

**IN THE MATTER OF the Ontario Energy Board Act 1998,
S.O. 1998, c. 15, (Schedule B);**

**AND IN THE MATTER OF an Application by Innisfil
Hydro Distribution Systems Limited for an Order or
Orders approving or fixing just and reasonable rates
and other charges for the distribution of electricity
commencing May 1, 2009.**

**INTERROGATORIES
OF THE
SCHOOL ENERGY COALITION**

General: Transition to International Financial Reporting Standards (IFRS)

1. IFRS will replace Canadian GAAP for all publicly accountable enterprises effective January 1, 2011.

- (a) Please describe any processes and procedures taken by IHDSL to date to facilitate the transition.
- (b) please advise whether IHDSL has conducted or is planning to conduct any study to identify and assess the potential impact on its regulatory accounting and reporting systems upon transitioning to IFRS reporting standards.
- (c) Upon transition from Canadian GAAP to IFRS, the utility has the one-time opportunity to evaluate its current general-purpose financial reporting and make accounting policy decisions that could have a material impact on its future financial reporting. It implies that the utility could start anew even if its currently applied accounting policy is deemed to be appropriate under IFRS. It also implies that the choice of accounting policy and presentation of financial statements in conformity with IFRS will require management to make judgments and justify certain assumptions. Please advise whether this applies to IHDSL. If yes, please explain.

General: Revenue Requirement

2. Please provide the approved revenue requirement for 2006, 2007, & 2008.
3. 2007 Financial Statements, pg. 8 (Note 3, Rate Regulated Operations): please set out all increases in current expenses in the revenue requirement that are due to changes in accounting resulting from changes to the CICA Handbook.
4. 2006 and 2007 Financial Statements: the 2006 Financial Statements showed a note due from Innisfill Energy Services Ltd. in the amount of \$996,000 and bearing interest at a rate of prime rate less 0.25% per annum. This note has apparently been repaid as the balance as at December 31, 2007 is zero. Please explain when this debt obligation was repaid and what the terms of repayment were. Please advise also whether the funds returned were invested in some other interest-bearing instrument.

Capital Expenditures

5. Exhibit 2, Tab 3, Schedule 2, pg. 8: the evidence states that the voltage conversion project, which came into service in 2007, "would save the company losses based on the operating efficiency of the higher Voltage".
 - (a) Please explain what "losses" are being referred to.
 - (b) If the reference is to line losses, please explain why the 2009 line losses use a simple average of the past six years rather than taking into account the new equipment designed to reduce losses.
6. Exhibit 3, Tab 2, Schedule 3, pg. 5- Line losses:
 - (a) The line losses for 2002, at 10.9%, appear to be an anomaly as it is far above line losses experienced in any other year (more than twice the average of the other five years, 4.8%). Please explain why IHDSL does not remove 2002 and use the average of the remaining five years, 4.8%, to determine its line losses for 2009.

Capital Structure and Rate of Return

7. Ref: Ex 6/1/3/pg2 of 3 – Cost of Debt:
 - (a) please provide copies of the Note Payable and Debenture issued to the Town of Innisfil on December 31, 2007 and April 1, 1995, respectively.

- (b) Exhibit 6, Tab 1, Schedule 3, pg. 2 shows the Debentures payable to the Town of Innisfil bear interest at the rate of 9.75%. However, the 2007 Financial Statements, at pg. 12 (note 9) state that the debentures "bear interest at various rates ranging from 8% to 9.75%. Please explain.
- (c) Why is the April 1, 1995 Debenture issued to the Town of Innisfil not listed as affiliate debt?
- (d) Please provide the basis for the projected interest rate, 5.08% for the new debt to be issued May 1, 2009 and whether IHDSL plans on updating that rate prior to rate implementation.

Working Capital Calculation

8. Ref: Ex 2/4/1

- (a) IHDSL's working capital allowance is based on the 15% of specific OM&A accounts formula approach. Please advise whether IHDSL has any plans in the near future to conduct a company specific lead-lag study.

9. Ref: Ex 2/3/1/pg8

The following data was extracted from the Capital Expenditures by Key Category Table from Ex 2/3/1/pg 8.

(\$)	2005	2006	2007	2008 Bridge	2009 Test
Customer Demand Capex	488,649	1,256,003	853,455	1,700,055	2,041,560
Contributions	248,034	1,020,015	642,594	505,000	571,900
# Customers [Ex. 3/2/3, pg.1-2]	n/a	16,593	16,896	17,194	17,499

In 2008 & 2009, capital expenditures related to customer demand is projected to increase by 35% and 63% respectively compared to 2006 actual. It appears, based on the review of the list of IHDSL's distribution plant expenditures tables on pages 6 and 7, that the increase is mainly due to road widening, connection of new customer services, and other miscellaneous customer demand in 2008 & 2009.

- (a) The amount of customer contributions for 2008 & 2009 is not increasing proportionately. Please explain.
- (b) The table above shows the number of customers has been growing by a rate of about 1.8% per year since 2006. Please then explain the four-fold increase in customer demand capital expenditures since 2005.

10. Ref a: Ex 2/3/2/pg3 of 24
 Ref b: Ex 2/3/2/pg 5 of 24
 Ref c: Ex 2/3/2/pg 12
 Ref d: Ex 2/3/2/pg 18

	2005	2006	2007	2008	2009
Ref	Ref a	Ref b		Ref c	Ref d
Poles Replaced	45	65	Please provide	60	60
\$	\$166K	\$183K	Please provide	\$237K	\$272K
Unit cost of pole replacement (\$/pole)	\$3700	\$2815	Please provide	\$3950	\$4533
Yr over Yr % Change		-24%			15%

- a. Please complete the table above.
- b. Please explain in detail the year over year variance of unit replacement cost.

11. Exhibit 2/3/2, pg. 7: there are five customer connection projects listed on Table 4 on pg. 7 that refer to "u/g primary service" for individual customers such as "Subaru car dealership", "Mercedez (sic) car dealership", etc. Please advise:

- (a) Whether there were any contributions made to those projects by the affected customers, the amount of those contributions, and how the amount of the contributions were determined;
- (b) If no contributions were made, what was the justification for not requiring a contribution.

12. Exhibit 2/3/2, pg. 8: please provide a copy of the business case for the voltage conversion project for the Town of Alcona.

13. Ref a: Ex 2/1/1/Appendix A – Outsourcing of Line and Substation Work, Tree Trimming Activity

Ref b: Ex 4/2/3/pg5 of 9

Ref a: On page 3, 6 & 7 of the “Asset Management Plan” conducted by IHDSL in 2008, IHDSL states that the following work has been contracted out to an independent contractor at market rates: line and substation, tree trimming, infra-red scanning.

In Ref b, IHDSL states that the contract for its overhead and underground utility line works was awarded to K Line, an independent contractor, in March 2007. IHDSL also anticipated that the overall costs of line crew work will increase in excess of 20% in 2008 & 2009.

Questions:

- (a) Why did the sale of IHDSL's non-union contractor ('McG') to 'K Line' necessitate a new RFP?
- (b) Given the increase in line crew costs as a result of the takeover by K Line, did IHDSL consider possibility of performing its line crew work in-house?
- (c) Please file a copy of the contract between IHDSL and K Line.

OM&A Costs

14. Please provide IHDSL's OM&A costs per customer from 2005 to 2009.

15. Ref.: Exhibit 4, Tab 2: all of the variance analyses have a line showing an increase due to "inflationary increases". Please:

- (a) explain what these are and how they are calculated;
- (b) provide the total amount of increase in Operations, Maintenance, Billing and Collection, and Administrative and General Expenses, for each of 2006, 2007, 2008 and 2009, that are due to inflationary increases.
- (c) Provide the assumed increase in 2009 budgets due to inflationary increases and the basis for that assumption.

16. Ref: Ex 4/2/2/pg1

- (a) Using the “Analysis increased wages & benefits 2006 EDR to 2009” and “Analysis increased non-payroll expenses 2006 EDR to 2009” table as an example, please provide data for each of the years 2006 – 2009.

17. Ref. Exhibit 4/2/3, pg. 9: please provide a breakdown of the actual and anticipated regulatory expenses for the 2009 rate application.

Load Forecast

18. Ref: Ex 3/2/3/pg6, Table 7: IHDSL has stated that for applicable classes, the geometric mean is applied to its 2007 customer/connection numbers to determine the forecast of customer / connections in 2008 & 2009. The GS< 50KW, GS>50KW, and Sentinel Lights rate classes show negative growth in 2006 & 2007.

- (a) As geometric mean only applies to positive numbers, please advise what methodology IHDSL has used to calculate the “geometric mean” for the above 3 customer classes. Please also comment on the validity of the calculation.
- (b) Alternatively, it appears that what has been called the "geometric mean" is in fact a straight arithmetical mean- i.e. an average of the annual rate of growth for each class from 2002 to 2007. Please confirm.
- (c) There appear to be significant outliers in the annual growth rates for both number of customers and usage per customer (for example, the annual growth rate for the number of customers in the GS>50kW class was -18.29% in 2006, and the annual growth rate in usage per customer was 21.35% for that same class in 2006). How did IHDSL account for these outliers in its forecast?

Cost Allocation

19. Exhibit 8, Tab 1, Schedule 2, pg. 2:

- (a) please confirm the following is correct:

Current vs. Proposed R/C Ratios and Over/(Under) Contributing

Rate Class	Existing		Proposed	
	R/C Ratio	\$ (being subsidized)/\$ over-contributing	R/C Ratio	\$ (being subsidized)/\$ over-contributing
Residential	101.62%	\$84,662	101.60%	\$74,793.00
GS<50kW	130.98%	\$150,608	116.20%	\$97,140.00
GS>50kW	146.58%	\$202,554	135.80%	\$191,517.00
Street Lighting	9.45%	(\$395,408)	40.00%	(\$323,353.00)
Sentinel Lighting	16.97%	(\$29,507)	43.00%	(\$24,995.00)
Unmetered Scattered L	78.89%	(\$12,909)	80.00%	(\$15,103.00)

- (b) The table above shows that the GS<50 and GS>50kW rate classes will continue to over-contribute to IHDSL's revenue requirement by \$288,657 in 2009 while the Streetlighting class will continue to under-contribute by \$323,353. The total bill impact for this application on the Streetlighting class, including cost allocation changes, is 5.82% (see Exhibit 9, Tab 1, Schedule 9), well below the Board's threshold level of 10% for when rate mitigation efforts should be considered. Given all of the above, please explain why IHDSL has not taken greater steps to reduce the subsidization of the Streetlighting class and the over-contribution of the other rate classes.
- (c) Please explain whether and when IHDSL plans to move all rate classes to 100% revenue to cost ratios.