

**Board Staff Interrogatories**  
**2009 Electricity Distribution Rates**  
**Westario Power Inc. (“Westario”)**  
**EB-2008-0250**

**ECONOMIC ASSUMPTIONS**

**1. Ref: N/A**

- a. Given the general economic situation in Ontario has Westario 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 Westario 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.

**2. Ref: E 2 / T 3 / S 1 and E 4 / T 2 / S 2**

- a. Please provide a list of criteria and the rationale that Westario has used in the prioritization and selection of 2009 maintenance and capital projects in its application.
- b. Please identify, individually, maintenance and capital programs, if any, that Westario may consider as a candidate for a deferral, cut, or partial adjustment, given the current economic situation. Please identify these programs, if any, in a ranking order that Westario would consider, using a ranking of “1” as the first suitable candidate, ranking of “2” as the second suitable candidate, ranking of “3” as the third suitable candidate, etc.
- c. Please identify the rationale for the selection of these maintenance and capital programs and projects.
- d. Please describe the expected impacts on Westario’s revenue requirement, operations and service quality and reliability to customers if the identified programs are reduced, deferred or cut during the economic downturn.

## OPERATING COSTS

### General

#### 3. Ref: E 4 / T 1 / S 2

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 the utility's agreement with the numbers for OM&A, which are summarized in the table below.

|                                     | 2002                | 2003                | 2004                | 2005                |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Operation                           | \$ 283,252          | \$ 138,415          | \$ 97,077           | \$ 243,683          |
| Maintenance                         | \$ 342,221          | \$ 718,485          | \$ 945,725          | \$ 870,309          |
| Billing and Collection              | \$ 1,002,357        | \$ 1,365,207        | \$ 1,342,165        | \$ 1,088,679        |
| Community Relations                 | \$ 23,795           | \$ 4,527            | \$ 25,607           | \$ 87,553           |
| Administrative and General Expenses | \$ 2,222,847        | \$ 2,365,763        | \$ 2,266,594        | \$ 1,916,798        |
| <b>Total OM&amp;A Expenses</b>      | <b>\$ 3,874,472</b> | <b>\$ 4,592,397</b> | <b>\$ 4,677,168</b> | <b>\$ 4,207,022</b> |

#### 4. Ref: E4 / T2 / S1

Please identify the inflation rate used for the 2009 OM&A forecast and the source document for the inflation assumptions.

#### 5. Ref: N/A

Does the OM&A budget include costs for the change to International Financial Reporting Standards? If so, please provide the total amount included.

#### 6. Ref: E4 / T1/ S1

Are there any cost efficiency programs at the utility that are in place now or contemplated in the test year? If so, please describe the programs and include a cost benefit analysis.

#### 7. Ref: E4 / T2 / S2 / p8

The evidence indicates that Westario is forecasting to spend about \$200,000 in 2008 and \$350,000 in 2009 on Maintenance of OH Conductors & Devices, Services and Underground services (accounts 5125, 5130 and 5155).

Please provide an explanation for the \$150,000 increase between 2008 and 2009. Please indicate whether Westario considered doing some of the work planned for 2009 in 2008 to mitigate this increase

### ***Bad Debt Expense***

#### **8. Ref: E4 / T2 / S2 / p13**

The evidence indicates the following expenditure patterns for Bad Debt Expense:

|                   |           |
|-------------------|-----------|
| 2006 EDR Approved | \$175,000 |
| 2006 Actual       | \$6,101   |
| 2007 Actual       | \$159,936 |
| 2008 Forecast     | \$100,000 |
| 2009 Forecast     | \$150,000 |

Westario explains that the amounts projected for 2008 and 2009 are a reflection of the trend that had been identified in collections and bad debt over the last 18 months.

- a. Please elaborate on the factors impacting the trend which would cause the bad debt expense to decrease by about 30% in 2008 (as compared to 2007 actual) and then increase by about 30% in 2009 (as compared to 2008 forecast).
- b. Please provide the amounts of bad debt expense for 2003, 2004 and 2005.

### ***Purchased Services***

#### **9. Ref: E4 / T2 / S6 / p4**

The evidence indicates that Westario purchased services in 2007 from Westario Power Holdings Inc. in the amount of \$462,463 and from Westario Power Services Inc. in the amount of \$3,277,651. No such purchased services are forecast for 2008 and 2009, given the corporate amalgamation.

Please identify the OM&A accounts (four digit), and the specific amount, to which these costs were charged.

### ***Non-Recurring Items***

#### **10. Ref: E4 / T 2 / S3 / p4**

The evidence indicates that in 2007 Westario received a payment, which it credited to 2007 OM&A, in the amount of \$263,400 from Hydro One. The payment was described as related to "meter exit fees".

- a. Please elaborate on the circumstances which led to this credit, including a description of the program, any operational impacts and the calculation used to determine the \$263,400 credit.
- b. Please confirm if there are or will be future costs for Westario as a result of this arrangement. If so, please specify.
- c. Please confirm whether Westario's shareholder or rate-payer benefited from this credit.

**11. Ref: E4 / T 2 / S1**

Please identify any non-recurring expenditure items (in excess of \$10,000) that are included on the 2009 OM&A forecast.

***Compensation***

**12. Ref: E4 /T2 / S7**

The Ontario Energy Board's Filing Requirements for Transmission and Distribution Applications guidelines page 17, dated November 14, 2006, require that Applicants provide the following compensation information that includes "Total Compensation by Group".

- a. Please provide total compensation amounts for Executive, Management and Unionized groups for 2006 EDR, 2006 actual, 2007 actual, 2008 forecast and 2009 forecast.
- b. In the Tables titled "Number of Employees" and "Average Yearly Base Wage", Westario indicates that there are "10" (Full Time Equivalent) executives who make about \$25,000/year. If this is incorrect please provide updated tables. Please update the other information in all the tables, if warranted.

**13. Ref: E4 /T2 / S7**

Please provide the base salary percentage increases budgeted for 2008 and 2009 broken down by major employee grouping (e.g., executive, management, unionized workers).

***Regulatory Costs***

**14. Ref: E4 / T2/ S2 / p19**

Evidence indicates the following Regulatory Expenses:

|                |           |
|----------------|-----------|
| 2006 actual:   | \$93,704  |
| 2007 actual:   | \$64,660  |
| 2008 forecast  | \$59,900  |
| 2009 forecast: | \$140,000 |

Westario has also indicated that it expects the 2009 EDR regulatory costs to total \$240,000 and one third of this is provided for in the 2009 forecast.

Please provide the rationale for amortizing the \$240,000 over three years.

## RATE BASE AND CAPITAL EXPENDITURES

### General

#### 15. Ref: E2

Please provide information for the period 2006 to 2009 in the following table format:

|                                                             | 2006<br>Actual | 2007<br>Actual | 2008<br>Bridge | 2009<br>Test |
|-------------------------------------------------------------|----------------|----------------|----------------|--------------|
| Allowed Return on Equity (%) on the regulated rate base     |                |                |                |              |
| Actual Return on Equity (%) on the regulated rate base      |                |                |                |              |
| Retained Earnings                                           |                |                |                |              |
| Dividends paid to shareholders                              |                |                |                |              |
| Sustaining capital expenditures (excluding smart meters)    |                |                |                |              |
| Development capital expenditures (excluding smart meters)   |                |                |                |              |
| Operations capital expenditures                             |                |                |                |              |
| Smart Meters capital expenditures                           |                |                |                |              |
| Other capital expenditures (please specify)                 |                |                |                |              |
| Total capital expenditures (including smart meter meters)   |                |                |                |              |
| Total capital expenditures (excluding capital expenditures) |                |                |                |              |
| Depreciation expense                                        |                |                |                |              |
| Construction Work in Progress                               |                |                |                |              |
| Rate Base                                                   |                |                |                |              |
| Number of Customer Additions (total)                        |                |                |                |              |
| - Residential                                               |                |                |                |              |
| - General Service < 50 kW                                   |                |                |                |              |
| - General Service > 50 kW, Intermediate and Large Use       |                |                |                |              |
| Number of Customers (total, December 31)                    |                |                |                |              |
| - Residential                                               |                |                |                |              |
| - General Service < 50 kW                                   |                |                |                |              |
| - General Service > 50 kW, Intermediate and Large Use       |                |                |                |              |

#### 16. Ref: E1 / T3 / S2 – Audited Financial Statements for 2007 and E 1 / T4 / S1 – Westario Power Holdings Inc. Annual Report and Audited Financial Statements (Consolidated)

Board staff has prepared the following table comparing the net book value of assets, by asset class and in total, for Westario Power Holdings Inc. on a consolidated basis, as shown in Note 3 of Westario Power Holdings Inc.'s 2007 Consolidated Audited Financial Statements and of Westario Power Inc., as shown in Note 3 of Westario's 2007 Audited Financial Statements.

| Net Book Value                          |                                      |                     |                      |                                      |                     |                     |
|-----------------------------------------|--------------------------------------|---------------------|----------------------|--------------------------------------|---------------------|---------------------|
|                                         | 2006                                 |                     |                      | 2007                                 |                     |                     |
|                                         | Consolidated Westario Power Holdings | Westario Power      | Δ                    | Consolidated Westario Power Holdings | Westario Power      | Δ                   |
| Land                                    | \$ 242,769                           | \$ 242,769          | \$ -                 | \$ 227,769                           | \$ 227,769          | \$ -                |
| Buildings                               | \$ 4,494                             | \$ 4,494            | \$ -                 | \$ 2,350,197                         | \$ 2,350,197        | \$ -                |
| Distribution Stations                   | \$ 2,214,408                         | \$ 2,214,408        | \$ -                 | \$ 2,150,467                         | \$ 2,150,467        | \$ -                |
| Distribution Lines, Overhead            | \$ 7,551,555                         | \$ 8,962,865        | <b>-\$1,411,310</b>  | \$ 7,684,075                         | \$ 9,028,497        | <b>-\$1,344,422</b> |
| Distribution Lines, Underground         | \$ 4,186,871                         | \$ 4,923,688        | <b>-\$ 736,817</b>   | \$ 4,762,317                         | \$ 5,469,825        | <b>-\$ 707,508</b>  |
| Distribution Equipment and Transformers | \$ -                                 | \$ -                | \$ -                 | \$ -                                 | \$ -                | \$ -                |
| Distribution Transformers               | \$ 3,645,593                         | \$ 4,178,798        | <b>-\$ 533,205</b>   | \$ 3,976,005                         | \$ 4,485,636        | <b>-\$ 509,631</b>  |
| Meters                                  | \$ 1,662,848                         | \$ 1,709,164        | <b>-\$ 46,316</b>    | \$ 1,746,710                         | \$ 1,790,162        | <b>-\$ 43,452</b>   |
| Computer Software                       | \$ 58,421                            | \$ 58,421           | \$ -                 | \$ 4,918                             | \$ 4,918            | \$ -                |
| Communications Equipment                | \$ 31,629                            | \$ -                | \$ 31,629            | \$ 25,455                            | \$ -                | \$ 25,455           |
| Computer equipment                      | \$ 52,358                            | \$ -                | \$ 52,358            | \$ 80,355                            | \$ -                | \$ 80,355           |
| Office Furniture                        | \$ 79,437                            | \$ -                | \$ 79,437            | \$ 111,969                           | \$ -                | \$ 111,969          |
| Tools and Garage equipment              | \$ 106,922                           | \$ -                | \$ 106,922           | \$ 132,530                           | \$ -                | \$ 132,530          |
| Trucks                                  | \$ 540,927                           | \$ -                | \$ 540,927           | \$ 707,512                           | \$ -                | \$ 707,512          |
| Assets under Construction               | \$ 658,598                           | \$ 658,598          | \$ -                 | \$ 61,179                            | \$ 61,179           | \$ -                |
| <b>Total</b>                            | <b>\$ 21,036,830</b>                 | <b>\$22,953,205</b> | <b>-\$ 1,916,375</b> | <b>\$ 24,021,458</b>                 | <b>\$25,568,650</b> | <b>\$1,547,192</b>  |

Please provide an explanation of non-zero differences between the net book value of Westario Power Holdings and Westario Power, in total and for each asset class. In particular, please explain how Westario Power Inc. has a greater net book value of assets than did Westario Power Holdings Inc. on a consolidated basis, in total and for the asset classes of Distribution Lines – Overhead, Distribution Lines – Underground, Distribution Transformers, and Meters.

### ***Land and Buildings***

#### **17. Ref: E1 / T4 / S1**

On page 2 of Westario Power Holdings Inc.'s 2007 Annual Report, provided in the above reference, it is stated that Westario occupied its new office and operations centre officially on November 27, 2007. Westario states in its application that the new Walkerton location consolidates its staff previously located throughout the communities served by Westario.

- Please explain whether Westario still owns and maintains other properties and buildings in the communities it serves.
- Please identify if any Westario staff operate from centres other than the new Walkerton office and operation centre. If so, please identify the number of employees and the locations of the ancillary operations centres.

- c. Did Westario dispose of any land and buildings made redundant through the opening of the new Walkerton office and operations centre? If so, please provide a table identifying each property involved, its previous function(s), the date of disposal and the net proceeds of the sale.
- d. Please identify how Westario has treated the net proceeds of such sales and disposals. Did the proceeds accrue to the shareholders' benefit or were they used to offset the cost of the Walkerton office or were they credited back to ratepayers, or some combination thereof?

**18. Ref: E2 / T2 / S2 / Attachment, E1 / T4 / S1 and E3 / T3 / S1 / Attachment 1 and E3 / T3 / S2**

In E2 / T2 / S2 / Attachment – Gross Capital Assets, Westario shows the following:

| <b>Gross Fixed Assets</b>                      | <b>2006 Board-approved</b> | <b>2006 Actual</b>   | <b>2007 Actual</b>   | <b>2008 Bridge</b>   | <b>2009 Test</b>     |
|------------------------------------------------|----------------------------|----------------------|----------------------|----------------------|----------------------|
| 1805 Land                                      | \$ 107,769                 | \$ 242,769           | \$ 227,769           | \$ 227,769           | \$ 227,769           |
| 1808 Buildings and Fixtures                    | \$ 6,517                   | \$ 6,517             | \$ 2,450,304         | \$ 2,450,304         | \$ 2,466,304         |
| Distribution Station Equipment - Normally      |                            |                      |                      |                      |                      |
| 1820 Primary below 50 kV                       | \$ 3,073,798               | \$ 3,073,798         | \$ 3,157,391         | \$ 3,588,176         | \$ 3,829,176         |
| 1830 Poles, Towers and Fixtures                | \$ 3,892,678               | \$ 4,811,058         | \$ 5,005,316         | \$ 5,230,361         | \$ 5,848,861         |
| 1835 Overhead Conductors and Devices           | \$ 5,137,278               | \$ 6,734,937         | \$ 7,357,202         | \$ 7,932,317         | \$ 8,775,517         |
| 1840 Underground Conduit                       | \$ 1,315,937               | \$ 2,094,546         | \$ 2,484,344         | \$ 2,809,409         | \$ 2,809,409         |
| 1845 Underground Conductors and Devices        | \$ 3,444,539               | \$ 5,563,155         | \$ 6,258,562         | \$ 6,633,637         | \$ 7,139,137         |
| 1850 Line Transformers                         | \$ 3,824,513               | \$ 5,896,988         | \$ 6,521,923         | \$ 6,721,963         | \$ 7,257,963         |
| 1855 Services                                  | \$ 2,069,198               | \$ 2,727,052         | \$ 3,004,698         | \$ 3,229,743         | \$ 3,265,243         |
| 1860 Meters                                    | \$ 1,866,214               | \$ 2,302,027         | \$ 2,438,244         | \$ 2,716,274         | \$ 2,746,274         |
| 1915 Office Equipment and Furniture            |                            |                      |                      | \$ 245,418           | \$ 247,418           |
| 1920 Computer Equipment - Hardware             |                            |                      |                      | \$ 396,174           | \$ 407,974           |
| 1925 Computer Software                         | \$ 255,224                 | \$ 267,519           | \$ 267,519           | \$ 714,890           | \$ 750,290           |
| 1930 Transportation Equipment                  |                            |                      |                      | \$ 1,634,555         | \$ 1,654,555         |
| 1935 Stores Equipment                          |                            |                      |                      | \$ 19,842            | \$ 92,342            |
| 1940 Tools, Shop and Garage Equipment          |                            |                      |                      | \$ 229,420           | \$ 274,420           |
| 1945 Measurement and Testing Equipment         |                            |                      |                      | \$ 51,482            | \$ 51,482            |
| 1950 Power Operated Equipment                  |                            |                      |                      | \$ 30,011            | \$ 72,011            |
| 1955 Communication Equipment                   |                            |                      |                      | \$ 99,188            | \$ 99,188            |
| 1960 Miscellaneous Equipment                   |                            |                      |                      | \$ 27,970            | \$ 27,970            |
| 1975 Load Management Controls - Utility Premis | \$ 258,630                 | \$ 258,631           | \$ 258,631           | \$ 258,631           | \$ 258,631           |
| 1995 Contributions and Grants - Credit         | -\$ 1,774,197              | -\$ 4,437,179        | -\$ 5,114,728        | -\$ 5,610,728        | -\$ 6,094,728        |
| <b>Total</b>                                   | <b>\$ 23,478,098</b>       | <b>\$ 29,541,818</b> | <b>\$ 34,317,175</b> | <b>\$ 39,636,806</b> | <b>\$ 42,207,206</b> |

On page 2 of the 2007 Annual Report it is stated that the new Walkerton building officially opened on November 27, 2007.

In E 3 / T3 / S3, Westario shows the following revenues for Account 4210 – Rent from Electric Property:

|                                           | <b>2006 Board-approved</b> | <b>2006 Actual</b> | <b>2007 Actual</b> | <b>2008 Bridge</b> | <b>2009 Test</b> |
|-------------------------------------------|----------------------------|--------------------|--------------------|--------------------|------------------|
| <b>4210 – Rent from Electric Property</b> | \$312,300                  | \$310,078          | \$482,151          | \$129,630          | \$129,630        |

In E3 / T3 / S2, the increase in 2007 is stated as an “[i]ncrease of approximately \$172,000 due to WPI renting utility owned property (namely the operational facility) to an affiliate (Westario Power Services Inc.).” The variance between 2008 and 2007 is described on page 5 of this exhibit as “Includes pole attachments and rental of utility owned property to an affiliate. On January 1, 2008 WPI amalgamated with its two affiliates; Westario Power Services Inc., and Westario Power Holdings Inc. Because of the company’s amalgamation, there are no longer revenues received for the rental of utility owned property (namely the operational facility and CIS system). The amount of \$129,630 is reflective of pole attachments only.”

While Westario states that account 4210 includes rent from electric property in 2006 and 2007, the gross capital assets show Westario Power having little in the way of land, buildings and other general equipment until the new Walkerton building came into service late in 2007.

Please provide further explanation of the 2006 and 2007 revenues, including a breakout between pole attachment revenues and rental of Westario Power-owned land and buildings and equipment. Please explain what land, buildings and equipment were being rented to the affiliate.

### ***Assets Transferred through Corporate Restructuring***

#### **19. Ref: E2 / T2 / S2 / Attachment 1**

Page 3 of 4 of the referenced exhibit shows the continuity of gross capital assets from 2007 actual to 2008 projected (bridge year). Under “Retirements/Other”, Westario shows additions of \$2,890,372.

- a. Please confirm if these adjustments shown correspond with capital assets previously owned by Westario Power Holdings Inc. or Westario Power Services Inc. but transferred on January 1, 2008 due to the corporate reorganization.
- b. Please confirm if, prior to January 1, 2008, recovery of capital-related costs for assets owned by Westario Power Holdings Inc. or Westario Power Services Inc. were recovered in costs charged to Westario Power Inc. pursuant to the Service Agreements, which costs in turn would be recovered from Westario’s customers. If not, please explain.
- c. Please explain if costs incurred pursuant to the Service Agreements were expensed or capitalized.
- d. As of January 1, 2008, assets transferred pursuant to the reorganization are recognized in rate-base, and the return on these assets and depreciation expense and PILs expense are calculated directly; they no longer need to be recovered as expenses, paid for services rendered under the Service Agreement.
  - i. Please confirm whether operating expenses in 2008 and 2009 reflect the removal of capital-related costs previously recovered in prices paid under the Service Agreement.
  - ii. If yes, please describe the adjustment.



- iii. If not, please explain Westario's reasons for not adjusting operating expenses.

### **Asset Management**

#### **20. Ref: E2 /T3 / S1 / Attachment: WPI-020-08 Asset Management Policies and Procedures**

Westario has provided a copy of its Asset Management Policy document at the above reference. The policy is dated July 11, 2008.

- a. Please identify if Westario had an Asset Management Policy prior to the development of this document.
- b. If so, please file it.
- c. Please identify the capital and operating projects proposed for 2009 that have been developed based on Westario's Asset Management policies as contained within the July 11, 2008 document.
- d. Please provide copies of Business Procedure SR-021-08 *Substation Maintenance Program* and Business Procedure SR-002-07 *Distribution System Inspection under Ontario Regulation 22/04* referenced on page 3 of the Asset Management Policy.

#### **21. Ref: E1 /T1 / S3 / p3**

On page 3, Westario discusses the state of the infrastructure inherited from the predecessor municipal electrical utilities. The municipalities were the predecessor MEUs which were utility operations of municipalities which largely remain the shareholders of Westario. Westario states that its original restructuring occurred on November 1, 2000.

Westario states that, even in the absence of the Asset Management Plan now being undertaken, there are serious maintenance and investment issues that it must address, including:

- Tree trimming
- Substation maintenance
- Pole replacements
- #6 Copper wire

Westario also states that it experiences low growth in the 15 communities served, with an average growth rate of 1% per annum.

- a. Please explain what efforts, if any, Westario has taken prior to 2008 to address and manage its distribution network, particularly with the above issues.
- b. Given that Westario was formed from amalgamation of predecessor utilities in 2000 to 2001, please explain why these issues remain a priority in 2008 and 2009.

- c. With respect to #6 copper wire and given Westario's relatively low growth rate, please explain Westario's statements that "[t]hese areas are now experiencing load growth and feeder extensions off the #6 primary wire. The wire has grown brittle and is undersized for the average load". Why has this issue not arisen previously? If it has arisen, what has Westario done to address this issue as part of its operations and capital programs?

**22. Ref: E1 / T2 / S1**

In this exhibit, Westario discusses the nature and condition of the distribution infrastructure in each of the fifteen communities that it serves, and also discusses recent or planned projects to address any necessary rehabilitation of the distribution infrastructure in each community. The discussion identifies differences in network infrastructure and technologies.

- a. Please describe Westario's intentions and efforts to date, or that Westario contemplates through its Asset Management Plan, to adopt a more common approach for network planning and technologies employed to be able to realize economies of scale, procurement and resource specialization.
- b. If Westario does not consider that employment of more common designs and technologies throughout Westario's service area is practical, please explain.

***Working Capital Allowance***

**23. Ref: E2 / T1 / S2, S3 / Attachment 1**

Please provide the derivation of the Power Supply Expenses used in the calculation of the working capital base for each of the 2008 bridge and 2009 test years. Please identify explicitly the commodity price estimate, and the Wholesale Market Service Charge and Retail Transmission charges used in the calculation.

**COST OF CAPITAL**

***Short Term Debt***

**24. Ref: E6 / T1 / S3 / p4**

Westario has included a 4% short-term debt component at a rate of 4.47% in calculating the weighted average cost of capital ("WACC").

- a. Please confirm that the short-term debt rate is to be updated at the time of the Board's decision using data "available three full months in advance of the effective date of the rates [i.e. January 2009 data for May 1, 2009 rates]" as documented in section 2.2.2 of the *Report of the Board on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report"), issued December 20, 2006.
- b. If Westario is not proposing that the short-term debt rate be updated in accordance with section 2.2.2 of the Board Report, please provide the derivation of the proposed rate of 4.47% and Westario's reasons for deviating from the Board Report.

## **Long Term Debt**

### **25. Ref: E6 / T1 / S2 / Attachment and S3**

Westario documents its long-term debt in the above reference and provides a table of its long-term debt instruments, by year, in the Attachment to the Exhibit. Westario is proposing a long-term debt rate of 5.82% for setting 2009 distribution rates, factoring additional debt in 2009 of about \$2 million at 5.23%. Westario states that it “reserves the right to update this rate prior to the Board issuing its rate order should it have a material affect [sic] on this application.” (Exhibit 6 / Tab 1 / Schedule 3 / pag 4 / ll. 12-13).

- a. In Exhibit 6 / Tab 1 / Schedule 3 / Attachment, for the 2006 Actual year, please explain why there is no rate and interest charges showing for the loan owed to the CIBC with a loan principal of \$1,104,707.41.
- b. In Exhibit 6 / Tab 1 / Schedule 3 / Attachment, for the 2009 Test year, please provide further details on “Other Long-Term Debt” shown with a principal of \$1,008,219 at a rate of 5.23%. Is this debt related to the reference to \$2 million of debt referenced in Exhibit 6 / Tab 1 / Schedule 3 / page 4 / ll. 8-13? If so, please explain the difference in principal amounts.
- c. Note 7 of the 2007 Audited Financial Statements for each of Westario Power Inc. and Westario Power Holdings (provided, respectively, in Exhibit 1 / Tab 3 / Schedule 2 and Exhibit 1 / Tab 4 / Schedule 1), show two non-revolving term instalment loans. One has a principal of \$5,534,694 as of December 31, 2007 with a fixed rate of 5.33% plus a stamping fee of 0.80% (i.e. a total interest rate of 6.13%), while the second has a principal of \$2,473,244 as of December 31, 2007 with a rate of 5.38% plus a stamping fee of 0.80% (i.e. a total interest rate of 6.18%). For the 2008 bridge year, the table in Exhibit 6 / Tab 1/ Schedule 2 / Attachment shows a rate of 6.18% for the loan with a principal of \$5,408,058.75 and 6.13% for the loan with a principal of \$2,439,699.50. Please reconcile which debt rate applies to each loan.
- d. Please provide a copy of the table of long-term debt shown in Exhibit 6 / Tab 1 / Schedule 2 / Attachment in working Excel format. Please update this table, if necessary, to reflect Westario’s responses above

## SMART METERS

### *Rate Adder*

#### **26. Ref: E1 / T1 / S8**

At the above reference, Westario states:

“WPI has not included any costs related to Smart Metering. In decision EB-2007-0865 dated April 17, 2008, the Board approved \$0.26 per month per metered customer. Westario is requesting an increase of this smart meter seed amount from \$0.26 to \$1.00/month per metered customer, consistent with the Decisions issued for the 2008 Cost of Service Applicants.”

On October 22, 2008, the Board issued Guideline G-2008-0002 on *Smart Meter Funding and Cost Recovery*. Section 4 of the Guideline specifies filing requirements for distributors when seeking a smart meter funding adder greater than \$0.30 per month per residential customer. Any such distributor must be authorized in accordance with the applicable regulations, and must have a clear intention on installing smart meters in the rate test year.

- a. Please identify whether Westario is authorized or is becoming authorized to deploy smart meters pursuant to and compliant with the London Hydro RFP process, in accordance with O. Reg. 427/06 amended June 25, 2008. Provide supporting documentation supporting Westario's authorization.
- b. Please confirm that Westario is planning to commence smart meter deployment, once authorized, no later than December 31, 2009. Provide supporting documentation on Westario's planned smart meter deployment.
- c. Please provide the following information in accordance with section 4 of the Guideline:
  - i) the estimated number of smart meters to be installed in the test year;
  - ii) the estimated costs per installed meter, and in total;
  - iii) a statement as to whether Westario has purchased or expects to purchase smart meters or advanced metering infrastructure whose functionality exceeds the minimum functionality adopted in O.Reg. 425/06, and an estimate of the costs for “beyond minimum functionality” equipment and capabilities; and
  - iv) a statement as to whether Westario has incurred, or expects to incur, costs associated with functions for which the Smart Metering Entity has the exclusive authority to carry out pursuant to O.Reg. 393/07, and an estimate of those costs;
- d. If Westario is not planning smart meter deployment until 2010, please provide Westario's rationale for proposing an increased smart meter rate adder of \$1.00 per month per metered customer.

- e. Please explain the impact on Westario's plans for smart meter deployment should the Board determine that Westario's existing smart meter funding adder of \$0.26 per month per metered customer continue.

**27. Ref: E1 / T1 / S5 and E9 / T1 / S1**

Table 7 on page 6 of 6 of the second reference above shows the fixed and variable distribution charges proposed by Westario based on the cost allocation and rate design study.

- a. Please confirm that the monthly service charges shown in Table 7 do not include the proposed smart meter rate adder of \$1.00 per month for metered customer classes.
- b. Westario has provided its proposed tariff schedule in the first reference above. The monthly service charge for the sentinel lighting class is proposed as \$4.92, while Table 7 in the second reference shows a monthly service charge of \$3.92 resulting from cost allocation of the revenue requirement. Please confirm if Westario is adding the smart meter rate adder on to the sentinel lighting monthly service charge and, if so, please explain why this is being done, as sentinel lighting is normally an unmetered service.

**TAXES AND PAYMENTS IN LIEU OF INCOME TAXES ("PILS")**

***PILs Calculation***

**28. Ref: E4 / T3 / S2**

Please provide a summary of taxes/PILs for 2006 Board-approved, 2006 actual, 2007 actual, 2008 bridge and 2009 test years per the following table:

|                          | <b>2006<br/>Board-<br/>approved</b> | <b>2006<br/>Actual</b> | <b>2007<br/>Actual</b> | <b>2008<br/>Bridge</b> | <b>2009 Test</b> |
|--------------------------|-------------------------------------|------------------------|------------------------|------------------------|------------------|
| Federal Income Tax       |                                     |                        |                        |                        |                  |
| Ontario Income Tax       |                                     |                        |                        |                        |                  |
| Large Corporation<br>Tax |                                     |                        |                        |                        |                  |
| Capital tax              |                                     |                        |                        |                        |                  |
| <b>Total</b>             |                                     |                        |                        |                        |                  |

## **LOAD FORECAST**

### ***Customer Connections***

#### **29. Ref: E3/ T2 /S4**

- a. Please explain if Westario's test year customer count forecast is consistent with one or more external forecasts (such as Housing Outlook reports from CMHC or the chartered banks).
- b. Please provide the reports/forecasts used and explain how these forecasts support Westario's projections for customer additions in the test year. If the external reports/forecasts do not support Westario's proposed customer forecast, then please explain the reasons for any variances.

### ***Weather Normalization***

#### **30. Ref: E3/ T2 /S1 / Attachment p6**

Westario is seeking Board approval for a test year weather normal of 4,116 HDD and 176 CDD, based on a 10-year simple average of weather data reported at Wiarton Airport. At the above reference, Westario states, "Our view is that a ten-year average based on the most recent ten calendar years available is a reasonable compromise that likely reflects the "average" weather experienced in recent years".

Similar to the method used to develop the test year weather normal forecast, please provide the following "back-cast" scenarios:

- a. Assuming Westario is preparing a forecast for test year 2006, please develop a weather normal forecast using 10-years of historical weather data from 1995-2004 and compare this forecast to actual observed weather in 2006. Please calculate the variance and percentage variance from actual observed weather.
- b. Assuming Westario is preparing a forecast for test year 2007, please develop a weather normal forecast using 10-years of historical weather data from 1996-2005 and compare this forecast to actual observed weather in 2007. Please calculate the variance and percentage variance from actual observed weather.
- c. Assuming Westario is preparing a forecast for test year 2008, please develop a weather normal forecast using 10-years of historical weather data from 1997-2006 and compare this forecast to actual year-to-date observed weather in 2008. Please calculate the variance and percentage variance from actual observed weather.

#### **31. Ref: E3/ T2 /S1 / Attachment p6**

Similar to the scenarios described above, please provide the following "back-cast" scenario's using a linear trend method based on 20-years of historical weather data.

- a. Assuming Westario is preparing a forecast for test year 2006, please develop a weather normal forecast for the 2006 test year using historical weather data from 1985-2004 and compare this forecast to actual observed weather in 2006.

Please calculate the variance and percentage variance from actual observed weather.

- b. Assuming Westario is preparing a forecast for test year 2007, please develop a weather normal forecast for the 2007 test year using historical weather data from 1986-2005 and compare this forecast to actual observed weather in 2007. Please calculate the variance and percentage variance from actual observed weather.
- c. Assuming Westario is preparing a forecast for test year 2008, please develop a weather normal forecast for the 2008 test year using historical weather data from 1987-2006 and compare the forecast to actual observed weather in 2008. Please calculate the variance and percentage variance from actual observed weather.

### ***Load and Revenue Forecast***

#### **32. Ref: E3 / T2 / S1 / Attachment p5 / Table 3**

At the above reference, Westario states the load forecast is based on “OLS estimates using the 60 observations from 2003:01 to 2007:12”. Please explain the rationale for using only 60 observations to develop the load forecast.

#### **33. Ref: N/A**

Please provide the following information regarding the accuracy of previous load forecasts:

- 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?

#### **34. Ref: E3 / T2 / S1 / p2**

At the above reference Westario states, “Short-term variation in electricity consumption is heavily influenced by three main factors – weather (e.g. heating and cooling), which is by far the dominant effect for most systems; economic factors (increases or decreases in economic activity leads to changes in employment, industrial and commercial activity, building and population change); and timing factors (non-holiday weekdays when businesses are typically operating)”. [Emphasis added]

- a. Please explain the rationale for not using 'number of customers' as an explanatory variable in the linear regression equations.
- b. Please prepare a load forecast using the regression equation, Wholesale kWh=f(Total customers, HDD, CDD, Peak Days, FT Employment[Stratford-Bruce])+constant. If monthly customer data is not available, please make a reasonable assumption for the purposes of completing the interrogatory.
- c. Please provide the statistical results of the above equation and update Table 4 (Ex 3/T2/S1/Attachment/page 6) based on the results.
- d. Please provide the impact on the proposed test year load and revenue forecast, if the load forecast based on the above regression equation is adopted.

**35. Ref: N/A**

- a. Please prepare a weather normal forecast for test year 2009 using a linear trend method based on 20 years of historical weather data.
- b. Please prepare a load and revenue forecast using the methodology proposed in this application, for test year 2009 using the weather normal forecast from a. above.

**36. Ref: E3 / T2 / S2 /p2**

Please provide the impact on the proposed test year distribution load and revenue forecasts, of the following:

- a) 1% change in number of customers.
- b) 1% change in the proposed weather normal forecast.

**COST ALLOCATION AND RATE DESIGN**

***Low Voltage***

**37. Ref: E1 / T3 / S4 / Tables G1 and G2**

The Cost of Power projections of Account 4075 'Billed – LV' are \$253,892 for 2008 and, \$733,477 for 2009 respectively.

- a. Please confirm that the LV amount for Account 4075 in Table G2 of Exhibit 1 / Tab 3 / Schedule 3 is not identical with the information in Schedule 4. If so, please confirm whether or not this amount should be disregarded.
- b. Please provide a list of the delivery points from the host distributor and the services received, including any significant changes expected in 2009 compared to the two previous years.



- c. Please provide a detailed table showing the components of Account 4075, showing all charge determinants for each delivery point in 2007, and if available also showing the corresponding projected amounts for 2009.
- d. Please confirm that the projected cost for 2009 is based on the Sub-Transmission rates applied for by Hydro One in EB-2008-0681, Exhibit G2 / Tab 94 / Schedule 1. Alternatively, if the projected cost is not based on these rates, please provide a projected cost based on these rates.
- e. Please provide any additional explanation that might be helpful in understanding the increase of 189% in this expense.

**38. Ref: E9 / T1 / S1 / p6**

The forecast cost of LV Charges in Account 4750 is \$733,477, and is allocated to the customer classes per Table 6 in the above reference. Please provide a table showing the rate adder for each class proposed for 2009. For ease of comparison, please also show the adders that were approved in the previous rate rebasing in 2006.

***Cost Allocation***

**39. Ref: Information Filing EB-2007-0003**

- a. Please provide for the record of this application an electronic copy of Westario's cost allocation study EB-2007-0003 (rolled-up Informational Filing). Please provide Run 1 or Run 2, whichever is more relevant to this application.
- b. The calculated floor value for the Unmetered Scattered Load is approximately \$2.60 per month higher than the corresponding calculation for the General Service < 50 kW class, whereas one might have expected it to be lower by an amount of approximately \$5.70 based on Sheet O3.5.

Please provide a copy of the following two worksheets of the Informational Filing in their detailed form, i.e. not "rolled-up":

- Sheet O2 'Monthly Fixed Charge Min & Max Worksheet'
- Sheet O3.5 'USL Metering Credit Worksheet.'
- c. Please provide an explanation of the apparent anomaly identified in b. above. Alternatively, please provide a revised version of Worksheet O2 and an explanation of any input changes that have been made to eliminate the anomaly.

**40. Ref: E8 / T1 / S2**

Please confirm that the revenue to cost ratios are based on revenue net of the LV adder and on cost net of the cost of LV service.

**41. Ref: E9 / T1 / S9**

Please provide an explanation of why the bill impact on Sentinel Lights is approximately three times higher than for any other rate class, particularly in consideration that the revenue to cost ratio is scarcely increasing for this class.

**42. Ref: E9 / T1 / S9 / p26 and Informational Filing Worksheet O2**

- a. Please confirm that the proposed Monthly Service Charge for Unmetered Scattered Load is based on the calculated floor amount from Sheet O2 of the Informational Filing.
- b. Please provide a calculation of potential USL fixed and volumetric charges that are a uniform percentage adjustment from the currently approved charges and that yield the appropriate revenue from the USL class.

***Retail Transmission Rates***

**43. Ref: *Electricity Distribution Retail Transmission Service Rates, Guideline G-2008-0001, October 22, 2008 and E4 / T2 / S10***

Under the Board's Guideline, Westario is expected to file an update to its Cost of Service application with two years of data to support a change in its retail transmission service rates ("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 monthly amounts over 2 years of Westario's wholesale Network and Connection costs, and for the same months 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. Projected amounts are presented for Accounts 4066 'Billed – NW' and 4068 'Billed – CN' in Exhibit 1 / Tab 3 / Schedule 4. Please confirm that Westario's projected wholesale cost (charged by Hydro One Distribution at embedded delivery points) is based on the interim rates charged by Hydro One to embedded distributors effective May 1, 2008. If not based on those rates, please explain what rates are used.
- d. Per the Guideline, please file proposed RTSR rates for each customer class that would recover the wholesale projected costs referred to in part c. Please provide the calculations used to derive the proposed RTSR rates.

***Deferral and Variance Accounts***

**44. Ref: E5 / T1 / S3 / Attachment 1 (Table C7) and E5 / T1 / S4 / Attachment 1 (Table C6)**

Westario is applying for disposition of balances of variance accounts 1550 and 1508, and provides the calculated rate riders in Table C7. It has also filed information on the balances in other deferral and variance accounts in Table C6.

- a. Please provide a continuity schedule for Westario's deferral and variance accounts using the Excel spreadsheet attached. (Please note that forecasting principal transactions beyond December 31, 2007 and the interest on those transactions in columns AM – AP is optional.)

- b. The spreadsheet provides a sub-total for the accounts: 1508, 1518, 1525, 1548, 1570, 1571, 1572, 1574, 1582, 1592, 1595, 2425. Please calculate an alternative set of rate riders that would dispose of the net balance of these accounts, and show the rate riders in a format similar to pp. 1-2 of Table C7. Please also provide details of how the individual balances would be allocated to customer classes, using allocators already calculated on pp. 3-4 of Table C7, or other allocators to be specified.
- c. Please provide a table and explanatory notes similar to part b., assuming that all deferral and variance accounts in Table C6 would be cleared.

### **Loss Factors**

#### **45. Ref: E1 / T2 / S1 / p1 and E4 / T2 / S9 / p1**

- a. Please clarify whether Westario is entirely embedded in the Hydro One distribution system, or alternatively whether it receives part of its requirements directly from transformer stations (i.e. bills issued by the IESO).
- b. The approved loss factor for Hydro One to use for power delivered to embedded distributors is 1.034. The default Supply Facility Loss Factor for distributors that are not embedded is 1.0045. Please confirm that Westario is applying for a factor of 1.024 rather than 1.034. If confirmed, please provide an explanation of how the factor is calculated.

#### **46. Ref: E4 / T2 / S9 / Attachment 2**

Please confirm that the amounts in row A of the table in the above reference are billed amounts without losses from Hydro One. Alternatively, please provide a description of the information that is found in row A.