

Kitchener-Wilmot EB-2013-0147

Hearing Compendium

VECC , January 9, 2014

## **Section 1**



## Effect of the Smart Meter Decision (EB-2012-0288)

- In this Decision, the Board authorized KWHI to transfer the values of KWHI 1556 – Smart Meter OM&A to the OM&A accounts. The effect of this decision resulted in additional incremental costs of \$1,084,463 in 2012. (Exhibit 2, Tab 4, Schedule 6). The net incremental increase to OM&A costs is \$345,000 in 2013 and \$351,900 in 2014, consisting of meter reading fees, data systems, and software maintenance costs.

## Monthly Billing

- KWHI is planning to move to monthly billing in 2013 to assist customers with cash flow concerns due to rising electricity bills. This change will result in issuing approximately 242,800 more bills in 2013 than in 2012 and 485,700 more bills in 2014 than in 2012. Estimated costs to issue monthly bills break down as follows:

		2013	2014
	Billing and Collecting		
	Postage	35,000	65,000
	Office Supplies	13,000	13,000
	Customer Service		
	Postage	136,000	266,000
	Office Supplies	38,000	72,000
		222,000	416,000

## Bad Debts Expense

- In 2010, a large and previously deemed uncollectible account was collected, reducing the net write-offs for that year.

## Changes to Accounting estimates and burdens–

### Vehicles

Previous to accounting changes made in 2012, KWHI charged all vehicles to a burdenable business unit. The charges were allocated to jobs based on Direct Labour dollars. Under Modified CGAAP only trucks that can be directly attributed to capital jobs will remain in this Business unit. The remainder of the trucks have been moved to OM&A.

**4-Energy Probe-37**

Ref: Exhibit 4, Tab 2, Schedule 2

- a) Please explain the incremental costs for smart meters shown in Table 4-5 for 2013 and 2014 of \$345,000 and \$351,900, respectively. What are the amounts included in 2012 associated with the noted cost drivers: meter reading fees, data systems and software maintenance costs.

**Answer: See below:**

	2012	2013	2014
Meter Reading Fees	101,286	184,000	187,680
Data Sysyems	144,129	130,000	132,600
Software Maintenance	21,590	31,000	31,620
	267,005	345,000	351,900

- b) The figures imply that in 2014, smart meter related OM&A costs will be \$1,781,363 (\$1,084,463 + \$345,000 + \$351,900). Please confirm that this is accurate, and explain how this is possible given that the \$1,084,563 figure includes expenses incurred prior to 2012. If not, please provide the total smart meter related OM&A costs for the 2014 test year.

**Answer: The incremental costs for 2013 and 2014 are \$345K and \$352K respectively. The incremental increase for 2014 vs 2013 is \$7K.**

**KWHI made an error in its original Table 4-5 in E4T1S2. Table 4-5 is being resubmitted as part of the interrogatory process (See 4-Energy Probe-34).**

**4-Energy Probe-38**

Ref: Exhibit 4, Tab 2, Schedule 2

The evidence indicates that KWHI is moving to monthly billing in 2013 in order to assist customers with cash flow concerns due to rising electricity bills.

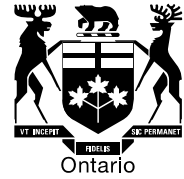
- a) Has KWHI moved to monthly billing? If not, why does KWHI expect to move to monthly billing?

**Answer: KWHI has commenced the analysis and planning to enable the changes to its Customer Information System to accommodate monthly billing.**

- b) Does the move to monthly billing assist KWHI with its cash flow? If not, please explain fully.

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**BY E-MAIL**

April 12, 2012

**To: All Licensed Electricity Distributors  
All Licensed Electricity Transmitters  
All Other Interested Parties**

**Re: Update to Chapter 2 of the Filing Requirements for Transmission and Distribution Applications – Allowance for Working Capital**

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This letter provides an update to the options established in the June 22, 2011 cost of service Filing Requirements for the calculation of the allowance for working capital for the 2013 rate year.

## **Background**

*Chapter 2 of the Filing Requirements for Transmission and Distribution Applications* issued on June 22, 2011 (for the 2012 rate year), provides for two approaches that an applicant may take for the calculation of its allowance for working capital: (1) the 15% allowance approach; or (2) the filing of a lead/lag study.

Section 2.5.1.4 of the Filing Requirements notes the following:

### *Cost of Service Applications for the 2013 Rate Year*

The Board informs distributors that 2012 will be the final year for which the 15% Allowance Approach will be allowed as a default value. The Board is reviewing the possibility of requiring distributors to file lead/lag studies for the purpose of establishing the working capital allowance for the 2013 rate year.

## **Working Capital Allowance (“WCA”) for the 2013 Rate Year**

The Board has reviewed the approaches to the calculation of WCA and will not require distributors to file lead/lag studies for 2013 rates, unless they are required to do so as a result of a previous Board decision. However, the Board has reviewed the results of lead/lag studies filed by distributors in cost of service applications and in each of those cases both the applied-for WCA and the final Board-approved WCA have been lower

than 15%. The Board has determined that it is not appropriate for a default value for WCA to be set at a higher level than those resulting from lead/lag studies. Based on the results of WCA studies filed with the Board in the past few years, the Board has determined that the default value going forward will be 13% of the sum of cost of power and controllable expenses. This default value will be applicable to 2013 rate applications and beyond. Distributors still have the option of completing and filing a lead/lag study as part of a cost of service rate application for determination by the Board.

The Board therefore revises section 2.5.1.4 of the Filing Requirements, specifically the 15% Allowance Approach to establish a 13% Allowance Approach as the new default value. The following revised excerpt of section 2.5.1.4 is effective immediately for 2013 cost of service applications:

The Applicant may take one of two approaches for the calculation of its allowance for working capital: (1) the 13% allowance approach; or (2) the filing of a lead/lag study.

The only exception to the above requirement is if the applicant has been previously directed by the Board to undertake a lead/lag study on which its current working capital allowance is based. Under such circumstances, the applicant must either continue to use the results of that study, or in the event it wishes to propose a revision to its allowance, the applicant must file an updated study in support of its proposal. In the absence of such circumstances the two approaches are:

#### *13% Allowance Approach*

The 13% Allowance Approach is calculated to be 13% of the sum of Cost of Power and controllable expenses (i.e., Operations, Maintenance, Billing and Collecting, Community Relations, Administration and General).

The commodity price estimate used to calculate the Cost of Power should be determined in a way that bases the split between RPP and non-RPP customers on actual data. The calculation should also reflect the most recent Uniform Transmission Rates approved by the Board (EB-2011-0268), issued on December 20, 2011 and effective January 1, 2012. In the event that new Uniform Transmission Rates are approved during the course of a proceeding, the Cost of Power should be updated to reflect the new rates. The RPP Price that should be used should be the most current RPP Price issued by the Board and should apply to the entire test period forecast.

*Lead/Lag Study*

A lead/lag study analysis for two time periods; namely:

- The time between the date customers receive service and the date that the customers' payments are available to the distributor (the lag); and
- The time between the date when the distributor receives goods and services from its suppliers and vendors and the date that it pays for them (the lead).

Leads and lags are measured in days and are generally dollar-weighted. The dollar-weighted net lag (i.e. lag minus lead) days is then divided by 365 (366 in a leap year) and then multiplied by the annual test year cash expenses to determine the amount of working capital required for operations. This amount is included in the distributor's rate base determination.

For questions related to this amendment please contact the Board's market operations hotline at 416-440-7604, or by e-mail at [Market.Operations@ontarioenergyboard.ca](mailto:Market.Operations@ontarioenergyboard.ca)  
The Board's toll-free number is 1-888-632-6273.

Sincerely,

*Original Signed By*

Kirsten Walli  
Board Secretary

- c) What is the impact on OM&A costs for materials based on a 0.1% change (for example from 2.0% to 1.9%) in the assumed inflation rate for 2014?

**Answer:** OM&A costs for material for a 0.1% change in the assumed inflation rate would change costs by approximately \$700. OM&A is budgeted on programs so material costs can fluctuate year over year based on the programs being performed.

- d) What is the impact on OM&A costs for labour based on a 0.1% change (for example from 2.0% to 1.9%) in the assumed inflation rate for 2014?

**Answer:** A 0.1% change to inflation for labour would change OM&A costs by approximately \$8,700. It should be noted; however, that inflation costs for labour will not change due to the negotiated collective agreements.

**4-Energy Probe-67**

**Ref:** 2-Energy Probe-16 &  
4-Staff-20

The response to part (c) of 2-Energy Probe-16 indicates that the cost of moving to monthly billing in 2014 is \$200,000. However, the response to 4-Staff-20 indicates that the cost of monthly billing in 2014 is an increase of \$401,500. Please confirm that the total incremental cost of monthly billing in 2014 is this latter figure.

**Answer:** The forecasted incremental cost for monthly billing was estimated to be \$201,500 in 2013 and an additional incremental cost in 2014 of \$200,000 for a total of \$401,500.

**4-Energy Probe-68**

**Ref:** 4-Energy Probe-29 &  
Appendix 2-JB

- a) Please reconcile the cost driver impact of the conversion to IFRS in 2012 of \$1,227,168 shown in Appendix 2-JB with the figure of \$1,692,337 shown in the response to 4-Energy Probe-29, which was taken from Table 10-7.

**Answer:** The two calculations are different. Note that the \$1,692,337 is the impact of using two different accounting methods within the same year. The \$1,227,168 is the impact of cost drivers from one year versus the other. Cost drivers are not isolated in the \$1,692,337 and other cost drivers are embedded in that figure.

**In order to determine the amount of the cost driver of the impact of conversion to MCGAAP, only the increase on OM&A of the costs that can no longer be burdened or capitalized is**

**Answer:** The response in 4-Energy Probe-37 is incorrect. It should state the TOTAL costs for 2013 and 2014 are \$345K and \$352K. The incremental cost for 2013 is \$78K and for 2014 is \$7K.

b) Please provide the total smart meter related costs for each of 2012, 2013 and 2014.

**Answer:** See table below:

	2012	2013	2014
Meter Reading Fees	101,286	184,000	187,680
Data Systems	144,129	130,000	132,600
Software Maintenance	21,590	31,000	31,620
	267,005	345,000	351,900

#### 4-Energy Probe-71

**Ref:** 4-Energy Probe-38

The response to part (b) is not complete. Despite not completing a lead/lag study, does KWHI agree that monthly billing, in place of bi-monthly billing will more closely match the inflows of revenue with the monthly billing of electricity costs from the IESO? If not, why not?

**Answer:** KWHI does agree that the move to monthly billing will more closely match the inflows of revenue with the monthly billing of electricity costs from the IESO. The amount of time from when the electricity was consumed and when payment is received from the customer should be reduced.

As stated in the interrogatory process, KWHI is unable to estimate the total impact that monthly billing will have on its cash flow and, in the absence of a lead lag study, has opted to use the deemed amount for working capital allowance (WCS) of 13%. The Board deemed this amount following a review; therefore, any change to KWHI's WCA due to monthly billing would therefore be unfair to KWHI as this is consistent with Board policy.

#### 4-Energy Probe-72

**Ref:** 4-Energy Probe-44 & 2-Energy Probe-10 & RRWF

- a) Please update this response to reflect the new total depreciation of \$705,600 shown in 2-Energy Probe-10 for transportation equipment based on the updated capital expenditures. In particular, based on this new depreciation expense, how much is capitalized and how much is expensed?

## **SECTION 2**

It should be noted that KWHI has increased its estimate for 2013 for bad debt expense to \$187,000. This was KWHI's original estimate and a typo resulted in \$147,000 being entered into its rate model. Waterloo Region has experienced a significant announcement that very well may affect KWHI's estimation of bad debt going forward. Blackberry recently announced lay-offs affecting potentially 10,000 direct and indirect jobs in the local area. Also, the OEB requirement to not collect security deposits for low income customers has increased KWHI's exposure to bad debts. Based on year-to-date results, KWHI estimates that an additional \$3,000 should be added to 2014 for a total of \$190,000. KWHI has not yet updated its rate model for this amount in 2014.

## End of Energy Probe Exhibit Two Interrogatories

### No School Energy Exhibit Two Interrogatories

## VECC Exhibit Two Interrogatories

### 2.0-VECC – 2

**Reference:** Exhibit 2, Tab 5, Schedule 1

- a) Please provide KWHI's reduction in working capital requirements that will result from moving from bi-monthly to monthly billing. If no reduction is contemplated please explain why.

**Answer:** Since KWHI did not complete a lead/lag study, KWHI is unable to determine the impact on working capital requirements resulting from moving to monthly billing from bi-monthly billing.

### 2.0-VECC – 3

**Reference:** Exhibit 2, Tab 4, Schedule 1

- a) Please provide the annual capital expenditures (actual and forecast) for the years 2009 through 2018 for projects related to the distribution system line/voltage upgrade for the Wilmot Township distribution system.

**Answer:** A planning study performed in 1995 examined the future of the distribution system in Wilmot Township. The principle recommendations were that the 8.3 kV distribution system be gradually converted to 27.6 kV operation and that a 27.6 kV transformer station be constructed near the load centre. Benefits of voltage conversion include:

- (i) Improved system efficiency (by reducing line losses).

- c) What is the impact on OM&A costs for materials based on a 0.1% change (for example from 2.0% to 1.9%) in the assumed inflation rate for 2014?

**Answer:** OM&A costs for material for a 0.1% change in the assumed inflation rate would change costs by approximately \$700. OM&A is budgeted on programs so material costs can fluctuate year over year based on the programs being performed.

- d) What is the impact on OM&A costs for labour based on a 0.1% change (for example from 2.0% to 1.9%) in the assumed inflation rate for 2014?

**Answer:** A 0.1% change to inflation for labour would change OM&A costs by approximately \$8,700. It should be noted; however, that inflation costs for labour will not change due to the negotiated collective agreements.

#### 4-Energy Probe-67

Ref: 2-Energy Probe-16 &  
4-Staff-20

The response to part (c) of 2-Energy Probe-16 indicates that the cost of moving to monthly billing in 2014 is \$200,000. However, the response to 4-Staff-20 indicates that the cost of monthly billing in 2014 is an increase of \$401,500. Please confirm that the total incremental cost of monthly billing in 2014 is this latter figure.

**Answer:** The forecasted incremental cost for monthly billing was estimated to be \$201,500 in 2013 and an additional incremental cost in 2014 of \$200,000 for a total of \$401,500.

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Ref: 4-Energy Probe-29 &  
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- a) Please reconcile the cost driver impact of the conversion to IFRS in 2012 of \$1,227,168 shown in Appendix 2-JB with the figure of \$1,692,337 shown in the response to 4-Energy Probe-29, which was taken from Table 10-7.

**Answer:** The two calculations are different. Note that the \$1,692,337 is the impact of using two different accounting methods within the same year. The \$1,227,168 is the impact of cost drivers from one year versus the other. Cost drivers are not isolated in the \$1,692,337 and other cost drivers are embedded in that figure.

In order to determine the amount of the cost driver of the impact of conversion to MCGAAP, only the increase on OM&A of the costs that can no longer be burdened or capitalized is

included. This is the \$1,227,168. It consists of the comparison of the different burden rates and the movement of selected labour to OM&A between 2011 and 2012.

The figure of \$1,692,337 is the difference in OM&A in MCGAAP versus CGAAP within the year 2012. It must be noted that these comparators are within the same time period.

The differences between the two numbers would include the reallocation of engineering costs and other previously burdened salaries that were capitalized in CGAAP, but not in MCGAAP. These amounts (\$392,247) are not quantified in the cost driver table because they are not a 100% incremental increase to OM&A costs.

- b) Is the \$1,692,337 difference between CGAAP and MCGAAP calculated for 2012 a good proxy for the difference in accounting for 2013 and 2014? If not, please provide an estimate of the difference for each of 2013 and 2014.

**Answer:** KWHI considers the \$1.692 million to be a reasonable proxy for the difference in accounting between CGAAP and MCGAAP, albeit a little bit low. KWHI has converted its financial transactions to August 2013 and the increase to distribution expenses is \$1.2 million year-to-date. If this is extrapolated over 12 months (assuming expenses are incurred evenly), the increase to distribution expenses to December 31, 2013 would be \$1.85 million (net of inflation).

See the answer to 4-Energy Probe – 29 b) answered during the Interrogatory phase.

#### 4-Energy Probe-69

Ref: 4-Energy Probe-24

Please explain what the third column represents in the table provided in the response to part (e). In particular, does it reflect the change in the year over year level of the price index or the percent change in the year over year figures?

**Answer:** KWHI based its answer using a reference to 4-Energy Probe-34, rather than 4-Energy Probe-24. It is the change in the year over year level of the price index.

#### 4-Energy Probe-70

Ref: 4-Energy Probe-37 &  
Appendix 2-JB

- a) Please explain the response to 4-Energy Probe-37 part (b) that indicates the incremental costs for 2013 and 2014 are \$345K and \$352K, respectively with the figures provided in Appendix 2-JB of \$162,986 in 2013 and \$6,900 in 2014.



Inflation is also a cost driver and for this application KWHI has used the following inflation rates:

- 2010 – 1.3%
- 2011 – 2.0%
- 2012 – 2.1%
- 2013 – 1.6%
- 2014 – 2.0%

**Table 4-5**

**OM&A Incremental Cost Driver Table**

OM&A	2010 Actual	2011 Actual	2012 Actual	2013 Bridge	2014 Test
	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Opening Balance	13,881,503	12,270,957	13,724,480	16,443,730	17,431,076
Pension and Payroll Benefits		29,260	108,143	108,013	72,373
General Salary Increases		212,237	202,021	206,745	223,623
Human Resources - New Resource			67,759	51,040	4,300
LEAP	(47,476)	47,475			
Diversion of resources to OPA Programs	(38,898)	(25,020)	(46,393)		
HST Impact	(11,504)	(39,810)	(69,902)	(40,000)	
Diversion and reallocation of resources to complete TS9	(779,303)	753,893			
Increase in Non recoverable Pole accidents		99,677	(32,428)		
Network Protector and Transformer Maintenance		128,037			
Additional Admin Credit	(257,997)				
Collection of a bad debt previously deemed uncollectible	(266,362)	146,300			
Reduction in AR Credit insurance - End of program	(106,950)	(58,049)			
Retirements and Resignations - Finance	(102,056)				
Accounting Changes			1,227,168		
Monthly Billing				178,000	164,000
Effect of the Smart Meter Decision			1,084,463	345,000	351,900
Inflation		159,522	178,418	138,548	275,929
<b>Closing Balance</b>	<b>12,270,957</b>	<b>13,724,480</b>	<b>16,443,730</b>	<b>17,431,076</b>	<b>18,523,201</b>

In 2011, KWHI had the second lowest OM&A costs per customer in the province (\$154.69), as per the OEB's Yearbook of Electricity Distributors. This includes \$17.01 per customer for the operation and maintenance of eight (8) transformers stations, which are not incurred by most LDC's in the province.

## Board Staff Exhibit Four Interrogatories

### Exhibit 4 – Operating Expenses

#### 4-Staff-18 Ref: Exhibit 4/Tab 1/Schedule 2/page 6 – Inflation

On page 6 of this exhibit, KWHI documents that it has used the following inflation rates in its operating expense derivation:

Year	2010	2011	2012	2013	2014
Inflation Rate (%)	1.3	2.0	2.1	1.6	2.0

a) Is this inflation rate for labour, non-labour (i.e., materials) or both?

**Answer: This is the inflation factor for materials. The inflation factor for labour is as per the collective agreement and is 2.8% for 2013 and 2.85% for 2014.**

b) What is the definition and data source of this inflation rate? What is the basis for the forecast for 2014?

**Answer: The 2.0% inflation rate for 2014 is as per the direction given to managers at budget time. The source of the information is a best guess estimate at the time the budget was struck. The rate used for 2013 is as per the Boards inflation factors for 2013. 2014 distribution expenses will need to be adjusted to the January 1<sup>st</sup> inflation rate of 2.2% prior to finalizing the distribution rates determined by this application: See table below:**

Year	2010	2011	2012	2013	2014 May
Inflation Rate (%)	1.3	1.3	2.0	1.6	2.0

<http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory%20Proceedings/Applications%20Before%20the%20Board/Electricity%20Distribution%20Rates/3rd%20Gen%20Stretch%20Factors>

#### 4-Staff-19 Ref: Exhibit 4/Tab 1/Schedule 2 – Drivers of OM&A Increases

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Table 4-5, KWHI documents the drivers for the increases in OM&A expenses by year from 2010.

a) General Salary Increases is shown as one factor, while Inflation is shown as a separate factor.

- i. Please identify whether cost of living increases that may be part of a labour agreement or are part of annual increases for non-union staff are reflected under General Salary Increases or are shown under Inflation.

**Answer: Table 4-1 inadvertently included donations that were not recoverable for regulatory purposes. The revised Table 4-1 is attached above.**

- d) Please provide the most recent year-to-date figures available for OM&A expenses in the same level of detail as found in Table 4-1 (excluding property tax and amortization). Please provide the figures for the corresponding period in 2012. In doing so, please do not include any cost incurred prior to 2012, but included in the 2012 OM&A expense, as a result of the smart meter decision.

**Answer:**

**Summary of Operating Costs**

OM&A Expenses	2012 YT August	2013 YT August
	CGAAP	CGAAP
Operation	2,786,683	3,497,474
Maintenance	3,665,794	3,547,140
Billing and Collections	2,033,335	2,052,684
Community Relations	497,387	215,538
Administrative and General Expenses	2,021,906	1,963,862
<b>Total Controllables</b>	<b>11,005,104</b>	<b>11,276,698</b>

**4-Energy Probe-34**

Ref: Exhibit 4, Tab 1, Schedule 2

- a) Please provide the source for the historical inflation rates shown on page 6.

**Answer: See 4-Staff-18 b)**

<http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory%20Proceedings/Applications%20Before%20the%20Board/Electricity%20Distribution%20Rates/3rd%20Gen%20Stretch%20Factors>

**For 2014 it was the direction provided to managers when setting their budgets.**

- b) Please provide the source for the forecasted inflation rates for 2013 and 2014 shown on page 6.

**Answer: See the link below on the Ontario Energy Board Website**

<http://www.ontarioenergyboard.ca/OEB/Industry/Regulatory%20Proceedings/Applications%20Before%20the%20Board/Electricity%20Distribution%20Rates/3rd%20Gen%20Stretch%20Factors>

**For 2014 it was the direction provided to managers when setting their budgets.**

- c) Please provide the annual inflation rates based on the GDPIPIFDD for 2010 through 2012 (Statistics Canada V62307283, Matrix 380-0066).

**Answer:**     **2010   1.0**  
                   **2011   2.3**  
                   **2012   1.9**

- d) Please provide the annual inflation rates based on the GDPIPIFDD for 2010 through 2012 (Statistics Canada V62307283, Matrix 380-0066).

**Answer: See response to c)**

- e) Please provide the quarterly year-over year inflation rate for each quarter of 2013 that is currently available (i.e. Q1 2013 vs. Q1 2012, etc.) from the same source referenced in part (c) above.

**Answer: See below:**

Q1 2010	104.2	
Q2	104.5	
Q3	105.0	
Q4	105.5	
Q1 2011	106.2	2.0
Q2	106.8	2.3
Q3	107.6	2.6
Q4	108.3	2.8
Q1 2012	108.7	2.5
Q2	109.1	2.3
Q3	109.3	1.7
Q4	109.5	1.2
Q1 2013	110.1	1.4
Q2	110.3	1.2

- f) The inflation rate for 2013 is shown as 1.6% and that for 2014 is shown as 2.0%. However, the inflation figure shown in Table 4-5 for 2014 is nearly double the amount shown for 2013. Please reconcile and show the calculation of the inflation cost drivers for each of 2011 through 2012.

**Answer: The cost driver table (Filing Requirements Appendix 2-J) is being re-filed at this time. The inflation factor as previously filed included inflation and other factors to arrive at the required total expense number. This has been broken out in the revised table to show the difference between inflation and other minor cost drivers.**

**Answer: There are no cost of living provisions in the labour agreement or for non-union staff. All wage adjustments are reflected under general salary increases**

- ii. The largest incremental increase for inflation is shown as \$275,929 for the 2014 test year. Please explain this increase.

**Answer: Table 4-5 – Cost drivers have been re-filed as part of this interrogatory process. Please see Appendix 2-J of the Filing Requirements**

- b) KWHI documents that the decision from its stand-alone Smart Meter Application EB-2012-0288 has an incremental impact of \$1,084,463 in 2012, and forecasts further incremental OM&A expenses of \$354,000 for 2013 and \$351,900 for 2014. Please provide further explanation of the further incremental increases in OM&A due to smart meters for each of 2013 and 2014.

**Answer: Please See 4- Energy Probe –30 and 4-Energy Probe-37 for detailed explanations of the costs for 2012, 2013, and 2014.**

**4-Staff-20 Ref: Exhibit 4/Tab 2/Schedule 2 and Appendix 2-J – Monthly Billing**

On page 4 of this exhibit, KWHI states that it is planning to move to monthly billing, and provides the following table:

		2013	2014
<b>Billing and Collecting</b>			
	Postage	35,000	65,000
	Office Supplies	13,000	13,000
<b>Customer Service</b>			
	Postage	136,000	266,000
	Office Supplies	38,000	72,000
<b>Total</b>		<b>222,000</b>	<b>416,000</b>

- a) What is the status of KWHI's move to monthly billing?

**Answer: KWHI has commenced the analysis and planning to enable the changes to its Customer Information System to accommodate monthly billing.**

- b) KWHI states that monthly billing is being done "to assist customers with cash flow concerns due to rising electricity bills". Monthly billing should also aid KWHI's cash flow and hence reduce its cash working capital requirements. How has KWHI taken the move to monthly billing into account in determining its working capital allowance?

**Answer:** Since KWHI did not complete a lead/lag study, KWHI is unable to determine the impact on working capital requirements resulting from moving to monthly billing from bi-monthly billing.

- c) Please explain the table above. Are these total OM&A expenses or incremental OM&A due to monthly billing?

**Answer:** The above table is meant to show the incremental expenses of Postage and Office Supplies for the years 2013 (6 months) and 2014 (12 months). The corrected table should be as presented in d) below.

- d) The Microsoft Excel version of Appendix 2-J documents that monthly billing is a driver of OM&A expenses with an incremental cost of \$178,000 in 2013 and \$164,000 in 2014. Please show the relationship between the above table and the entries in Appendix 2-J.

**Answer:** Appendix 2-J as originally filed only includes Customer Service - Billing. There is a \$10,000 error in 2013. The table below shows the correct amount for incremental costs that have been updated in Filings Requirements to Appendix 2-J.

#### INCREMENTAL

	2013	2014
Customer Service - Billing		
Office Supplies	28,000	34,000
Postage	140,000	130,000
Customer Service - Collecting		
Office Supplies	5,000	6,000
Postage	28,500	30,000
	201,500	200,000

- e) Please explain the difference between "Billing and Collecting" and "Customer Service", and why the costs for "Customer Service" are significantly higher.

**Answer:** The two titles should be Customer Service – Billing and Customer Service – Collecting. As well, the chart should be corrected to show the incremental impact of Monthly Billing with the correct titles. This has been updated in d) above.

**Collections costs are lower as they only capture the costs of Customers in arrears.**

- f) Does KWHI have, or plan to have by the end of 2014, other options for customers to receive their bills on-line to reduce paper and postage expenses? If so, are these reflected in the increased costs shown?

**4-Energy Probe-37**

Ref: Exhibit 4, Tab 2, Schedule 2

- a) Please explain the incremental costs for smart meters shown in Table 4-5 for 2013 and 2014 of \$345,000 and \$351,900, respectively. What are the amounts included in 2012 associated with the noted cost drivers: meter reading fees, data systems and software maintenance costs.

**Answer: See below:**

	2012	2013	2014
Meter Reading Fees	101,286	184,000	187,680
Data Sysyems	144,129	130,000	132,600
Software Maintenance	21,590	31,000	31,620
	267,005	345,000	351,900

- b) The figures imply that in 2014, smart meter related OM&A costs will be \$1,781,363 (\$1,084,463 + \$345,000 + \$351,900). Please confirm that this is accurate, and explain how this is possible given that the \$1,084,563 figure includes expenses incurred prior to 2012. If not, please provide the total smart meter related OM&A costs for the 2014 test year.

**Answer: The incremental costs for 2013 and 2014 are \$345K and \$352K respectively. The incremental increase for 2014 vs 2013 is \$7K.**

**KWHI made an error in its original Table 4-5 in E4T1S2. Table 4-5 is being resubmitted as part of the interrogatory process (See 4-Energy Probe-34).**

**4-Energy Probe-38**

Ref: Exhibit 4, Tab 2, Schedule 2

The evidence indicates that KWHI is moving to monthly billing in 2013 in order to assist customers with cash flow concerns due to rising electricity bills.

- a) Has KWHI moved to monthly billing? If not, why does KWHI expect to move to monthly billing?

**Answer: KWHI has commenced the analysis and planning to enable the changes to its Customer Information System to accommodate monthly billing.**

- b) Does the move to monthly billing assist KWHI with its cash flow? If not, please explain fully.

In the Microsoft Excel version of Appendix 2-B, KWHI provides the following table showing one-time costs for this Application:

Please fill out the following table for all one-time costs related to this cost of service application

		Historical Year(s)	2013 Bridge Year	2014 Test Year
4	Expert Witness costs for regulatory matters		\$ -	\$ -
6	Consultants' costs for regulatory matters	\$ 61,788	\$ 107,000	\$ -
7	Operating expenses associated with staff resources allocated to regulatory matters	\$ 55,030	\$ 67,000	\$ -
8	Operating expenses associated with other resources allocated to regulatory matters <sup>1</sup>	\$ 8,352	\$ 28,400	\$ -
11	Intervenor costs	\$ 36,888	\$ 70,000	

This table documents \$162,058 for historical years (pre-2013) and \$272,400 for 2013. No costs are shown for 2014 as KWHI has proposed that new rates will be in place for January 1, 2014.

- a) Please explain each of the costs shown for the historical year(s), including how these are one-time costs associated with this current cost of service Application.

**Answer: The costs include in the historical years column are the actual one-time costs incurred to file the 2010 Cost of Service application. They are being amortized over four years and end in December 2013. None of these costs are related to this Cost of Service.**

- b) How are the historical year costs, before 2013, being recovered in KWHI's Application?

**Answer: Historical year costs are not being recovered in this 2014 Cost of Service Application.**

- c) Please confirm that the operating expenses for internal KWHI staff and resources being allocated as one-time costs for this Cost of Service Application are incremental to the normal OM&A budget recovered in existing distribution rates.

**Answer: Confirmed. Incremental overtime staff costs and resources only are recovered as a one-time cost to this Cost of Service application.**

**4-Staff-24**

**Ref: Exhibit 4/Tab 3/Schedule 1 – Information Technology Expenses**

On pages 15 to 19 of this exhibit, KWHI documents the annual expenses for Information Technology. KWHI documents the following for I.T. expenses by year.

Activity	2010	2011	2012	2013	2014
	CGAAP	CGAAP	CGAAP	CGAAP	CGAAP
Information Technology	1,190,006	1,266,025	1,277,076	1,543,800	1,811,500

KWHI explains that the expenses include salary increases of about \$40.2K for 2013 and \$59.2K for 2014. Even taking these into account, the year-over-year increases for 2013 and 2014 would exceed the materiality threshold of \$175K.

- a) Please provide further explanation of the IT projects documented on page 16 associated with the increases for 2013 and 2014.

**Answer: IT charges are allocated to the various business units. Because each business unit picks up a portion of the IT charges, and in each department the increase in IT charges was not greater than the level of materiality, the projects that made up the IT charges were not explained. In 2013 KWHI expects an increase of \$70K for salaries stemming from economic wage increases as well as the succession planning addition during the year of a new Systems Analyst. Other increases include a planned network security audit (\$20K), and higher costs associated with the expanded Internet bandwidth agreement and diverse route connection (\$15K) required to support increased traffic volume for smart meter AMI, MDM/R and ODS system interfaces. A significant price increase announced by Microsoft as well as additional MS SQL Server licensing will contribute \$42K to increase software costs. A new agreement with Sungard Availability Services signed late 2012 for enhanced Data Centre backup and disaster recovery capability will result in cost increases of \$66K in 2013.**

**In 2014, KWHI again expects increases of \$59.2K in salaries from economic increases as well as increased software maintenance costs for a new Outage Management System installation (\$80K) as well as software maintenance costs for a new Customer Information System (\$40K) anticipated in 2014.**

- b) Please provide the year-to-date and the estimate for 2013 year-end for Information Technology expenses based on the work and projects being done this year.

**Answer: See table below:**

	2013 Budget	2013 August Year To Date	2013 Forecast to Year End
IT	1,543,800	943,962	1,427,000



## Attachment 1 of 1

# Table of Purchases by Supplier and Purchasing Policy

## From Exhibit 4, Tab 6, Schedule 1, A

## 2010 Non-Affiliated Vendors &gt; \$100,000 per Year

Vendor Type	Vendor Name	Type of Product(s) / Service / Activity	Methodology/Pricing	Dollar Value
1	Able-One Systems Inc.	IT Hardware & Support	Quoted	27,020
3	Armtec Limited Partnership	9TS Sound Enclosure	Quoted	189,708
6	Badger Daylighting Inc.	Pole hole & Vault Cleanouts	Quoted	144,961
2	Bel Volt Sales	Line Hardware	Quoted	286,634
1	Canada Post Corporation	Postage / Permits	Market Price	361,518
2	Canadian Electrical Services	Transformers	Quoted	708,625
3	CG Power Systems Canada Inc.	9 T. S. Power Transformer	Tendered	1,542,000
6	DL Hannon	Pole Line Contractor	Tendered	112,445
2	Ed Lau Iron Works	Vault Hardware	Quoted	129,630
4	Elster Metering	Electronic Meters	Quoted	670,864
6	G&B Contracting	Subdivision Contractor	Tendered	536,632
6	Guelph Utility Pole	Wood Poles	Quoted	309,368
2	HD Supply	Transformers/Wire Secondary/Line Hardware	Quoted	263,935
2	Hogg Fuel & Readymix	Fuel & Readymix	Quoted	324,968
4	KTI	Electronic Meters	Tendered	523,005
2	Moloney Electric	Transformers	Quoted	151,831
2	Nedco	Wire Secondary	Quoted	121,863
2	Nexans	Wire - Primary/Secondary	Quoted	2,013,019
2	Noramco Wire & Cable	Wire Secondary	Quoted	260,815
1	Olameter Inc.	Meter Reading Contract 2010 previously approved Vendor (ending with the introduction of Smart Metering) NO LONGER REQUIRED	Quoted	306,250
1	Ontario Energy Board	Assessment	Remittance	236,017
3	Siemens Canada Ltd	9 T. S. Power Transformer Qty-2	Tendered	2,310,500
6	Southwest Power	Pole Line Contractor	Tendered	85,076
6	StressCrete	Concrete Poles	Quoted	217,452
7	Team Truck Centre	Truck# 59 Cab & Chassis	Tendered	81,783
1	The Mearie Group	Property / Liability / Vehicle Insurance	Insurance	356,410
2	Westburne	Wire Secondary/Line Hardware	Quoted	471,177
7	Wiltsie Truck Bodies	Truck# 59 Dump Body	Tendered	30,374
				<b>12,773,880</b>

## **SECTION 3**

**Appendix 2-G**  
**Detailed, Account by Account, OM&A Expense Table**  
(excluding Depreciation and Amortization)

Page 22

Account Description	Last Rebasings Year (2010 Actuals)	2011 Actual	2012 Actual <sup>2</sup>	Bridge Year 2013 <sup>3</sup>	Test Year 2014
<b>Reporting Basis</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>	<b>CGAAP</b>
<b>Operations</b>					
5005 Operation Supervision and Engineering	\$ 526,577	\$ 758,696	\$ 1,697,769	\$ 2,256,200	\$ 2,501,400
5010 Load Dispatching	\$ 614,270	\$ 591,453	\$ 649,357	\$ 676,500	\$ 697,500
5012 Station Buildings and Fixtures Expense				\$ -	
5014 Transformer Station Equipment - Operation Labour	\$ 281,354	\$ 273,646	\$ 279,711	\$ 285,100	\$ 294,700
5015 Transformer Station Equipment - Operation Supplies and Expenses	\$ 553,544	\$ 529,505	\$ 575,564	\$ 628,600	\$ 647,500
5016 Distribution Station Equipment - Operation Labour	\$ 5,825	\$ 4,842	\$ 6,127	\$ 5,500	\$ 5,700
5017 Distribution Station Equipment - Operation Supplies and Expenses	\$ 15,226	\$ 13,526	\$ 17,042	\$ 16,700	\$ 17,200
5020 Overhead Distribution Lines and Feeders - Operation Labour	\$ 17,401	\$ 16,071	\$ 29,030	\$ 24,000	\$ 24,600
5025 Overhead Distribution Lines and Feeders - Operation Supplies and Expenses	\$ 27,453	\$ 23,869	\$ 100,941	\$ 91,400	\$ 42,300
5030 Overhead Sub-transmission Feeders - Operation					
5035 Overhead Distribution Transformers - Operation					
5040 Underground Distribution Lines and Feeders - Operation Labour	\$ 310,008	\$ 340,327	\$ 357,355	\$ 400,300	\$ 410,400
5045 Underground Distribution Lines and Feeders - Operation Supplies and Expenses	\$ 130,169	\$ 145,477	\$ 192,134	\$ 237,000	\$ 241,700
5050 Underground Sub-transmission Feeders - Operation					
5055 Underground Distribution Transformers - Operation					
5060 Street Lighting and Signal System Expense					
5065 Meter Expense	\$ 285,880	\$ 499,602	\$ 868,071	\$ 687,600	\$ 699,700
5070 Customer Premises - Operation Labour	\$ 10,878	\$ 10,677	\$ 5,601	\$ 7,400	\$ 7,600
5075 Customer Premises - Operation Materials and Expenses	\$ 16,851	\$ 13,664	\$ 7,956	\$ 11,800	\$ 12,400
5085 Miscellaneous Distribution Expenses					
5090 Underground Distribution Lines and Feeders - Rental Paid	\$ 9,405	\$ 17,921	\$ 15,208	\$ 16,400	\$ 17,300
5095 Overhead Distribution Lines and Feeders - Rental Paid	\$ 19,879	\$ 19,349	\$ 19,443	\$ 21,000	\$ 22,000
5096 Other Rent					
<b>Total - Operations</b>	<b>\$ 2,824,720</b>	<b>\$ 3,258,625</b>	<b>\$ 4,821,308</b>	<b>\$ 5,365,500</b>	<b>\$ 5,642,000</b>
Account Description	Last Rebasings Year (2010 Actuals)	2011 Actual	2012 Actual <sup>2</sup>	Bridge Year 2013 <sup>3</sup>	Test Year 2014
<b>Maintenance</b>					
5105 Maintenance Supervision and Engineering					
5110 Maintenance of Buildings and Fixtures - Distribution Stations	\$ 126,049	\$ 149,303	\$ 193,574	\$ 201,600	\$ 183,000
5112 Maintenance of Transformer Station Equipment	\$ 264,109	\$ 579,330	\$ 685,771	\$ 661,800	\$ 748,100
5114 Maintenance of Distribution Station Equipment	\$ 23,182	\$ 58,337	\$ 38,473	\$ 124,100	\$ 79,100
5120 Maintenance of Poles, Towers and Fixtures	\$ 373,991	\$ 443,347	\$ 444,489	\$ 294,600	\$ 359,600
5125 Maintenance of Overhead Conductors and Devices	\$ 697,692	\$ 866,573	\$ 893,395	\$ 1,063,000	\$ 1,089,500
5130 Maintenance of Overhead Services	\$ 1,331,737	\$ 1,384,653	\$ 1,464,732	\$ 1,561,500	\$ 1,681,700
5135 Overhead Distribution Lines and Feeders - Right of Way					
5145 Maintenance of Underground Conduit	\$ 336,884	\$ 184,248	\$ 250,540	\$ 277,800	\$ 302,100
5150 Maintenance of Underground Conductors and Devices	\$ 250,976	\$ 489,648	\$ 587,888	\$ 455,200	\$ 473,800
5155 Maintenance of Underground Services	\$ 231,388	\$ 201,733	\$ 245,749	\$ 208,600	\$ 217,700
5160 Maintenance of Line Transformers	\$ 363,340	\$ 471,370	\$ 339,665	\$ 411,700	\$ 484,200
5165 Maintenance of Street Lighting and Signal Systems					
5170 Sentinel Lights - Labour					
5172 Sentinel Lights - Materials and Expenses					
5175 Maintenance of Meters	\$ 70,262	\$ 27,675	\$ 82,478	\$ 600	\$ 600
5178 Customer Installations Expenses - Leased Property					
5195 Maintenance of Other Installations on Customer Premises					
<b>Total - Maintenance</b>	<b>\$ 4,069,611</b>	<b>\$ 4,856,219</b>	<b>\$ 5,226,753</b>	<b>\$ 5,260,500</b>	<b>\$ 5,619,400</b>
Account Description	Last Rebasings Year (2010 Actuals)	2011 Actual	2012 Actual <sup>2</sup>	Bridge Year 2013 <sup>3</sup>	Test Year 2014
<b>Billing and Collecting</b>					
5305 Supervision	\$ 198,624	\$ 237,871	\$ 242,320	\$ 256,000	\$ 278,700
5310 Meter Reading Expense	\$ 474,328	\$ 437,507	\$ 800,933	\$ 529,600	\$ 512,400
5315 Customer Billing	\$ 1,324,913	\$ 1,338,095	\$ 1,414,088	\$ 1,620,800	\$ 1,857,200
5320 Collecting	\$ 722,738	\$ 772,098	\$ 909,893	\$ 1,063,800	\$ 1,138,500
5325 Collecting - Cash Over and Short	\$ 109	\$ 103			
5330 Collection Charges	\$ 25,764	\$ 28,531			
5335 Bad Debt Expense	-\$ 46,363	\$ 103,015	\$ 146,917	\$ 147,000	\$ 147,000
5340 Miscellaneous Customer Accounts Expenses		\$ 2,682			
<b>Total - Billing and Collecting</b>	<b>\$ 2,700,114</b>	<b>\$ 2,919,902</b>	<b>\$ 3,514,152</b>	<b>\$ 3,617,200</b>	<b>\$ 3,933,800</b>

As noted in the Table 4-10, the average age of the new Powerline Technician apprentices is 25.1 years of age. Two additional Powerline Technicians are planned for the 2013 Bridge Year to fill current vacancies; and two additional positions have been forecast for the 2014 Test Year to replace anticipated retirements.

## Staffing

As of the end of 2012, KWHI had 174 employees. There is one new position budgeted for 2013 (IT) and one for 2014 (Customer Service). The number of Actual and Forecast FTE employees by major department is shown in Table 4-13 for the years 2009 to 2014.

**Table 4-13**

Department	2009	2010	2011	2012	2013	2014
Executive	0	0	4	4	4	4
Finance (General Administration, Accounting & Regulatory)	10	9	8	8	8	8
Customer Service (Customer Service Administration, Billing, Collection and Meter Reading)	23	24	25	26	25	26 *
Engineering	21	21	20	21	21	21
Operations & Maintenance	102	100	97	96	97	98
Purchasing/Stores	7	7	7	7	7	7
Corporate Services	3	3	2	3	3	3
Information Technology	8	9	9	9	10 **	10
<b>Totals by Major Department</b>	<b>174</b>	<b>173</b>	<b>172</b>	<b>174</b>	<b>175</b>	<b>177</b>

\* 1 additional in Customer Service and includes 2 full time CDM positions - removed from KWHI Rate Base

\*\* 1 addition in IT (2013)

Table 4-14 outlines the net increase in FTE employees since the 2010 Board Approved EDR. Note that the totals for Customer Service includes two full time positions for Conservation and Demand Management which are removed from distribution expenses on a fully allocated costing methodology.

1 Table 4-14

FTE 2010 Actual Board Approved	173
Energy Conservation Supervisor (2011)	1
CDM Marketing & Program Advisor (2012)	1
HR Specialist (2012)	1
Projects Engineer (2012)	1
FTE 2014 Proposed	177

2

3

4 In addition to FTE employees, KWHI also hires a number of summer/co-op students each year.  
5 In 2013, KWHI hired seven summer students in Customer Service (2), Locates (2), Construction  
6 (2) and Accounting. KWHI also hired a co-op student for Engineering, one for Safety Services,  
7 two first year co-op Powerline Technicians and two second-year co-op Powerline Technicians.  
8 KWHI hopes to ultimately hire some of these students as full-time employees to replace  
9 employees who retire.

10

#### 11 **CHANGE IN WORKFORCE YEAR OVER YEAR:**

12

#### 13 **2010 Actual vs. 2009 Actual**

14

15 The number of FTE employees decreased by one from 174 on December 31, 2009 to 173 on  
16 December 31, 2010.

17

#### 18 **Management and Non-Union**

19 In 2010, the Vice-president Finance and CFO retired. The Manager of Regulatory Affairs was  
20 promoted to Manager of Finance. A Coordinator of Financial Services was hired, in the interim,  
21 to assist the Accounting Department.

22

23 Also in 2010, three employees were promoted and two hired into non-union or management  
24 positions to replace employees who retired or resigned during the year. One supervisor's  
25 position in the Control Room was not replaced.

26

27

28

**Answer:** KWHI did not complete a lead/lag study so it is unable to quantify the effects on cash flow.

- c) KWHI is forecasting an increase in collection expense. Please explain why this expense continues to rise despite the efforts to assist customers with their cash flow concerns.

**Answer:** There are a number of reasons for this including:

- Customer growth
- Continued difficult economic conditions in Waterloo Region
- Inability to collect and retain security deposits
- Initiatives to assist low income customers prolong the collections process
- Although monthly billing will provide a more frequent and smaller bill, there will still be segments of our customer base that do not pay on time and attempt not to pay at all. Associated with late payments, we produce and issue reminder letters, and we expect that more of these will be issued with monthly billing. Although we expect the percentage to fall because of smaller bill amounts, they will be issued 12 times per year rather than 6 and so we expect the number will increase and have budgeted for a partial year of increased paper, envelopes and postage in 2013, and a full year in 2014. For those payments that remain uncollected we issue termination orders and hand-deliver them to customer premises, and for some portion of those accounts, we perform service disconnections. Once again, we expect fewer to be issued with each cycle, but each cycle will occur twice as often, so our overall numbers have increased.
- There is a staff member returning from maternity leave and so labour costs have increased over the temporary labour costs in 2013.

- d) KWHI is not forecasting a decrease in bad debt expense. Please explain why there is no decrease despite the efforts to assist customers with their cash flow concerns.

**Answer:** KWHI has hired more staff for Collections (See Ex4, T4, S1). As well the cost of IT continues to rise (See Staff 4-Staff-24). With monthly billing, it is anticipated that the frequency of KWHI's collection activities will also increase.

#### **4-Energy Probe-39**

Ref: Exhibit 4, Tab 2, Schedule 2

In the paragraph related to the Service Centre on page 5, the last sentence ends with "and are not 100% charged to OM&A". Should "not" be "now"?

**Answer:** Yes

## Board staff Interrogatories

### ***Exhibit 1 – Administration***

#### **1-Staff-1      Ref: Exhibit 1/Tab 1/Schedule 7**

KWHI has proposed an effective date for new rates of January 1, 2014. In this exhibit, KWHI states that it would require a final Rate Order by November 15, 2013 in order to implement new rates effective January 1, 2014.

Experience with numerous rate applications for Ontario electricity distributors beginning in 2006 indicates that most distributors can implement new rates and test their systems one or two weeks after the implementation date.

- a) Please provide further explanation of why KWHI would require a final Rate Order 1.5 months in advance of when the new rates would come into effect.

**Answer: KWHI has an internally developed Customer Information System requiring limited internal staff to make modifications to complex programs for rate changes. This, coupled with allowing ample time to test all rate changes in all class of customers, requires the lead time stated in KWHI's application.**

- b) Please identify when KWHI issues the first bills with consumption in the month of January.

**Answer: It is anticipated that bills attracting the new rates will be issued on or about January 17, 2014.**

#### **1-Staff-2      Ref: Exhibit 1/Tab 1/Schedule 19 – Revenues from non-Distribution Activities, Exhibit 1/Tab 2/Schedule 9 – Affiliate Transactions and Exhibit 4/Tab 5/Schedule 1 –Shared Services & Corporate Cost Allocation**

KWHI states, in this Exhibit 1/Tab 1/Schedule 19, that it has included the expenses and revenues related to two non-utility businesses:

- OPA-sponsored CDM programs; and
- Street lighting capital & maintenance (for affiliated and non-affiliated businesses)

Street-lighting capital and maintenance are provided to the affiliated City of Kitchener and Township of Wilmot (both the ultimate shareholders of KWHI through Kitchener Power Corporation) and to the Region of Waterloo and the Ontario Ministry of Transportation. The other referenced exhibits also deal with the streetlighting services provided currently through KWHI but intended to be provided through an affiliate once a service agreement is finalized.

- a) KWHI states that streetlighting services are currently provided on a cost recovery basis. Does this mean that there is no return currently built into the capital services and the expensed services provided?

**Answer:** That is correct. All construction-type activities performed by KWHI have been historically completed on a cost recovery basis, regardless of whether the activities are distribution of electricity or street lighting. Consistent with the historical process, there has not been a return on capital added to the invoices issued for street lighting services; however, all related KWHI OM&A expenses are reduced by the OM&A costs recovered for the street lighting services.

- b) In Exhibit 1/Tab 2/Schedule 9, KWHI states: "KWHI has provided street lighting capital and maintenance services to the City of Kitchener and the Township of Wilmot for many years. For these services, KWHI charges for all labour, material and overheads (plus a 9% administration charge) as it would for any other service provided to any other customer."
- i. Please reconcile this with the cost recovery explanation provided in Exhibit 1/Tab 1/Schedule 9.

**Answer:** The amounts included in Exhibit 3/Tab 1/Schedule 9 do not include the administration fees charged to street lighting customers. Administration fees are recorded in KWHI's general ledger as direct expense reductions to USoA account 5005 – Operation Supervision & Engineering (2/3) & 5625 – Administrative Expense Transferred Out (1/3). The updated table below shows the administration charges that would have been charged to street lighting customers. Distribution expenses have separately been reduced by the 9% administration credit and are thus not included in 4375. The revenues are offset by the expenses recorded in 4380.

4375 - Street Lighting Services	Actual					Bridge	Test
	2008	2009	2010	2011	2012	2013	2014
Streetlighting Capital & Maintenance Services	1,186,519	1,246,988	950,852	1,086,061	1,049,783	1,195,400	1,219,300
Administration Charges	106,787	112,229	85,577	97,745	94,480	107,586	109,737
<b>Total</b>	<b>1,293,306</b>	<b>1,359,217</b>	<b>1,036,429</b>	<b>1,183,806</b>	<b>1,144,264</b>	<b>1,302,986</b>	<b>1,329,037</b>

- ii. Please explain the rationale of the 9% administration charge for capital-related services.

**Answer:** The 9% administration charge applies to all billable work, regardless of whether it is capital or fully receivable (i.e. contributed capital, accidents, etc.). The 9% administration fee has been used for many years by KWHI and was calculated by management as a general proxy of the cost of administering the accounts. Historical amounts and forecasted amounts for all administrative credits, including street lighting services, are provided below:

OEB Account	Account Description	2008	2009	2010	2011	2012	2013	2014
5005	Administration O/ H Credit	(371,407)	(275,642)	(378,199)	(306,143)	(450,565)	(358,800)	(368,800)
5625	Administration O/ H Credit	(185,703)	(138,161)	(189,237)	(189,294)	(189,060)	(179,400)	(184,400)
	<b>Total</b>	<b>(557,110)</b>	<b>(413,803)</b>	<b>(567,436)</b>	<b>(495,436)</b>	<b>(639,625)</b>	<b>(538,200)</b>	<b>(553,200)</b>

c) KWHI states that streetlighting services are expected to be transferred to an affiliated company, Kitchener Energy Services Inc. ("KESI"), and that, once service agreements are made with the agencies identified above, KWHI will outsource these services to KESI using a cost recovery basis plus a rate of return.

- i. Will outsourcing to KESI involve transfer of any existing staff and/or capital assets (building or building space, office furniture and equipment, vehicles and rolling stock, etc.)?

**Answer: KWHI does not expect that the transferring of its street lighting activities to KESI will have any effect on staffing or capital. All costs incurred by KWHI to perform street light maintenance as a subcontractor will continue to be fully allocated and charged to KESI.**

- ii. Outsourcing generally implies that the firm is the vendor with the customers, but that the services are provided through the outsourced firm. Who will be the vendor for the streetlighting capital and operating services provided to the City of Kitchener and others?

**Answer: KESI is expected to be the vendor for street lighting capital and operating services.**

- iii. What is the current status of the planned outsourcing and service agreement?

**Answer: A draft service agreement has been submitted to the City of Kitchener. KESI is awaiting approval of the draft agreement. It is expected that, once signed, the service agreements with the other entities will soon follow.**

**It should also be noted that the Ontario government has proposed to amend Regulation 161/99, which would allow LDCs to provide street lighting services within their service territory. It is expected that, if the regulation is amended, that KWHI will not transfer its street lighting activities to its affiliate, KESI, and street lighting services would stay within KWHI.**

- d) Have the resources and costs for both streetlighting services to be transferred to KESI and OPA-sponsored CDM programs been excluded from KWHI's 2014 revenue requirement? If not, please explain the treatment and the rationale for the treatment.

#### 4.0 - VECC- 22

**Reference:** Exhibit 4, Tab 2, Schedule 5

- a) Please provide the calculation which shows the derivation of the proposed \$46,000 in LEAP funding for 2014.

**Answer:** As per table 6-7 in Exhibit 6 the distribution revenue required is \$38,207,936. This is multiplied by 0.12% (from EB-2008-0150) and rounded up to give a figure of \$46,000.

#### 4.0 - VECC- 23

**Reference:** Exhibit 4, Tab 1

- a) Please provide association fees paid to the EDA for each of the years 2010 through 2014 (forecast).

**Answer:**

**KWHI has paid the following EDA fees:**

<b>2010</b>	<b>63,720</b>
<b>2011</b>	<b>64,700</b>
<b>2012</b>	<b>68,200</b>
<b>2013</b>	<b>71,500</b>
<b>Estimate 2014</b>	<b>75,100</b>

- b) Separately provide and describe the cost of all other association memberships.

**Answer:** KWHI also has a membership with the Kitchener Chamber of Commerce (2011, 2012 & 2013) for \$2,090 annually. This membership extends KWHI's customer engagement opportunities through the power of referrals and networking.

KWHI is a member of the MEARIE Group, with a membership for HR Information Services (2011, 2012 & 2013) for \$1,030 annually. This membership provides access to HR job postings, staff training and seminars.

KWHI had a membership (2010, 2011 & 2012) with MEARIE for Employee and Labour Relations Services for \$14,000 annually. This membership provided HR services and Labour Relations accessible to KWHI's staff in place of a full KWHI HR Specialist. This membership was discontinued in 2013, when it was determined that KWHI's full time HR Specialist, hired mid-2012 would be able to perform the duties previously supplied by the MEARIE membership. The decision to cancel the membership for 2013 was made in 2013, which was after the 2013 budget had been approved in 2012.

Description Page No.

**UNDERTAKING JT1.18:** TO PROVIDE SUPPORTING DOCUMENTATION FOR FORMER CGAAP AND REVISED CGAAP, LIST MEARIE PREMIUMS IN 2013 AND 2014 FORECAST, AND EXPLAIN INCREASE IN PREMIUMS BETWEEN 2010 AND 2012. IF PREMIUM IS NOT NET OF REBATE, SEPARATE THE TWO 58

**Below see the table which shows the premiums paid to MEARIE for insurance since 2009:**

**The MEARIE Group – Summary of Insurance Premiums Paid  
2009 - 2014**

	2014 (est)	2013	2012	2011	2010	2009
Comprehensive Liability Policy	\$193,900	\$188,254	\$179,332	\$167,323	\$164,624	\$171,072
Privacy/Cyber/Network Security	33,800	31,376	N/A	N/A	N/A	N/A
Property Policy	287,500	275,078	252,666	245,181	207,712	100,523
Vehicle Policy	42,200	40,949	41,032	40,766	40,904	41,408
Subtotal	<b>\$557,400</b>	<b>\$535,657</b>	<b>\$473,030</b>	<b>\$453,270</b>	<b>\$413,240</b>	<b>\$313,003</b>
Premium Rebate	0	0	(55,680)	0	(56,830)	0
Total	<b>\$557,400</b>	<b>\$535,657</b>	<b>\$417,350</b>	<b>\$453,270</b>	<b>\$356,410</b>	<b>\$313,003</b>

Total Insured Value (TIV)	152,957,964	147,785,472	135,907,953	130,828,940	84,954,117	80,795,800
Increase in TIV \$\$	5,172,492	11,877,519	5,079,013	45,874,823	4,158,317	
Increase in TIV %	3.50%	8.74%	3.88%	54.00%	5.15%	
Total Premium Increase	21,743	118,307	(35,920)	96,860	43,407	
Premium Increase \$\$ (net of rebate)	\$21,743	\$62,627	\$19,760	\$40,030	\$100,237	
Premium Increase % (net of rebate)	4.06%	13.24%	4.36%	9.69%	32.02%	
Property Premium per \$1000 of TIV	0.53	0.54	0.54	0.53	0.41	0.80

### Property Insurance Notes

**Note there was a significant increase in property insurance premiums in both 2010 and 2013. In 2010, there was a significant increase to premiums when MEARIE's reinsurance premiums went up significantly due to the loss experience of the program when MEARIE switched to a new reinsurance partner.**

**In 2011, the total insured value (TIV) was adjusted, resulting in a 54% increase in the value of assets insured and an increase to premiums of 18%.**

**In 2012, property insurance premiums were adjusted to reflect a standard 3.5% increase to TIV.**

**In 2013, KWHI adjusted the TIV again due to the addition of some assets that had been omitted in the last TIV adjustment (2011). This resulted in an increase of 8.9%.**

**2014 is an estimate. It should be noted that the property premiums per \$1,000 of TIV have remained quite steady.**