

Board Staff Interrogatories 2009 Electricity Distribution Rates Niagara-on-the-Lake Hydro Inc. EB-2008-0237

1 OPERATING COSTS

1.1 General – Historical OM&A Expenses Data

Ref: [http://www.oeb.gov.on.ca/OEB/Documents/EB-2006-0268/Comparison of Distributors with 2007 data.xls](http://www.oeb.gov.on.ca/OEB/Documents/EB-2006-0268/Comparison_of_Distributors_with_2007_data.xls)

The figures in Table 1 below are taken directly from the public information filing in the Reporting and Record-keeping Requirements ("RRR") initiative of the OEB. The figures are available on the OEB's public website.

Table 1

	2003	2004	2005
Operation	\$261,360	\$302,739	\$275,943
Maintenance	\$205,536	\$309,308	\$256,663
Billing and Collection	\$313,858	\$294,158	\$297,737
Community Relations	\$4,463	\$8,556	\$21,984
Administrative and General Expenses	\$454,953	\$494,381	\$511,250
Total OM&A Expenses	\$ 1,240,171	\$ 1,409,142	\$ 1,363,577

- a) Please confirm the NOTL's agreement with the numbers for Total OM&A Expenses that are summarized in Table 1. If NOTL does not agree with any figures in the table, please explain why not and provide amended tables with a full explanation of all changes.

1.2 General – OM&A Expenses

Ref: Exhibit 4/Tab 1/Schedule 2/ p. 1

Board staff took the figures from the evidence provided in Exhibit 4 of the application and prepared Table 2 as a summary of NOTL's OM&A expenses. Note rounding differences may occur, but are not material to the questions that follow.

Table 2

	2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
Operation	\$323,382	\$260,994	\$342,844	\$377,390	\$373,710
Maintenance	\$304,410	\$388,961	\$431,315	\$474,671	\$521,359
Billing and Collection	\$270,862	\$310,202	\$355,606	\$312,374	\$318,798
Community Relations	\$713	\$29,210	\$8,783	\$1,000	\$1,020
Administrative and General Expenses	\$582,047	\$557,582	\$580,205	\$589,054	\$649,774
Total OM&A Expenses	\$1,481,414	\$1,546,949	\$1,718,753	\$1,754,489	\$1,864,661

Board Staff took the figures from the evidence provided in Exhibit 4 of the application and prepared Table 3 to review NOTL's OM&A forecasted expenses. Note rounding differences may occur, but are not material to the questions that follow.

Table 3

Summary of OMA Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	323,382	-62,388	260,994	81,850	342,844	34,546	377,390	-3,680	373,710	112,716
		-19.3%		31.4%		10.1%		-1.0%		43.2%
Maintenance	304,410	84,551	388,961	42,354	431,315	43,356	474,671	46,688	521,359	132,398
		27.8%		10.9%		10.1%		9.8%		34.0%
Billing & Collections	270,862	39,340	310,202	45,404	355,606	-43,232	312,374	6,424	318,798	8,596
		14.5%		14.6%		-12.2%		2.1%		2.8%
Community Relations	713	28,497	29,210	-20,427	8,783	-7,783	1,000	20	1,020	-28,190
		3996.8%		-69.9%		-88.6%		2.0%		-96.5%
Administrative and General Expenses	582,047	-24,465	557,582	22,623	580,205	8,849	589,054	60,720	649,774	92,192
		-4.2%		4.1%		1.5%		10.3%		16.5%
Total OM&A Expenses	1,481,414	65,535	1,546,949	171,804	1,718,753	35,736	1,754,489	110,172	1,864,661	317,712
		4.42%		11.11%		2.08%		6.28%		20.54%

- a) Please confirm that NOTL agrees with the figures presented in Table 2 and Table 3. If NOTL does not agree with any figures in the table please explain why not and provide amended tables with a full explanation of all changes.
- b) Please complete Table 4 by identifying and listing the key cost drivers that are contributing to the overall increase of 20.5% in total 2009 OM&A expenses over 2006 historical actuals. Please add additional rows to Table 4 if there are more than four cost drivers. Some examples of specific costs drivers include items such as X% increase in staff compensation, hiring x staff, X% increase in cost of contractors, X% increase in inflation, etc.

Table 4

	2006	2007	2008	2009
Opening Balances	1,481,414	1,546,949	1,718,753	1,754,489
e.g., hiring X staff,;				
e.g., X% increase in cost of contractors				
Closing Balances	1,546,949	1,718,753	1,754,489	1,864,661

- c) For the period 2006 to 2009, please provide detailed and specific explanations for each cost driver in Table 4 above.

1.3 General – Cost Efficiency Programs

Ref: Exhibit 4/Tab 2/Schedule 1 p. 1-4

Please describe and quantify the benefits of any cost efficiency programs that NOTL has undertaken, e.g. cost reduction, contract negotiations, system automation, cost savings or other programs that are either in place now or are contemplated at some future time.

1.4 Contracted Services

Ref: Exhibit 4/Tab 2/Schedule 1 p. 1-4

- From 2006 through 2009, please identify the portion of total OM&A expenses that is related to contracted services.
- For each of the years, 2006 through 2009, please identify the selection process for the contracted services.
- For each contracted service, please identify the year in which the selection process was used to select a particular contractor.
- Please provide examples of contracted services for the period of 2006 through 2009 in which NOTL negotiated cost savings or will contemplate to achieve costs savings. Regarding contracted services, please provide evidence, if any, that demonstrates NOTL has implanted cost efficiency initiatives or it is contemplating to undertake initiatives that help NOTL achieve savings at some future time.

1.5 Capitalization of Employee Compensation

Ref: Exhibit 4/Tab 2/Schedule 5/ p. 1-2, Table 1

Using the information from evidence provided in Exhibit 4 of the application, Board staff developed Table 5 below which shows the total compensation charged to OM&A. As this Table 5 illustrates, in 2007 NOTL capitalized 18% of total compensation which represents a 10% change from the previous year.

According to the evidence provided in Exhibit 4 of the application, in 2009, NOTL has increased its capitalization of employee compensation to 34%, as shown in Table 5 below.

Table 5

	2006 Board Approved	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Total Compensation	\$ 1,113,356	\$ 1,317,798	\$ 1,381,568	\$ 1,560,132	\$ 1,581,879
Less Capitalized Amount	\$ 318,371	\$ 374,254	\$ 244,162	\$ 533,020	\$ 545,366
Less Billable	\$ 61,818	\$ 142,935	\$ 125,925	\$ 162,145	\$ 170,641
Compensation charged to OMA	\$ 733,167	\$ 800,609	\$ 1,011,481	\$ 864,967	\$ 865,872
Capitalized	29%	28%	18%	34%	34%

Please confirm that NOTL has not made changes to the company's accounting policies in respect of capitalization of operation expenses and/or has not made any changes to accounting estimates used in the allocation of costs between operations and capital expenses post fiscal year end 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please explain the changes including the rationale. Provide all supporting documentation and a discussion highlighting the impact of the changes.

1.6 Average Total Base Wage Per Employee

Ref: Exhibit 4/Tab 2/Schedule 5/ p.1 Table 1

Referencing to Table 1 from the above evidence provided in Exhibit 4 of the application ("Components of Total Compensation – Average Per Employee"), Board staff notes that the total base wage per employee for non-union employees (including part-time employees) increased from \$17,321 in 2007 to \$24,222 in 2008. This represents an increase of 40% in compensation per employee for non-union staff. Furthermore, Board staff notes that the total base wage per employee for union employees increased from \$50,567 in 2007 to \$55,196 in 2008. This represents an increase of 9% in compensation per employee for union staff.

Please provide an explanation and justification for these increases.

1.7 Personnel Management

Ref: Exhibit 4/Tab 2/Schedule 5/ p. 3

NOTL stated in the evidence provided in the Exhibit 4 of the application that "Efficient planning requires the effective use of staff and external resources and the development of shared services and mutual assistance relationships primarily with neighboring LDC's that result in improved quality of our business and service levels". Please provide a description and benefit of plans (if any) to address the issue of an aging workforce.

1.8 Corporate Cost Allocation

Ref: http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf

Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications (see reference above), applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please file with the Board the documentation described above.

1.9 Corporate Cost Allocation

Ref: *EB-2005-0001 Decision with Reason for Enbridge Gas Distribution Inc. Chapter 10 p.69-91*

The five principles listed below formed the basis of the Board's acceptance of Enbridge's corporate cost allocations in EB-2005-0001.

1. The service is specifically required by the utility;
2. The level of service provided is required by the utility;
3. The costs are allocated based on cost causality and cost drivers;
4. The cost to provide the service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher; and
5. There are scale economies.

Please comment on how NOTL's corporate cost allocations policy meets each of these principles.

1.10 Purchase of Services

Ref: *Exhibit 4/Tab 2/Schedule 4/ P. 18*

The total amount for 2009 purchase of services is stated to be \$809,215. In relation to 2007 and 2006, this represents an increase of \$86,421 (12%) and \$211,934 (35%), respectively.

Please provide an explanation for these increases.

1.11 Shared Services

Ref: Exhibit 4/Tab 2/Schedule 3/ p.p. 1- 2

Ref: http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf

Pursuant to section 2.5 (Exhibit 4 Operating & Maintenance and Other Costs) of the Filing Requirements for Transmission and Distribution Applications, an applicant is to file the type of shared service and the total annual expense by service. Please file with the Board the type of shared services and the total annual expense by service for 2006 through 2009.

2 SSM REQUEST

Ref: Exhibit 10/Tab 1/Schedule 4/ p. 2/Table 1

In its evidence, NOTL is requesting \$8,563 in relation to the shared savings mechanism (SSM). As provided in Exhibit 10 of the application, the amount has been grossed up for PILs. On September 11, 2007, the Board issued a Decision and Order for Toronto Hydro (EB-2007-0096) where it confirmed that it was not appropriate to gross up the SSM amount for PILs.

Please file with the Board a revised Table 1 for "SSM Amounts by Program and Class" if NOTL agrees that it was an oversight on its part and the amount for SSM should not be grossed up for PILS. Otherwise, please provide an explanation for grossing-up the SSM amount for PILS.

3 COST OF CAPITAL (CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL)

3.1 Long Term Debt Rate

Ref: Exhibit 6/Tab 1/Schedule 3

Ref: Exhibit 1/Appendix E," Audited Financial Statements at December 31, 2007", Note 10, page 14.

Ref: Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors December 20, 2006, page 14 - http://www.oeb.gov.on.ca/documents/cases/EB-2006-0088/report_of_the_board_201206.pdf

Note 10 of NOTL's 2007 Audited Financial Statements states the following:

"Long-term note payable to the Town of Niagara-on-the-Lake, interest is payable at 7.25% and amounts paid and accrued for the year amounted to \$483,309 (\$498,927 – 2006). During the year, the Board approved the repayment of \$100,000 (\$235,000 – 2006) to the Town. There are no fixed terms of repayment."

On Long-Term Debt, Section 2.2.1 of the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors - December 20, 2006 states, in part:

"For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for a change." [Emphasis in original]

- i) Please provide a copy of the long-term note.
- ii) Based on the terms of the long-term note and the guidelines in the Board Report, please state why NOTL believes that a rate of 7.25% should be applied to this debt, as compared to the 6.10% rate contained in the Board's March 7, 2008 letter, as updated in 2009. In this context, please specifically comment on the absence of fixed terms of repayment for this debt and why in the utility's view this would the rate for this debt should not be determined as per Section 2.2.1 of the guidelines.

4 RATE BASE AND CAPEX

4.1 Capital Expenditures

Ref: Exhibit 2/Tab 3/Schedule 1/ p. 3

On this page it is noted that the Five-Year Capital Plan includes a major underground project known as "Chautauqua," which is a \$1.5 million project commenced in 2008 and to be completed over three years.

NOTL further states that while it originally considered completing this project equally over the three year period at \$0.5 million per year within the normal annual capital budget level of approximately \$1.3 million, three primary reasons have prompted it to ramp up the construction of this project in 2009 to the level of \$1 million. These are:

- (1) to ease the impact of excessive construction on local residents,
- (2) to gain financial savings that can reasonably be expected from having a single large construction contract versus two or three contracts, and
- (3) to take advantage of the Town of Niagara-on-the-Lake's schedule to complete and restore Chautauqua roadways in late 2009.

In the context of the above reasons:

- i) Please state whether or not assessments of alternative means of undertaking this project have been undertaken; for example, on the basis of completing it equally over three years, or over a longer period, such as five years. If so, please file these assessments, if not, please explain why not.
- ii) Please clarify what is meant by reason (2) above. Please specify what would be encompassed by a single large construction contract versus two or three contracts and the time frames of such contracts. Please state why it would have been necessary under the non ramp-up alternative to have two or three construction contracts and quantify the financial savings that resulted from having only one. Please comment on whether or not under the non ramp-up alternative it would have been possible to have had one three-year contract and, if not, why not.

- iii) Chautauqua project is a major underground construction that NOTL has undertaken and is proposing an expenditure of \$1 million on this project for the test year. Please provide an explanation on the measures that NOTL has taken or will undertake, e.g. use of tendering process and deploying the lowest bid contractor, negotiations with suppliers on purchase of material and equipment, etc. to execute this project in the most cost-effective way. Please file with the Board any evidence that demonstrates NOTL's effort in undertaking and implementing measures that would achieve cost savings for NOTL.
- iv) Please discuss the extent to which the Chautauqua project involves the refurbishment of existing facilities as compared to the installation of new facilities. To the extent that the installation of new facilities is planned, please state whether or not refurbishment was considered as an alternative. If yes, please explain why it was not adopted, if no, please explain why not.

4.2 Asset Condition Study

Ref: Exhibit 2/Tab 3/Schedule 5/ p.p. 1- 8

Please indicate whether NOTL has utilized any asset condition study in developing its Asset Management Plan. Please file any such study.

4.3 Service Quality and Reliability

Ref: Exhibit 2/Tab 3/Schedule 6

In this schedule NOTL provides statistics for SAIDI, SAIFI and CAIDI for the years 1998 to 2007. NOTL's service reliability performance, as measured by these statistics, demonstrated deterioration in 2007 relative to 2006 with SAIDI increasing from 0.42 in 2006 to 2.41 in 2007, SAIFI from 0.75 in 2006 to 2.07 in 2007 and CAIDI from 0.56 in 2006 to 1.16 in 2007. Please provide an explanation for this change.

5 SMART METERS

Ref: Exhibit 9/Tab 1/Schedule 1/ p. 7

On this page it is stated that:

“At the time of this submission, negotiations are underway with a Fairness Commissioner-designated vendor. It is anticipated that NOTL Hydro will be scheduled for full implementation of Smart meters in mid to late 2009 in a process expected to take less than two months and require a capital outlay estimated at \$1.6-\$1.7 million. NOTL Hydro has noted OEB decisions for those 2008 cost of service rate Applicants that are in a similar situation to NOTL Hydro (for example, Lakefront Utilities Inc. and PUC Distribution Inc.). In keeping with these decisions, NOTL Hydro seeks a rate rider of **\$1.00 per customer per month** to fund Smart Meter activities.”

Please provide the following information related to the above:

- i) The estimated number of meters to be installed in the rate test year;
- ii) The actual or estimated costs per installed meter and in total;
- iii) A statement as to whether the distributor has purchased, or expects to purchase (included the estimated costs), smart meters or advanced metering infrastructure (“AMI”) whose functionality exceeds the minimum functionality adopted in Ontario Regulation 425/06; and
- iv) A statement and the estimated costs as to whether the distributor has incurred, or expects to incur, costs associated with functions for which the SME has the exclusive authority to carry out pursuant to Ontario Regulation 393/07.

6 PILS

6.1 Change in Regulatory Assets

Ref: Exhibit 4/Tab 3/ Schedule 1/p. 1

On this page, NOTL provides its tax calculations, which include as an addition to accounting income an item "Change in Regulatory Assets" in the amount of \$17,723 in the 2009 test year.

The Board, in a number of EDR 2008 decisions denied increasing regulatory taxable income through the addition of movements, or recoveries, in regulatory assets, e.g Brantford Power, PUC. For instance in the Brantford Power Decision (EB-2007-0698) the Board stated that "The appropriate forum for the issues raised by the Company is the Board's pending proceeding on account 1562. Until that proceeding is concluded, there is no basis for the Board to deviate from the findings it has made in other cases where the same issue has been identified."

Please explain why, in light of these decisions, NOTL believes that the Board should approve its request to include this item in its regulatory taxable income.

6.2 Tax Rate

Ref: Exhibit 4/Tab 3 /Schedule 1/ p. 1

NOTL's tax calculations for the 2009 test year are based on a 33% tax rate. However, NOTL's taxable income for 2009 is stated as \$1,245,550, which is below the \$1.5 million income threshold for the 33% tax rate. Please state why NOTL believes that the 33% rate is the correct one to use, or if not, please provide a revised version of this evidence making use of the appropriate rate.

7 WEATHER NORMALIZATION AND MODELLING

7.1 Forecasting Average Consumption

Ref: Exhibit 3/Tab 2/ Schedule 2

On pages 25 and 26, NOTL shows Table 17 titled "Alignment of Non-Normalized to Weather-Normalized Billed Energy Forecasts" for 2008 and 2009. It appears the non-normalized billed energy forecast is based on the actual 2007.

Please explain why it is appropriate to forecast the estimated average consumption for 2009 using the 2007 actual annual usage per customer after taking CDM and weather adjustment into consideration instead of a trend in consumption use over time.

7.2 Customer Count

Ref: Exhibit 3/Tab 2/Schedule 2 /p.p. 18-19

On page 19, NOTL states: "An additional 85 customers are expected in 2008 and a further 75 in 2009. In 2009, approx. 50 customers are expected to transfer to St. Catharines (Horizon Utilities) as part of the resolution of load transfers. The resulting forecasts are 6,509 customers in 2008 and 6,584 customers in 2009. Application of the geometric mean growth rate is considered to over-estimate the customer count in 2008 and 2009."

- a) Please confirm whether the addition in 2009 residential forecast includes the impact of load transfers.
- b) Please explain why geometric mean growth rate is considered to over-estimate the customer count for residential class, yet the geometric mean growth rate is considered to be appropriate for GS < 50kW, GS > 50kW, and Streetlights classes.
- c) If the geometric mean growth rate is used to forecast residential customer for 2008 and 2009, please provide the forecast residential customer count for 2008 and 2009.
- d) Please provide the overall revenue and load impact on the residential class if the geometric mean growth rate is used to forecast 2008 and 2009.
- e) On page 18, the NOTL calculates the "Geomean Annual Growth Rate" under Table 11. Please confirm whether the calculation is based on arithmetic average or geometric mean.

7.3 kWh Load and Revenue

Ref: Exhibit 3/Tab 2/Schedule 2

On page 23, NOTL adjusted for Cangro closure by 23,392 kWh/customer (from 684,216 kWh/customer to 660,824 kWh/customer), which is constant in 2008 and 2009. On page 14-15, NOTL provides the adjustments for the impact of the closure of Cangro for 2008 and 2009 from the total system purchases. The

adjustment for 2008 is the reduction of 2,693,736 kWh and the adjustment for 2009 is the reduction of 5,387,472 kWh.

- a) Please explain whether and how the 23,392 kWh/customer adjustment is reflected in the total adjustment of 2,693,736kWh for 2008.
- b) Since the adjustments for the total system purchases are different in 2008 and 2009, please explain why the forecast annual kWh non-normalized usage per customer for GS > 50kW is constant in 2008 and 2009.

7.4 CDM Impact

Ref: Exhibit 3/ Tab 2/Schedule 2

On page 16, NOTL states: "NOTL Hydro proposes to apply a 0.34% reduction to the 2008 and 2009 adjusted calculations of purchases tabulated above, to reflect the impact of the successful NOTL Hydro 3rd tranche CDM programs. This percentage is based on the results of the application of the OEB-endorsed Total Resource Cost (TRC) model for NOTL Hydro CDM programs. These results were included NOTL Hydro's 2007 Annual CDM Report to the OEB..."

- a) Please advise whether the 2007 consumption data used in the regression model included the effect of the 3rd tranche CDM programs.
- b) If your answer to (a) is affirmative, please provide the reason for applying a 0.34% reduction to the weather normalized forecast kWh purchases for 2008 and 2009 when the historic information has already accounted for the 2007 CDM impact.

7.5 Customer Count, kWh load, kW load and Revenue

Ref: Exhibit 3/ Tabs 1 & 2

Some of the evidence may need to be adjusted as a result of responses to the preceding customer count, load and revenue forecasting interrogatories.

Please re-file tables in Exhibit 3 that are required to be updated as a result of any changes in the evidence.

8 DEFERRAL AND VARIANCE ACCOUNTS

8.1 Continuity Schedule for Regulatory Assets

Ref: Exhibit 5/Tab 1/ Schedule 1

NOTL is requesting that the Board dispose of the regulatory variance accounts enumerated in Exhibit 5/Tab 1/Schedule 1, p. 1. Please complete the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition as provided in Exhibit 5/Tab 1/Schedule 1, p. 1. Please note that forecasting principal transactions beyond 2007 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

9 LOSS FACTORS

Ref: Exhibit 4/Tab 2 /Schedule 7

On Page 1, NOTL states that it proposes to leave its current Board approved loss factor of 1.0501 unchanged, due to the remaining debit balance of \$264,801 in the power purchase variance account. NOTL further states that it plans to approach the OEB with a proposed reduction of the total loss factor when the debit balance is reduced or eliminated.

- (a) Please provide a time estimate for when NOTL expects the debit balance to be cleared.
- (b) Please indicate whether or not NOTL expects to improve on its losses during the clearance period. If so, what impact will this have on NOTL's time estimate for clearing the debit balance?

10 COST ALLOCATION

10.1 Sentinel Light Class

Ref: Exhibit 9/Tab 1 /Schedule 6

On Page 2, NOTL proposes to eliminate its Sentinel Light class based on “the latest version of the Affiliate Relations Code [which] confirms the OEB’s direction that LDC’s must not participate in the sentinel light rental business either directly or through an affiliate.”

Compliance Bulletin 200605, issued July 10, 2006, stated that “under section 71 (1) of the Ontario Energy Board Act, 1998, a distributor may not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity”. The Bulletin further stated that sentinel lighting services is not a distribution activity and is not a permitted business activity for a distributor under section 71(1) of the Act”.

- (a) Please explain NOTL’s interpretation of Compliance Bulletin 200605 and how it relates to its proposal to eliminate the sentinel light class.
- (b) Please explain NOTL’s justification for eliminating its sentinel light class.
- (c) What is the financial impact to sentinel light customers who are transferred to the USL or street lighting rate class?