

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 London Hydro Inc. 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 242 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 first table attached to these interrogatories, marked “London 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, and 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 provide any reasons known to the Applicant to explain the unusual pattern of Net Losses over the four years listed, including any major storms or other

factors that would have had a material influence on the difference between kwhr. Purchased and Sold.

- d. Please advise the basis on which the overall level of capital spending was established annually during this four year period, prior to the current Asset Management Plan. Please advise whether that capital planning was bottom-up, top-down, or a combination of both, and whether the level of depreciation for the year was a factor in establishing the total.
- e. Please advise whether the decrease in actual equity thickness from 2008 to 2009 was part of a plan to increase actual leveraging. 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, and any plans to adjust financial equity thickness in the future.

SEC - 3 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. Any current Business Plan other than the Strategic Plan.

SEC - 4 [Ex. 1, p. 8] Please confirm that, for a school in the GS>50KW class with a 100 kW load, the Applicant is proposing to increase its charges (monthly fixed charge plus volumetric rate) from \$454.94 per month to \$602.02 per month, totaling \$1,794.96 per year, an increase of 32.3% from existing rates.

SEC - 5 [Ex.1, p. 39] Please provide the last seven of the "monthly variance reports" referred to, including all quarterly information included with the quarter-end reports.

SEC - 6 [Ex. 1, RRWF p.7] Please confirm that the weighted average rate increase proposed in the Application is 10.81% (\$6,415,350/\$59,355,022). Please confirm that, but for the reduction in revenue requirement of \$6,061,377 [Ex. 1, p. 41], the weighted average rate increase proposed in the Application would be 21.02% (\$12,476,727 /\$59,355,022).

SEC - 7 [Ex. 1, Appendix 1A] With respect to the Strategic Plan:

- a. Please provide the updated Strategic Plan for December 2012, or advise when it will be available.
- b. p. 6. Please provide a more detailed explanation of the "Business Process Review and re-design" referred to, and the status of that project.
- c. p. 6. Please provide the business case or other cost/benefit analysis relating to the migration of customers to Self-Service. Please provide all presentations to

management or the Board of Directors dealing in whole or in part with the benefits of that strategy.

- d. p. 6. Please provide the current status, budget and timing for the enterprise risk management reporting system project.
- e. p. 7. Please provide Appendix A, and any updates to reflect more recent targets since this strategy was approved.
- f. p. 11. Please provide the most recent versions of the “communications plans” referred to.
- g. p. 13. Please quantify the targets for the statement “Operational cost reductions are a strategic system improvement priority in this area over the 2012 and 2013 time period”.
- h. p. 16. Please provide details, and a status update, on the item “Swap the shareholder note (\$70M) for lesser coupon rate bearing debt”.
- i. p. 19. Please provide the “gap analysis” referred to.
- j. p. 22. Please provide a copy of the first IT rolling strategic plan produced in 2010.

Exhibit 2 – Rate Base

SEC - 8 [IR 2-OEB-3] Please provide any data, forecasts, or other information assessing or projecting the impact on reliability statistics (e.g. SAIDI, SAIFI, CAIDI) of the system automation strategy.

SEC - 9 [IR 2-OEB-7, p. 14] Please break down the total internal labour capital costs for 2011, 2012, and 2013 (\$531,622, \$1,447,000, and \$1,803,000 between the projects referred to at the top of the page.

SEC - 10 [IR 2-OEB-37] Please provide a table showing the number and value of assets reaching the end of their useful life over each of the last ten years, and over each of the following ten years, to the extent that this can be done by category.

SEC - 11 [Ex. 2, p. 32] Please explain the ‘new weaknesses’ found related to porcelain insulators.

SEC - 12 [Ex. 2, p.72/3] With regards to City road and expansion, please provide the details of any shared costs related to trenching between Rogers, Bell or Union Gas.

Exhibit 3 – Operating Revenue

Exhibit 4 – Operating Costs

SEC - 13 [General] With respect to the second table attached to these interrogatories, entitled “HR Levels and Costs – Comparison of 2013 2-K Data”:

- a. Please confirm that the data related to the Applicant is correctly transposed and calculated from the 2-K filed with this Application. A live copy of the spreadsheet has been provided.
- b. Please advise if there are any errors or other problems, known to the Applicant, related to the data for the other distributors as set forth in the 2-Ks filed with their 2013 cost of service applications. (We are not asking the Applicant to undertake a special review of those applications; only to advise of any problems of which they already have knowledge.)
- c. Please provide an explanation as to the low customers per FTEE and HR costs per customer compared to the other two large utilities, Powerstream and Enersource.
- d. Please provide any information or data known to the Applicant with respect to relative salary levels in London vs. in the GTA.

SEC - 14 [Ex. 4, p. 8] Please provide a breakdown of the \$2,455,165 of OM&A increases from 2009 to 2010 relating to TOU and CIS, and further break down that information into one-time costs and ongoing costs. Please provide an explanation of each of the ongoing costs.

SEC - 15 [Ex. 4, p. 16] Please provide all reports, presentations, memos or similar documents provided to senior management or to the Board of Directors relating to each (or either) of:

- a. The 38.1% increase in Maintenance Expenses from 2009 actual to 2013 forecast. Please provide any benchmarking or similar comparative information in the Applicant’s possession relating to this category of expense.
- b. The 35.9% increase in Administrative and General Expenses from 2009 actual to 2013 forecast. Please provide any benchmarking or similar comparative information in the Applicant’s possession relating to this category of expense.

SEC - 16 [Ex. 4, p. 16] Please provide a table showing a detailed breakdown of all customer care costs for each year from 2009 through 2013, both capital and operations (including depreciation, cost of capital, PILs and all other impacts on revenue requirement), as well as the number of customers in the year and the resulting cost per customer for the year. If the Applicant finds it convenient, the template used by Enbridge in EB-2011-0226 would be suitable, or another detailed presentation could be used if it better suits the Applicant’s costs.

- SEC - 17 [Ex. 4, p. 22, and 4-OEB-27] Please provide all reports, presentations, memos or similar documents provided to senior management or to the Board of Directors relating to the strategy of “changing the mix of internal labour and external contractors”, whether for OM&A or for capital, including the two cost/benefit analyses referred to in the IR response. Please provide the actual documents, not summaries or other explanations prepared for the purpose of this Application.
- SEC - 18 [Ex. 4, p. 27] Please provide a detailed breakdown of the annual capital and operating costs (including depreciation, cost of capital, PILs and all other impacts on revenue requirement) relating to fleet from 2009 to 2013, and identify within the table the savings achieved or forecast as a result of the strategy to shift from leasing to ownership. Please provide all reports, presentations, memos or similar documents provided to senior management or to the Board of Directors relating to this strategy, including any business case and any amendments to it.
- SEC - 19 [Ex.4, p. 28] Please advise the percentage increase represented by the \$259,883 increase in Facility Maintenance Contracts and Expense, and the major reasons for that increase.
- SEC - 20 [Ex. 4, p. 40] Please provide the study referred to. If the “statistics” referred to on line 12 are not included in the study, please provide those statistics, and the source document for them, as well.
- SEC - 21 [Ex.4, p. 45] Please provide the most recent full labour budget (capital and operating) for the Test Year for Engineering and Operations, and provide a line by line comparison with 2009 actuals to show the impact of “the Engineering and Operations labour plan has changed from the 2009 actuals”.
- SEC - 22 [Ex. 4, p. 57] Please explain the increase in Purchased Services since 2009 in light of the shift to increasing use of internal labour.
- SEC - 23 [Ex. 4, p. 65] Please reconcile Table 4-31 with the relevant lines in Table 4-30.
- SEC - 24 [Ex.4, p. 67] Please provide details of the incremental cost, and need, for the increase in test cases, and provide any business case, cost/benefit analysis, report, presentation, or other documentation used to justify the increase.
- SEC - 25 [Ex. 4, p. 70] Please provide a breakdown of the 2013 budget between the five categories listed.
- SEC - 26 [Ex. 4, p. 73] Please reconcile the figures for legal and intervenors in the Major Cost Category column and the Total column.
- SEC - 27 [Ex.4, p. 81] Please provide all reports, presentations, memos or similar documents provided to senior management or to the Board of Directors relating to the establishment of the Project Management Office for IT, including any business case and

any amendments to it. Please provide a description of how projects were managed differently prior to the introduction of the PMO.

SEC - 28 [Ex. 2 and 4, various] Please provide a detailed breakdown of the annual capital and operating costs (including depreciation, cost of capital, PILs and all other impacts on revenue requirement) relating to IT from 2009 to 2013. Please include all costs in each category, including personnel costs, external payments such as software licensing fees, capital expenditures and all revenue requirement impacts of those expenditures, etc. Please provide whatever explanations are appropriate to explain the overall increases in this cost category, and the benefits being achieved.

SEC - 29 [Ex. 4, p. 95] Please provide the most recent 4th quarter report of total score and resulting incentive pay.

SEC - 30 [Ex.4, p. 98] Please explain why the Applicant is not charging its non-regulated business its weighted average cost of capital for funds provided, or alternatively a market interest rate. Please confirm that, at WACC, the amount credited to ratepayers would increase from about \$50,000 to about \$300,000.

SEC - 31 [Ex.4, p. 100] Please provide the signed agreement with the City for water billing services effective January 1, 2013.

SEC - 32 [IR 4-OEB-25, p. 52] Please advise where on Table E4 are the external costs to place advertising, such as billboard rentals, air time, radio ads, etc.

SEC - 33 [IR 4-OEB-27] With respect to this response:

- a. p. 63. Please restate the table to include all capital and operating overheads and other related internal costs in the column “internal rate”.
- b. p. 64. Please provide a table, similar to Table E4 - Construction, but dealing with Construction Resource Mix in capital.
- c. p. 66. Please provide a table, similar to Table E4 – Information Services, but dealing with Information Services Resource Mix in capital.

SEC - 34 [IR 4-OEB-28] Please provide details of the “recurring OEB audit and inspection effort” referred to.

SEC - 35 [IR 4-OEB-34] London Hydro cites certain designated areas will remain ‘Lead Contaminated’. Please characterize where these areas exist within the ‘general work environment’.

Exhibit 5 – Cost of Capital and Rate of Return

SEC - 36 [5, p. 13] Please provide details on all actions taken by the Applicant to obtain

debt at rates lower than 6% as an alternative to the extension of the City's promissory note in 2009, and all actions subsequently to either renegotiate the terms, or replace the debt with lower cost debt.

SEC - 37 [5, p.11] Please provide all revised promissory notes with the City, or other bills of exchange affecting changes to the original promissory note, since the issuance of the original interest-free promissory note in 2000.

Exhibit 6 – Calculation of Revenue Deficiency or Sufficiency

Exhibit 7 – Cost Allocation

SEC - 38 [Ex. 7, p. 10] Please recalculate the proposed rates based on bringing all classes to within the Board-approved ranges, re-allocating the resulting revenue changes to the classes with the lowest (for a re-allocation to) or highest (for a re-allocation from) revenue to cost ratios before the re-allocation. Please provide a table in the format of Table 8-20 showing the calculation of the revenue from each class.

Exhibit 8 – Rate Design

SEC - 39 [Ex.8, p. 5] Please recalculate the volumetric rate for GS>50 on the basis that the monthly fixed charge is set at 120% of Minimum system with PLCC, i.e. \$85.61.

SEC - 40 [Ex. 8, p. 5] Please recalculate both the fixed and volumetric rates for GS>50 on the basis that the monthly fixed charge is set at 120% of Minimum system with PLCC, and the revenue to cost ratios are set in the manner set out in question 7-SEC-38 above.

Exhibit 9 – Deferral and Variance Accounts

Exhibit 10 – MIFRS Transition

SEC - 41 [Ex. 10, App. 10B and 10D] 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 in the Test Year. Please be as specific as possible.

SEC - 42 [IR 10-OEB-58] Please confirm, in light of the stated decision to “defer IFRS implementation to the new mandated transition date of January 1, 2014”:

- a. The Applicant will proceed with changes to overhead capitalization, depreciation rates, and fleet allocation as originally planned, and as a result there are no planned changes to capital or operating costs for the Test Year.
- b. The Applicant will adjust the opening balances for January 1, 2013 for PP&E, and therefore proceed with its proposal to clear the PP&E Deferral Account as planned.

- c. The change to the OCI for post-employment benefits will not be made in 2013, and as a result the request for a deferral account for this change is being withdrawn, with a new such request to be made by way of an application for an accounting order between now and 2014.
- d. As a result of (a) and (b) above, aside from the post-employment benefits impact, all material impacts of the transition to MIFRS are still being reflected in 2013 revenue requirement.

Respectfully submitted on behalf of the School Energy Coalition this 20th day of January, 2013

Jay Shepherd

| London Timeline Data | | | | | | |
|--------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Comparator | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Customers | 143,797 | 145,298 | 146,974 | 148,331 | | |
| Residential | 130,245 | 131,734 | 133,452 | 134,714 | | |
| GS<50 | 11,940 | 11,914 | 11,897 | 11,962 | | |
| GS>50 | 1,609 | 1,647 | 1,621 | 1,652 | | |
| Large User | 3 | 3 | 4 | 3 | | |
| Percentage Increase | | 1.04% | 1.15% | 0.92% | | |
| Volumes Sold (kwh) (millions) | 3,334 | 3,151 | 3,377 | 3,317 | | |
| Total Losses | 3.16% | 4.98% | 1.52% | 2.69% | | |
| Average Peak Demand | 541,266 | 519,443 | 545,926 | 540,982 | | |
| DX Revenues (000s omitted) | \$55,368 | \$57,089 | \$61,886 | \$61,936 | | |
| Residential | \$33,409 | \$33,503 | \$38,555 | \$36,389 | | |
| GS<50 | \$8,698 | \$8,450 | \$7,937 | \$7,917 | | |
| GS>50 and Large | \$10,035 | \$10,248 | \$11,259 | \$13,278 | | |
| Other | \$3,226 | \$4,888 | \$4,135 | \$4,352 | | |
| Property, Plant & Equipment (000s omitted) | \$185,381 | \$191,886 | \$195,549 | \$202,185 | | |
| PP&E per Customer | \$1,289.19 | \$1,320.64 | \$1,330.50 | \$1,363.07 | | |
| Percentage Increase | | 2.44% | 0.75% | 2.45% | | |
| Capital Additions/Depreciation | 179.9% | 170.6% | 166.6% | 173.1% | | |
| OM&A (000s omitted) | \$26,848 | \$27,680 | \$30,085 | \$31,043 | | |
| Operations | \$6,639 | \$6,738 | \$7,101 | \$7,804 | | |
| Maintenance | \$6,276 | \$5,624 | \$6,305 | \$6,756 | | |
| Administration | \$13,933 | \$15,215 | \$16,572 | \$16,377 | | |
| Other | \$0 | \$103 | \$107 | \$106 | | |
| OM&A per Customer | \$186.71 | \$190.51 | \$204.70 | \$209.28 | | |
| Actual Shareholders' Equity (000s omitted) | \$136,620 | \$112,663 | \$119,213 | \$124,248 | | |
| Equity Thickness | 52.7% | 44.4% | 42.9% | 44.6% | | |
| LTD & Aff. Debt (000s omitted) | \$70,000 | \$77,137 | \$92,954 | \$87,650 | | |
| Net Income (000s omitted) | \$6,841 | \$8,326 | \$9,050 | \$7,867 | | |
| Financial ROE | 5.01% | 7.39% | 7.59% | 6.33% | | |
| Interest Cost (000s omitted) | \$4,439 | \$4,248 | \$4,896 | \$5,386 | | |
| PILs (000s omitted) | \$3,232 | \$3,305 | \$2,536 | \$1,600 | | |
| Total Cost of Capital | \$14,512 | \$15,879 | \$16,482 | \$14,853 | | |

HR Levels and Costs - Comparison of 2013 2-K Data

| Distributor | Customers | FTEEs | | | | | Customers per FTEE | Total Compensation | Costs per FTEE | Costs Per Customer | Capitalization Percentage |
|--------------------|------------------|--------------|-------------|-------------------------|--------------|--------------|---------------------------|---------------------------|-----------------------|---------------------------|----------------------------------|
| | | Exec. | Mgmt | Non-U/ Other | Union | Total | | | | | |
| London | 151,747 | 16.0 | 36.0 | 79.5 | 188.0 | 319.5 | 475 | \$33,252,600 | \$104,077 | \$219.13 | 31% |
| Powerstream | 346,725 | 28.0 | 89.0 | 102.0 | 337.0 | 556.0 | 624 | \$65,882,355 | \$118,493 | \$190.01 | 30% |
| Enersource | 253,280 | 7.0 | 63.0 | 79.0 | 242.0 | 391.0 | 648 | \$44,095,373 | \$112,776 | \$174.10 | 17% |
| Thunder Bay | 50,015 | 5.0 | 18.0 | 14.0 | 100.9 | 137.8 | 363 | \$13,328,268 | \$96,715 | \$266.49 | 28% |
| Sudbury | 57,463 | | 17.6 | 4.6 | 87.8 | 110.0 | 522 | \$11,024,838 | \$100,226 | \$191.86 | 22% |
| Bluewater | 36,578 | 9.0 | 8.0 | 35.3 | 56.2 | 108.5 | 337 | \$10,862,089 | \$100,111 | \$296.96 | 13% |
| Westario | 22,876 | | 10.0 | | 26.0 | 36.0 | 635 | \$3,258,183 | \$90,505 | \$142.43 | 25% |
| PUC Dist. | 33,484 | | | | | 87.0 | 385 | \$8,095,064 | \$93,047 | \$241.76 | 32% |
| Welland | 23,098 | | 15.0 | | 28.0 | 43.0 | 537 | \$4,616,159 | \$107,353 | \$199.85 | 13% |
| Averages | | | | | | | 506 | | \$102,403 | \$212.93 | 23% |