EB-2008-0238

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 Northern Ontario Wires Inc. 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 1/1/6:

   (a) Please advise the status of NOW's application for Smart Meter.

   (b) Please provide the accumulated dollar amount collected through Smart Meter Rate Adder at the end of 2008 rate year.

   (c) 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.

Financial Statements

3. Financial Statements, pg. 10: Note 10 to the 2007 Financial Statements states that NOW paid $753,360 to its affiliate, Cochrane Telecom Services for management and staff services, administration facilities and equipment. Please provide a schedule showing providing a breakdown of these costs from 2006 to 2009.

Working Capital Allowance

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

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

Capital Expenditures

5. Ref: Ex2/3/2/pg1 – Account # 1808 Kapuskasing Building: $200,000 has been budgeted for the 2009 test year for replacement work space. NOW states that it currently

rents a garage to serve as its service centre and is exploring opportunities to acquire its own building.

(a) Please provide details substantiating the amount budgeted for the acquisition of the building.

(b) Please confirm that the rental costs for the garage have been removed from operating expenses for 2009.

6. Ref. Exhibit 2/2/3, pg. 2: the evidence states that there were material increases in accounts 1820, 1830, 1835, and 1930 between 2006 Board approved and 2006 actual. To the extent these increases flows through to 2009 rate base they are relevant to the current application. Therefore, please provide details of those increases as well as any other increases from 2006 to 2009 that exceed the materiality threshold.

Load Forecast

7. Ref: Ex 3/2/2/pg1 – Customer Forecast: The company states that communities serviced are not growing.

(a) Please confirm whether the forecasted test year customer / connection is based on simple trend (negative) or whether the company has considered data regarding regional residential and industrial development plans from its local economic development bureau to form part of the forecast.

8. Ref. Ex. 3/2/2, pg. 1: the evidence indicates that the number of GS<50kW customers has been affected by some multi-unit apartment buildings converting from individual meters to one meter.

(a) Were the previously individually-metered units considered part of the Residential class or the GS<50kW class?

(b) Has the re-classification of these buildings resulted in more or fewer GS<50kW customers?

(c) Ex. 3/2/3 pg. 1 states that the 2008 and 2009 volume forecast is derived by taking normalized weighted average consumption and demand profiles by customer class multiplied by the projected customer counts. If the re-classification has resulted in fewer GS<50kW customers, how has this been taken into account in calculating average uses for the purposes of determining the overall load forecast?

(d) How has the re-classification of these buildings been taken into account for the purposes of calculating the revenue derived from, and the cost caused by, the GS<50kW rate class for the purposes of cost allocation?

9. Ref: Ex 3/2/1:

(a) NOW states that it had some inconsistencies in historical consumption values for certain customer classes. Yet it utilized historical weighted average consumption by customer class to be applied to 2008 & 2009 customer forecast. Please comment on the validity of such "forecasting" methodology.

(b) NOW has relied on the published IESO weather correction factors and has further adjusted the IESO factors based on specific ratio of weather sensitive load provided by Hydro One. Has the consideration of conservation and demand management activities properly included in the load forecast?

10. Ref. Ex. 3/3/4, pg. 2: please explain why the Consumption and Distribution revenues by class are blacked out for 2008?

OM&A Costs

11. Ex. 4: Please provide an overview of the major drivers of the increase in OM&A expenses from 2006 to 2009 and explain the reason for those increases (for example, what portion of the increase is due to inflationary adjustments to labour or materials, and what portion is due to an change in work accomplishment or program).

12. Ref: Ex 4/2/3

(a) NOW has made provisions of 3% inflationary adjustment to various OM&A accounts. Please advise whether NOW has taken into consideration potential productivity gains to be reflected in the forecast.

Employee Compensation

13. Ref: Ex 4/2/7

(a) Total compensation for 2008 is 12% greater than 2007. Given that the number of employees for 2008 did not change, please explain whether the increase is due to annual wage adjustments or any overtime payment.

(b) Please separate the total compensation expense into portions charged to OM&A and capital.

Cost of Capital

14. Ex. 6/1/2, pg. 1: the evidence states that the debt equity split shown for 2008 does not match its deemed amounts for the rate making process and that "a strategic financing review is currently scheduled for fall 2008 to determine the most effective capital structure for our ratepayers."

(a) Please explain what is meant by that statement given that the Board has already determine the capital structure to be used for ratemaking purposes.

(b) Please confirm that the cost of capital included in NOW's 2009 revenue requirement is that produced using the deemed capital structure for NOW and not the actual capital structure set out at Ex. 6/1/2, pg. 1.

Cost Allocation

15. Ref. Ex. 8/1/2, pg. 2:

(a) Why does NOW propose to wait until the next rebasing to move the Streetlighting rate class from 70% R/C ratio to 100%? Is it possible to adjust the revenue to cost ratio during the incentive regulation period?