

Board Staff Interrogatories
2009 Electricity Distribution Rates
Welland Hydro-Electric System Corp. ("Welland")
EB-2008-0247

Retail Transmission Service Rates (RTSR)

1.

Reference: "Electricity Distribution Retail Transmission Service Rates",
Guideline G-2008-0001, October 22, 2008

Under the OEB Guideline, Welland is expected to file an update to its Cost of Service application with evidence to support a change in its RTSRs. The adjustment in RTSRs is intended to eliminate future growth in the Applicant's variance accounts that are related to the pass-through of transmission costs.

- a. Please file a table showing 2 years of Welland's wholesale Network and Connection costs, and its retail billings for Network and Connection service to its retail customers.
- b. Please provide an analysis of the variances between costs and the corresponding revenues, and any trends in these amounts.
- c. Please file proposed RTSR rates for each customer class that are an adjustment to the currently approved RTSRs and would recover the wholesale cost of transmission service assuming that the Uniform Transmission Rates effective January 1, 2009 had been in effect during the 2-year period in part a). Please provide the calculations used to derive the proposed RTSR rates.

General – Economic Assumptions

2.

- a) Given the general economic situation in Ontario has Welland assessed the situation and identified any specific issues that may have a material impact on its load and revenue forecasts and bad debt expense forecast?
- b) If so, please indicate if Welland will be updating its current application, in whole or in part, to address any material impacts. If yes, please provide an estimate of the timing of the update.

Rate Base – Maintenance and Capital Programs and Projects

3.

- a) In regards to Welland's 2009 maintenance and capital plans:
 - i) Please provide a list of criteria and rationale that Welland has used in the prioritization and selection of its 2009 maintenance and capital projects.

- ii) Given the economic situation, please identify separately both maintenance and capital programs, if any, that Welland may have considered as a candidate for a deferral, cut, or partial adjustments. Please identify these programs, if any, in a ranking order that Welland would consider, using a ranking of "1" as the first suitable candidate, ranking of "2" as the second suitable candidate, ranking "3" as the third suitable candidate, etc. Please identify the rationale for the selection of these maintenance and capital programs and projects.

Cost Allocation and Rate Design

4.

[Ref:EB-2007-0002; Ex8/T1/S2/page3]

Preamble: Welland filed a cost allocation study (under EB-2007-0002) in February, 2007 indicating certain revenue-to-cost ratios.

Please provide, in excel format, a copy of the most recent run filed in association with Welland's cost allocation informational filing, as indicated above.

5.

[Ref:Ex8/T1/S2/page3]

In its application, Welland provides "Proposed Revenue to Cost Ratio" at Table 4 of Exhibit 8. (Ex8/T1/S2/page3). The row titled "Revenue to Cost Ratios Per C.A. Study" reports revenue-to-cost allocation from the 2006 Cost Allocation informational filing. Please indicate from which run of Welland's Cost Allocation informational filing these numbers have been reproduced.

6.

Preamble: Welland states at Ex8/T1/S2/page3 with respect to revenue-to-cost ratios that, "[there is a] further adjustment to be made in 2010 when additional adjustments are made to Street Light and Sentinel Light classes." Welland is scheduled to file incentive rate mechanism (IRM) applications in 2010, 2011, 2012.

Staff has prepared the following table regarding revenue-to-cost (R/C) ratios and included Welland's proposed cost allocation ratios for 2009.

- a. Please complete the non-shaded cells in the table for Welland's intended cost allocation ratios for 2010 and 2011.

Table XX: Cost allocation ratios for Welland

Class	CA Report ¹ Range	CA Info. Filing	2009 Rate Application, as requested	2010 IRM	2011 IRM
Residential	85- 115	127.24	114.46		
GS < 50	80- 120	75.20	86.00		
GS > 50 kW	80- 120	65.22	85.64		
Large Use	85- 115	100.69	99.99		
Street Lighting	70- 120	12.17	40.96		
Sentinel Lighting	70- 120	18.71	55.10		
USL	80- 120	114.89	100.58		

- b. Please confirm that Welland proposes to implement the ratios in the 2010 and 2011 columns in the table in part (a) in its 2010 and 2011 IRM rate applications.

7.

[Ref:Ex8/T1/S2/page3]

The Report of the Board, *Application of Cost Allocation for Electricity Distributors*, set 70% as the lower bound for revenue-to-cost ratios for both Street Lighting and Sentinel Lighting. Please explain why Welland proposes to move Street Lighting to 70% and Sentinel Lighting to 90% respectively, given both classes have the same 70% 'revenue-to-cost' lower bound.

8.

[Ref:Ex9/T1/S1/page5; Ex9/T1/S8/Appendix A/page3]

Preamble: Welland is recommending that the fixed portion of the [GS>50] customer classification be reduced from the current 56.55% to 51.16%. Welland further indicated that, "customers at the low end of this rate classification (50 to 100kW) would be subject to higher bill impact percentages at the current fixed rate proportion." The distribution bill impact for certain customers served under the GS>50 kW classification exceeds 15% year-over-year.

Please provide the following:

¹ Report of the Board, *Application of Cost Allocation for Electricity Distributors*, November 28, 2007

- a. If the fixed portion of the GS>50 kW class were to remain at 56.55%, what would be the overall bill impact for a GS>50 kW customer with a demand of 62kW.

9.

Please explain why the Monthly Service Charge for the Residential, GS<50, GS>50, Large Use, and USL classes exceed the ceiling as set out in the cost allocation informational filing.

Revenue Offset

10.

[Ref:Ex3/T3/S1/page1; Ex7/T1/S1/page2; Ex8/T1/S1/page2]

Preamble: In its application, Welland has applied for revenue offsets totaling \$656,350. This same figure can be found at Table 1 of Ex7/T1/S1/page2, line item "Other Operating Revenue (Net)" as \$656,350. However, in the Summary of Other Operating Revenue (Ex3/T3/S1/page1), Welland has stated the equivalent figure as totaling \$546,356 (Total Other Income & Revenue). The evidence presented is contradictory.

Please provide an explanation of the discrepancy between these two amounts, and clarify the total revenue offset for which Welland seeks recovery.

Deferral and Variance Accounts

11.

[Ref:Ex5/T1/S2/page1; Ex5/T1/S3/page1]

Welland is requesting for disposition of regulatory deferral and variance accounts.

- a. Please provide the information as shown in the attached continuity schedule (Attachment A) in excel format for regulatory assets. 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.
- b. Please provide a schedule reconciling the claim in the completed continuity schedule in part (a) with Tables 2 (Ex5/T1/S2/page2) and Table 3 (Ex5/T1/S3/page1) of Welland's application.

12.

[Ref:Ex5/T1/S1/page2]

Preamble: Page 16 of the Board's *Accounting Procedures Handbook for Electric Distribution Utilities (APH)* outlines the costs to be recorded under Account 1508: Other Regulatory Assets, Sub-account Pension Contributions (OMERS). The period of recording transactions in the *APH* is stated as January 1, 2005 to April

30, 2006. Welland states that the balance reported in Account 1508 OMERS reflects “the period [for recording of transactions is] January 1, 2004 to April 30, 2006.” [Ex5/T1/S1/page2]

Please provide the closing balance in Account 1508: Sub-account Pension Contributions assuming a start date of January 1, 2005 for the accruals.

13.

[Ref:Ex1/T1/S16/page1]

Preamble: Welland states that, “Account 1574 had a zero balance as at December 31, 2007 as the programming required to calculate the deferral amount was not complete until after year end. The entry to record the amount of deferred revenue for the October 1, 2007 to January 31, 2008 period was made in June, 2008.”[Ex1/T1/S16/page1] Usual Board practice in the electricity sector is to use audited numbers for the last fiscal year as the basis for balances in the deferral and variance accounts for disposition, with interest forecasted up to the start of the new rate year.

Please explain why Welland in forecasting a principal balance for disposition beyond the most recent audited year (ending December 31, 2007) is not following usual Board practice?

14.

[Ref:Ex5/T1/S3/page1; Ex5/T1/S4/page1]

Welland provides details and calculations of the proposed deferral and variance account rate rider by classification in Table 3 (Ex5/T1/S2/page1) and Table 4 (Ex5/T1/S4/page1). Welland has proposed a recovery period of three years.

- a. Please update Table 3 and Table 4 to include any effects from incorrect accruals or forecasting of balances.
- b. Please provide similar tables as in part (a) above if the Board were to authorize the recovery of the requested accounts over a period of:
 - (i) one year;
 - (ii) two years.

Loss Factors

15.

[Ref:Ex4/T2/S8/page1]

Welland has proposed a distribution loss factor (DLF) of 1.0485, the yearly average of its DLF over the 2005-2007 three-year period. Welland's DLF in 2006 was 1.0362. Please explain why the DLF applied for by Welland is considerably higher than Welland's approved DLF in 2006 and what is being done to reduce it.

16.

Welland has proposed a total loss factor (TLF) of 1.0532, the yearly average of its TLF over the 2005-2007 three-year period. Welland's TLF in 2006 was

1.0409 (1.0362 x SFLF). Please explain the increase in the applied for TLF compared to the 2006 TLF.

17.

[Ref:Ex 3/T2/S2/page 3]

Please explain if Welland's test year customer count forecast for 2009 is consistent with one or more external forecasts (such as Housing Outlook reports from CMHC or the national Banks). Please provide the reference to the reports/forecasts used and explain how these forecasts support Welland Hydro's projections for customer additions in the test year. If the external reports/forecasts do not support Welland Hydro's proposed customer forecast, then please explain the reasons for any variances.

18.

Please develop a customer forecast for the Residential, GS less than 50 kW and GS greater than 4999 kW rate classes using a simple linear trend method for bridge year and test year. Please also provide the impact on the proposed load and revenue forecast in the bridge year and test year if this alternate customer forecast were adopted.

19.

Based on the response to the questions above, if Welland decides to restate its as-filed customer forecast, then please also update the load and revenue forecasts to reflect the change in the customer forecast.

Weather Forecast

20.

[Ref:Ex 3/T2/S9/page 6]

Preamble: At Ex 3/T2/S1/page 1, Welland states, "The Hydro One model takes into consideration thirty years of weather related data and translates this into current year normalized data as an annual consumption per customer. The Hydro One model normalized Welland Hydro's actual wholesale data for 2004. By using the latest Hydro One forecast that is specific to Welland Hydro, the 2004 weather normalized data has been used to forecast the required information for the 2008 Bridge Year and 2009 Test Year for the Residential Class".

- a. Please provide supporting spreadsheets that describe the methodology and calculations used to normalize Welland's actual load.
- b. As noted in the preamble, the Hydro One model normalized Welland's actual 2004 wholesale data. Please explain the rationale for using 2004 data rather than more recent actual wholesale data (such as 2007) to develop the 2009 test year load forecast. If more recent data is available please restate the proposed load and revenue forecast using more recent actual wholesale load data.

Load Forecast

21.

[Ref:Ex 3/T2/S9/page 6]

On September 2, 2008, Deere & Co. announced the closure of its Welland plant.

Please clarify the following:

- a. Is Deere & Co. a customer of Welland? If Deere & Co. is a customer, then please provide its rate class classification and its annual historical load for the period 2004 to 2007?
- b. Is the loss of this customer reflected in Welland's customer forecast?
- c. Is the loss in load as a result of the plant closure reflected in the load forecast? If it is, then please explain the adjustments and the magnitude of the adjustments.
- d. If the answer to b and/or c is no please provide revised forecasts which include the impact from the loss of Deere & Co as a customer.

22.

Please provide the following information regarding the accuracy of Welland's previous load forecasts for the Residential, GS less than 50 kW and GS greater than 4999 kW rate classes. Please describe the methodology adopted in each year if it is different from the load forecasting methodology proposed in this application:

- a. What was the forecast error (i.e. variance between total normalized actual 2004 load versus forecast 2004 load) of the 2004 load forecast?
- b. What was the forecast error (i.e. variance between total normalized actual 2005 load versus forecast 2005 load) of the 2005 load forecast?
- c. What was the forecast error (i.e. variance between total normalized actual 2006 load versus forecast 2006 load) of the 2006 load forecast?
- d. What was the forecast error (i.e. variance between total normalized actual 2007 load versus forecast 2007 load) of the 2007 load forecast?
- e. What was the year-to-date (Jan-08 to Aug-08) forecast error (i.e. variance between total normalized actual 2008 load versus forecast 2008 load) of the 2008 Bridge year load forecast?

OPERATIONS, MAINTENANCE & ADMINISTRATIVE EXPENSES

23.

[Ref:Ex4/T1/S1]

The figures in the table 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. Please confirm Welland's agreement with the numbers for OM&A, which are summarized in the table below. Where Welland does not agree with the OM&A numbers in the table below please provide the revised number and an explanation of why it has been revised.

	2002	2003	2004	2005
Operation	\$863,978	\$806,518	\$1,105,257	\$1,029,962
Maintenance	\$702,032	\$759,391	\$667,983	\$762,412
Billing and Collection	\$938,019	\$1,160,287	\$1,105,301	\$874,402
Community Relations	\$109,528	\$111,433	\$126,376	\$56,574
Administrative and General Expenses	\$895,642	\$1,073,131	\$1,290,186	\$990,404
Total OM&A Expenses	\$ 3,509,199	\$ 3,910,759	\$ 4,295,103	\$ 3,713,754

24.

[Ref:Ex4/T2/S1]

What inflation rate is used for the 2009 OM&A forecast and what is the source document for inflation assumptions?

25.

[Ref:Ex4/T2/S2]

Maintenance expenses (total \$1.2 million - 2009) have shown relatively large increases in recent years as follows:

- 2009 vs 2008 – 8.4%
- 2008 vs 2007 – 22.7%
- 2007 vs 2006 – 25.1%
- Overall 2009 vs 2006 – 66.3%

Maintenance expenses have also exceeded budget for many of the 16 sub-accounts in recent years. The application refers to the higher costs of “predictive and preventative” maintenance of the distribution assets.

Please provide a thorough explanation of the main cost drivers for the increases in maintenance expenses since 2006. Are these expense increases part of an overall plan or strategy by the utility? If so, please describe the plan and state the expected benefits going forward (e.g., reduced outages, reduced future maintenance costs). Where possible, please quantify the ratepayer benefits of the maintenance plan.

26.

[Ref:Ex4/T2/S6/Pg4]

The evidence indicates that a Conservation and Demand analyst will be added to Welland’s staff in 2009.

- a) Please provide the underlying rationale for adding this position. What portion of this employee’s work will involve implementing CDM projects financed by the Ontario Power Authority?
- b) What portion of this employee’s salary and related expenses will be financed by the Ontario Power Authority, and not through the revenue recovered through the utility’s distribution rates?
- c) If any of the costs associated with this position are proposed to be recovered through Welland’s distribution rates please explain why.

27.

[Ref:Ex4/T2/S6/Pg4]

The evidence indicates that regular staff at Welland (customer service, accounting and IT) will be involved in implementing CDM projects financed by the Ontario Power Authority.

- a) What portion of these employees' expenses will be financed by the Ontario Power Authority, and not through the revenue recovered through the utility's distribution rates?
- b) If any of the costs associated with this position are to be recovered through Welland's distribution rates please explain why.

28.

[Ref:Ex4/T2/S6/Pg2]

The evidence mentions a 5-year lineperson's apprentice program. Please describe the

- a) need for the program,
- b) the costs, and
- c) the expected benefits.

29.

[Ref:Ex4/T2/S6/Pg1]

The evidence mentions an aging workforce and a need to plan for "the new future". Please provide a description of the utility's plan to address the aging workforce issue. In doing so, please address the expected timeframe, costs, and benefits of implementing the plan.

30.

[Ref:Ex4/T2/S6/Pg5]

The evidence mentions the Management Performance & Compensation Plan for salaried employees. It also mentions measurement through individuals' alignment with quarterly and annual targets associated with the business plan. Please list the specific targets and describe how compensation is linked to those targets. Please describe how the performance plan is aligned with utility ratepayer (i.e. customer) interests. Does the utility have a special bonus (or incentive) plan over and above the base plan and if so, please provide the details, including who is eligible, and the specific nature of the plan.

31.

[Ref:Ex4/T2/S6]

Please provide a table showing the percentage increases in base salary and total compensation (salary wages and benefits) budgeted for 2009 broken down by major employee grouping (e.g., executive, management, non-union and unionized workers).

32.

[Ref:Ex4/T2/S6]

Please describe any productivity or cost efficiency programs at the utility that are either in place now or contemplated at some future time. Please describe the nature of each such program and the scope, timing and benefits expected.

33.

[Ref:Ex4/T2/S2/Pg4]

- a) For Regulatory Expenses, please provide a breakdown by expense category/grouping of the \$66,500 amount requested for 2009.
- b) Please indicate which cost elements are proposed for a three-year amortization.
- c) Please provide an alternate scenario where the costs are amortized over a four-year recovery period rather than three.

34.

[Ref:Ex4/T2/S2]

Please identify any one-time expenses in 2009 that could be amortized over a period of more than a single year and suggest an appropriate amortization period for those expenses.

35.

[Ref:Ex4/T3/S1/Pg2]

Please confirm that charitable donations are not included in the revenues recovered through distribution rates. If they are, please provide the dollar amount and reason why these should be recovered through distribution rates.

RATE BASE / CAPITAL EXPENDITURES

36.

[Ref:Ex2/T3/S3/Pg1]

Welland Hydro has estimated \$200,000 representing miscellaneous pole replacement activities for the 2009 Test Year. Please answer the following questions with respect to pole replacement activities:

- a) Please indicate the basis on which poles are identified for replacement.
- b) Please provide the number of poles replaced/expected to be replaced from 2006 to 2009 and the average cost. This includes all poles that are replaced/to be replaced including those under major capital projects.

37.

[Ref:Ex2/T3/S3]

The pre-filed evidence indicates replacement of the existing back-up generator for Welland's service centre. Please answer the following questions with respect to this project:

- a) Was a study conducted to determine that the current generator needs replacement and the kind of system required? If a study was conducted, please provide a copy of the document.
- b) If No to “a”, how was it determined that the system needs replacement and the options to be considered?
- c) Were other options considered apart from replacing the current generator? If so, please explain why they were rejected. If no other options were examined please explain why not and how it was determined that replacing the current generator was the best option.

38.

[Ref:Ex2/T1]

Welland has not filed an Asset Management Plan in support of its planned capital expenditures. Please provide an Asset Management Plan or other documentation that describes how Welland’s proposed and completed capital expenditures fulfil the Company’s objectives of providing long-term reliability, meeting growth demands and meeting or exceeding reliability indicators.

39.

[Ref:Ex2/T4/S1]

Please provide a detailed “Cost of Power Projection” worksheet showing customer class, volumes, rates and total amounts for 2008 and 2009.

INCOME TAX

40.

[Ref:Ex4/T3/S1]

Please answer the following questions with respect to income tax calculations:

- a) The table showing the detailed tax calculations does not include 2007 information. Please provide a revised table for the years 2006 through to 2009 including the 2007 information.
- b) Please show the calculation of the line item “Utility Income Before Taxes” of \$1,573,127 for the 2009 test year. Please also show the calculation of the 2009 test year regulatory income before taxes based on the following calculation: rate base multiplied by the equity thickness multiplied by the return on equity percentage. Please explain why there is a difference.
- c) Non-deductible meals and entertainment expense are added back in the calculation. Please explain why these charges, which are not deductible for tax purposes, should true up to the ratepayers.
- d) Please provide a table that describes the reserves, and explains all of the causes of the difference between the reserves added back and deducted in each year 2007, 2008 and 2009.
- e) Please explain why Ontario Capital Taxes have been deducted to calculate the Regulatory Taxable Income.

COST OF DEBT

41.

[Ref:Ex6/T1/S1]

Welland has requested a return on Long-term Debt for the 2009 Test Year of 6.25% which is the rate being currently paid on an existing long-term loan of \$13.5 million to the City of Welland, its shareholder. Please answer the following questions with respect to the Company's long-term debt:

- a) Please provide a copy of the original Promissory Note and any revisions or amendments made to this Note.
- b) In Note 17 to Welland's financial statements of December 31, 2007, the Company states that the rate of 6.25% will remain in effect until 2009 or 2010. Please clarify.
- c) Does Welland intend to refinance its long-term debt in 2009 or 2010? If "Yes", please provide details.
- d) In Note 17 to Welland's financial statements of December 31, 2007, the Company indicates that there is no "term length" associated with the Promissory Note but the City can demand payment twelve months after notice has been provided. Is Welland permitted to repay the outstanding amount to the City of Welland by providing notice according to the terms of the Note? If so please explain any terms, payments or penalties associated with such a repayment.
- e) In Note 17 to Welland's financial statements of December 31, 2007, the Company indicates that to test the marketplace, Welland obtained a quote on a ten year note with no principal repayment. Quoted rates were between 5.00% and 5.25%. Does Welland intend to refinance at the quoted rates? If "No", please provide reasons.
- f) In Note 17 to Welland's financial statements of December 31, 2007, the Company indicates that if it were to refinance at current market rates, the interest expense would be reduced by \$135,000 annually. Please calculate the revised revenue requirement assuming that the Company was to refinance at the quoted market rate of 5.25%.

Specific Service Charges

42.

[Ref:Ex1/T1/S18/P1; Ex1/T1/S18/AppendixE; and Ex1/T1/S2/AppendixA]

Preamble: Welland did not file its *Conditions of Service* in its application for 2009 rates. Welland filed this document separately with the Board on August 11, 2008. Welland states, the most recent prior revision to the *Conditions of Service* was in 2004. Please file a copy of Welland's updated *Conditions of Service* in this proceeding.

The following fees and charges outlined in Welland's Conditions of Service are not reflected on the "Schedule of Proposed Rates and Charges", as found at Ex1/T1/S2/AppendixA. For each of the following, please provide an explanation and state if Welland intends to file a revised "Schedule of Proposed Rates and Charges" reflecting the applicable fees and/or charges:

- a. Amendments and Charges (p.6) – What fee is charged to provide the customer with a copy of the *Conditions of Service*?
- b. System Expansion Alternative Bid (p.12) – What fixed fee and hourly rate does Welland charge for the inspection services cited?
- c. Electrical Disturbances (p.18) – Does Welland charge a standard fee for this notification letter?
- d. Power Quality (p.20) – What rate does Welland charge for time spent investigating these problems?
- e. Collection charge (p.30) – What does Welland charge for this service?
- f. Temporary Electricity Services (p.31) – What does Welland charge for these services?

Please explain why several “Miscellaneous Service Charges” do not appear on Welland’s “Schedule of Proposed Rates and Charges”. Below is a list of the omitted charges:

- g. Reminder/Disconnect notice
- h. Historical Billing Information
- i. Energy Use Audits
- j. Station Isolation
- k. Underground Locates
- l. Power Quality Analysis
- m. Customer Related Troubles
- n. Records Search