

**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
Welland Hydro Electric System Corp. 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 NOW to date to facilitate the transition.
- (b) Please advise whether NOW 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. If yes, please specify.
- (c) Choice of Accounting Policy: Upon transition from Canadian GAAP to IFRS, the utility now 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 a new even if its currently applied account 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 NOW.
- (d) Cost of Conversion. Costs include both one-time upfront cost (for example, the establishment of multiple sets of books, integration of IFRS requirements into the utility's accounting and reporting systems for both internal and external reporting, IT costs etc) and on-going cost (for

example, costs related to expanded disclosure requirements). Please advise of any such conversion costs that are anticipated.

Smart Meters

2. Ref: Ex 2/1/1/pg2:
 - (a) Please provide the accumulated dollar amount collected through Smart Meter Rate Adder as of the end of 2008 rate year.
 - (b) Please provide the current balances of Account #1555 – Smart Meters Capital Variance Account, and Account # 1556 – Smart Meters OM&A Variance Account and the estimated balances of these accounts at the end of 2008 rate year.
3. Ref. Ex. 2/2/1, pg. 5: please provide a copy of the 2009 budget presented to the Board of Directors.

Capital Expenditures

4. Ref: Ex2/3/3 – Miscellaneous Pole Replacement, Transformer Replacement and Underground Rebuild: Each year WHESC budgets for miscellaneous pole and transformer replacement and miscellaneous upgrades to underground sections.
 - (a) Please advise whether WHESC has a consistent plan in place to inspect, replace and manage its overhead and underground distribution equipments on an ongoing basis.
5. Ref. Ex. 2/1/1, pg. 3 the evidence states that WHESC has set a minimum capital expenditure target at 10% above depreciation to ensure future reliability.
 - (a) Please confirm that, as rate base grows, the absolute dollar value of depreciation grows proportionately, such that pegging capital expenditures to depreciation will result in ever increasing levels of capital expenditures.
6. Ref. Ex. 2/3/3: for each of the 2009 projects listed at pp.1-5, please provide a business case as well as projected in-service date.

Rate Base - Working Capital Allowance

7. Ref: Ex 2/4/1: WHESC 's working capital allowance is based on 15% formula approach. A utility specific lead-lag study may result in a working capital allowance that is less than 15% proxy used by the Board.

- (a) Please advise whether WHESC has any plan in the near future to conduct a company specific lead-lag study.

Customer / Connection Forecast

8. Ref: Ex 3/2/2/pg1 –Table 2 “Customer /Connection by Class”: Both historical and forecast customer / connection numbers are presented in Table 2. Significant changes to the number of customers in GS <50 KW, GS 50 – 4999KW and movement between these two classes are shown from 2002 – 2007. The total number of customers for GS <50, GS 50-4999, and Large Use classes has decreased by 103 or 5% from 2002 (1979) to 2007 (1877).

- (a) Please separately identify the number of customer changes due to attrition and due to reclassification by class, from 2002 – 2007 (using the format illustrated on Ex 3/2/6/pg2).
- (b) Please provide the normalized average use per customer for GS <50KW and GS 50-4999 KW class using 2004 (31-year average, Hydro One method) and 2007 (post-reclassification, post class change adjustment) data separately.

OM&A Costs

9. Ref. Ex. 1/2/1, Appendix F: the exhibit shows that WHESC's OM&A costs per customer in 2007 are 14% higher than its 2005-2007 average. In comparison, the average for the cohort group, including WHESC, increases by 2.8% over its 2005-2007 average. (\$214 vs. \$208). Does WHESC have any explanation for what may be contributing to its OM&A costs per customer increasing faster than the cohort group?

10. Ref: Ex 4/2/1 – Allocated Common Costs: WHESC states that some common costs are allocated from support departments to cover the costs of labor burden, engineering, stores, administration, IT, garage, and service center. As identified in the evidence, a standard overhead percentage is set for engineering department, stores and warehouses, and labor / health and safety. Standard hourly cost (\$/hr) is set for fleet services. Standard cost per square footage (\$/s.f.) is set for service center.

- (a) Please briefly describe how these standard costs and/or rates were determined.
- (b) Please provide the standard costs/rates applied for each year from 2003-2007 by category.

11. Ref a: Ex 4/2/3/pg7 – 2007 Actual vs. 2006 Actual;

Ref b: Ex 4/2/2 – OM&A Cost Table

- (a) Account #5065 – Meter Expense: 2007 meter expense is \$27,117 over 2006 actual. Although the variance is below the materiality threshold defined by WHESC as 1% of distribution expense, this the increase represents a 10% increase over 2006 actual spending. Please explain the reason for the increase.
- (b) Account # 5150 -- Maintenance of Underground Conductors and Devices: Total expense increased by \$64,774 in 2007 compared to 2006 actual. WHESC explains that \$17,678 was due to increased material cost as a result of a required major repair. Please explain the remaining variance of \$47,096.
- (c) Account #5335 – Bad Debt Expense: The company has expressed its concern that its bad debt provision and write off remain over the Board approved level. Please explain what initiatives the company has taken or is planning to take to address this concern.
- (d) Account #5315 – Customer Billing: 2007 spending increased by \$31,394 or 8.6% over 2006 actual. Please explain.
- (e) Account # 5320 – Collection: 2007 spending increased by \$37,165 or 13% over 2006 actual. Please explain.
- (f) Account # 5340 – Misc. Customer accounts Expenses, Account #5350 -- Retail Billing, Account # 5360 – Retail STR: Please advise whether there was any reclassification between the accounts since 2006.

12. Ref: Ex 4/2/3/pg9, 2008 vs. 2007 actual

The following data was extracted from Table “OM&A Cost Table” on Ex 4/2/2/pg1.

Account #	2008	2007	2008 vs. 2007	2008 vs. 2007 %
Operation				
5005	83,862	65,475	18,387	28%
5020	87,931	67,768	20,163	30%
5025	168,573	155,733	12,840	8%
5030	76,052	61,256	14,796	24%
5040	138,440	106,693	31,747	30%
5085	167,742	136,512	31,230	23%
5095	21,966	6,230	15,736	352%
Maintenance				
5125	162,406	131,592	30,814	23%
5130	181,594	155,952	25,642	16%
5160	91,046	50,399	40,647	81%

- (a) Please confirm that the above figures are correct.
- (b) Although the dollar amount variance for each of the accounts identified above is below the materiality threshold defined by WHESC (1% of its distribution expense), they represent significant year over year increase. Please explain the increases.

13. Ref: Ex 4/2/3/pg19, 2009 vs. 2008

The data was extracted from Table "OM&A Cost Table" on Ex 4/2/2/pg1.

Account #	2009	2008	2009 vs. 2008	2009 vs. 2008 %
Operation				
5020	99,596	87,931	11,665	13%
5040	157,335	138,440	18,895	14%
5085	188,506	167,742	20,764	12%
Maintenance				
5105	95,673	85,144	10,529	12%
5150	158,122	143,766	14,356	10%

- (a) Please confirm that the above figures are correct.
- (b) Although the dollar amount variance for each of the accounts identified above is below the materiality threshold defined by WHESC (1% of its distribution expense), they represent significant year over year increase. Please explain the increases.

Compenstion

14. Ex. 4/2/6, Table 7:

- (a) when answering VECC IR#16, please explain the reason for the increase in total compensation in the amount of 3.9% per year over the period 2006-2009.
- (b) In particular, please explain the 6% increase in average base wages from 2006 to 2007.

Deferral and Variance Account

15. Deferral and Variance Accounts

Ref a: Ex 5/1/2/pg2

Ref b: Ex5/1/1/pg5

Ref c: Ex 3/2/8/pg2

Ref d: Ex 3/2/2/pg1

- (a) The principal amount as of December 31, 2007 for Account # 1574 (one of the non-RSVA/RCVA accounts requested for disposition) is shown as 0 in Ref b but \$124,132 in Ref a. Please reconcile.
- (b) On Ex 5/1/2/pg1/line 18, it appears that WHESC is requesting the disposition of the balance of Account #1574 recorded in June 2008. Please confirm.
- (c) The Board's practice for disposing of deferral and variance accounts is to use the most up-to-date audited balances (in this case, audited balances for year 2007) plus forecasted carrying charges on the balances up to the start of the new rate year. If WHESC's answer to part (b) above is yes, please explain why it is appropriate to request the disposition of the balance of Account #1574 recorded in June 2008.
- (d) WHESC has stated that it is requesting only the disposition of non-RSVA/RCVA accounts. It appears that WHESC has requested the disposition of Account #1508, #1525, #1574. Please advise whether WHESC is also requesting the disposition of other non-RSVA/RCVA accounts such as Account #1589, #1590, #1562 as shown in Ref b.
- (e) The amount of total 2007 distribution revenue and distribution revenue for Street Lighting, Large User, GS>50 rate classes as shown in Ref a do not match with the reported amount in Ref c. Please clarify.

- (f) Please re-calculate deferral and variance rate riders as shown in Table 3 on Ex 5/1/3/pg1 if needed.

Capital Structure

16. Ref. 6/1/1, pg. 1: please provide details of WHESC's long-term debt issued to its shareholder, the City of Welland. Please provide copies of the debt instrument.

Rate Design

17. Ref. Ex. 9/1/8, App. A: the rate impacts for GS>50kW customers are a 79% increase in distribution rates and a 16% increase in total bill.

- (a) Please confirm the above figures are correct;
- (b) Please explain why WHESC is not proposing any rate mitigation initiatives for this rate class given the large bill impacts.