

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 Niagara-on-the-Lake
Hydro Inc. for an Order or Orders approving just and reasonable rates
and other service charges for the distribution of electricity, effective.

INTERROGATORIES
OF THE
SCHOOL ENERGY COALITION

Rate Base and Capital Expenditures

1. Exhibit 2, Tab 2: there are several references in the variation explanations to the Chatauqua Project "as part of our underground capital program". Please provide a more detailed description of this project as well as a business case.
2. Exhibit 2, Tab 2, Schedule 3, pg. 6: Services and Meters capital expenditures:
 - (a) NOTL plans on spending \$20,000 on new meters in each of 2008 and 2009. Please confirm that these are traditional meters and discuss whether such expenditures are prudent in view of NOTL's stated intention of implementing a smart meter plan in 2009 [see Exhibit 9/1/1, pg. 7].
 - (b) Please provide a more detailed explanation for the increase of the balance in account 1855 (Services). Specifically:
 - (i) What factors contributed to the increase from \$1.026 million in 2006 Board approved to \$1.624 in 2006 actual? The evidence states that the difference is due to the fact that the 2006 Board approved number is an average of actual 2003 and 2004 values. What increase in activity occurred in 2005 and 2006 such that the balance in this account increased by 58% over the 2003 and 2004 average?
 - (ii) The evidence states that the increase in expenditures in 2007 over 2006 is due to "new residential customer servicing, and new general service connections." However, the number of residential and general service customers exhibited no growth in 2007 over 2006 (see Exhibit 3, Tab 2,

Schedule 1, pg. 2). Please explain why expenditures on new connections would need to increase when the number of connections has been stable.

3. Exhibit 2, Tab 2, Schedule 3, pg. 6: IT Assets: the evidence states that the increase in account 1925 (computer software) from 2006 Board Approved to 2006 actual is due to expenditures related to the new customer information system ("CIS"). The capital plan (Exhibit 2, Tab 3, Schedule 1, pg. 12) states that the cost of this system was \$94,316. However, expenditures in this category continue to increase in 2007, 2008, and 2009. The explanation given is "costs associated with software upgrades and Information Technology consulting to ensure system reliability and compliance with Ontario Energy Board mandated requirements (see Ex. 2/3/1, pp. 20, 28, and 34). Please:

- (a) Explain what is meant by "system reliability" and "Ontario Energy Board mandated requirements": what specific requirements are being addressed and what specific expenditures are aimed at addressing each.

4. Exhibit 2, Tab 2, Schedule 4: Other Distribution Assets (Account 1995):

- (a) The balance in Account 1995 increases by over 61% from 2006 Board Approved to 2006 actual (from \$2,802,684 to \$4,522,868). The only explanation given is that the 2006 Board Approved amount reflects the average of 2003 and 2004 and that the 2006 actual reflects "normal contribution" in the ensuing years. Please provide a more detailed breakdown of the expenditures in 2004, 2005 and 2006 that led to a 61% increase in account 1995 during those years.

Operating Costs

5. Exhibit 4/2/3, pg. 1:

- (a) please provide a table showing revenues from Energy Services Niagara Inc. from 2006 to 2009;
- (b) please provide a copy of the shared services agreement with Energy Services Niagara Inc.

6. Exhibit 4/2/7, pg. 1: NOTL's average total loss factor for the period from 2003 to 2007 is 1.0463. NOTL nonetheless proposes that the loss factor remained unchanged at 1.0501 "due to the remaining debit balance in the power purchase variance account (account 1588 of \$264,801)

- (a) Please explain the connection between the balance in the power purchase variance account and setting the total loss factor.

7. Exhibit 4, Tab 2, Schedule 2, pg. 4 Billing and Collection (account 5320)- This account has exhibited significant variations in expenditure, from \$47,535 in 2006 Board approved to \$103,092 in 2007 to a forecast of \$76,368 in 2009. The evidence states that increase in 2007 was due to higher than normal collection activity "which is expected to resume a more normal level in 2008 and 2009."

- (a) Please provide an explanation as to how the forecast for 2009, \$76,368, which is 61% higher than the 2006 Board approved figure (\$47,435), was arrived at given the statement that collection activity is expected to resume to a more normal level in 2009.

Cost of Debt

8. Exhibit 6/1/3, pg. 1:

- (a) Please provide a copy of the promissory note supporting the long-term debt issued to the Town of Niagara-on-the-Lake.
- (b) The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors, dated December 20, 2006, states, at pg. 14, that for "all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate." If the Promissory Note to the Town of Niagara-on-the-Lake is a demand note, please explain why NOTL proposes to use the nominal interest rate of 7.25% rather than the Board's deemed long-term debt rate.

Operating Revenue

9. Exhibit 3, Tab 2, Schedule 1, pg.6:

- (a) Account 4335, Profits and Losses from Financial Instrument Hedges: please explain specifically how these revenues are derived and why they appear for the first time in 2007.

Load Forecast

10. Exhibit 3, Tab 2, Schedule 2:

- (a) Pg. 13: NOTL's model results in underestimating actual load for 8 out of the 12 years from 1996 to 2007. Discuss whether this demonstrates a bias in the model.
- (b) Pg. 14-15: regarding the adjustments to the model to reflect the loss of the Cangro customer, wouldn't the regression model itself capture the impact of changes in

customer counts such that a specific adjustment for the loss of one customer is unnecessary?

- (c) Pg. 16: regarding the adjustment for CDM, please provide a summary of the 3rd Tranche CDM programs and their impact on load. To what extent are these load reductions over and above natural conservation that would be captured in the load regression model?
- (d) Pg. 20: why is the geometric mean growth rate for the 2002 to 2007 period considered appropriate as an estimator of customer counts from 2008 to 2009 for the GS<50 and GS>50 rate classes and not for the Residential class?

Cost Allocation and Rate Design

11. Ref: Exhibit 8, Tab 1, Schedule 2, pg. 5:

- (a) According to Table 5 on pg. 5 of Exhibit 8/1/2, the GS>50 rate class will continue to over-contribute to NOTL's revenue requirement by \$322,541 in 2009 [proposed revenue for rate class of \$1,121,414 versus revenue assuming 100% R/C ratio of \$798,873]. The Streetlighting class will continue to under-contribute in the amount of \$154,690. Please confirm the above numbers and explain why NOTL has not taken more aggressive action in reducing cross-subsidization.

Rate Design

12. Ref: Exhibit 8, Tab 1, Schedule 2, pg. 4; and Exhibit 9, Tab 1, Schedule 9, pg. 1:

- (a) The revenue to cost ratios for Residential and GS<50kW rate classes are moving from 88.74% to 94.37% for Residential and from 91.74% to 95.87% for GS<50kW rate classes. Although the revenue to cost ratios are increasing at about the same rate, the distribution rate impacts from this application are much higher for the GS classes- 12.9% for a typical residential customer versus 22.34% for a GS<50kW customer. Please explain.