating Parties") agree on the following issues related to Modified IFRS (Issue 11).

1. ***Transition of PP&E.*** IFRS requires that accumulated depreciation be closed out to gross fixed assets, so that on the commencement of IFRS (i.e. the year prior to the actual conversion, usually January 1, 2011) the opening gross fixed assets is equal to the former net book value, and the opening accumulated depreciation is zero. Consistent with the Board's IFRS report, utilities would for regulatory purposes be required to retain the former gross fixed assets amount (closing amount on December 31, 2010, usually) as the opening gross fixed assets, and retain the old accumulated depreciation amount in the same way. Intervenors understand that Ottawa has now filed on this modified basis, and the Participating Parties propose that be the basis on which the Board approve the final numbers.

Evidence: The evidence in relation to this issue includes the following:

Exhibits	J1-1-1; J2-1-1 (updated); J2-1-1 Attachment AT (updated); J4-1-1; J4-1-1 Attachment AZ
Board Staff Interrogatories	K11-1-1(79); K11-1-7(85); K11-1-16(94); K11-2-1(95); K11-2-2(96); K11-2-3(97);
Energy Probe Interrogatories	
Additional Evidence	D1-157; D1-174

2. ***Contributions and Grants.*** Some utilities are closing out contributions and grants to the individual asset items (getting a net GFA and net accumulated depreciation). Others are not. Some are treating contributions and grants "depreciation" as Other Revenues.

   The Participating Parties agree that contributions and grants remain in PP&E as separate line items, and be depreciated at the same rate as the assets to which they relate. Any negative depreciation would be an offset to the depreciation figure, rather than separately reported in Other Revenues.

Evidence: The evidence in relation to this issue includes the following:

Exhibits	J1-1-1; J2-1-1 (updated); J2-1-1 Attachment AT (updated); J4-1-1; J4-1-1 Attachment AZ
Board Staff Interrogatories	K11-1-1(79); K11-1-7(85); K11-1-16(94); K11-2-1(95); K11-2-2(96); K11-2-3(97);
Energy Probe Interrogatories	
Additional Evidence	D1-157; D1-174

3. ***Opening Rate Base.*** Consistent with the Board's IFRS report, each utility including Ottawa should calculate their opening 2012 rate base on CGAAP, and as proposed (i.e. IFRS). The difference is an increase or decrease in rate base that is not reflected in their prior rates. For utilities that convert as of January 1, 2012, it will be made up primarily of their CGAAP/IFRS depreciation and capitalization differences for 2011. For ones like Guelph that converted January 1, 2011, it will be made up primarily of those two factors for both 2010 and 2011.

   The Participating Parties agree that the general rule should be that the balance in that account should be paid to the ratepayers, or collected from the ratepayers, over the four year IRM period (depending on the amount, of course). It should be allocated using the same factors as depreciation expense. This is fully consistent with what Hydro Ottawa is proposing and the Participating Parties agree to Hydro Ottawa's calculation of Opening Rate Base.

   Evidence: The evidence in relation to this issue includes the following:

Exhibits	J1-1-1; J4-1-1; J4-1-1 Attachment AZ;
Board Staff Interrogatories	K11-2-1(95)
Energy Probe Interrogatories	K11-2-4(67)
Additional Evidence	

4. ***OPEBs and Pension.*** Most utilities will revalue their OPEB liability (and some pensions as well) as of the conversion, although they were in fact required to do this under CGAAP anyway. If their liability has gone down, this means they have collected more from ratepayers than they needed, and this would otherwise increase their retained earnings. If their liability has gone up, this means they have under collected, and this would otherwise decrease their retained earnings.

   The Participating Parties agree with Hydro Ottawa's proposal to establish a deferral account for these amounts and amortize the amount over the average remaining expected lives of the employees (For Hydro Ottawa that is 13.3 years Exhibit K11-1-13(2)) . Three years from now (for 2016 rates), when Hydro Ottawa does its next valuation, a further adjustment (if required) will be made, and the net balance in the deferral account will be recalculated. The amortization will then also be recalculated (if required) at that time. The effect is to smooth the adjustments over a long time.

Evidence: The evidence in relation to this issue includes the following:

Exhibits	J4-1-1; J4-1-1AZ
Board Staff Interrogatories	K11-1-13
Energy Probe Interrogatories	K11-2-4(67)
Additional Evidence	D1-177; D1-178; D1-179