

Board Staff Interrogatories
2009 Electricity Distribution Rates
West Coast Huron Energy Inc. ("West Coast Huron")
EB-2008-0248
November 20, 2008

Economic Assumptions

1. Ref: n/a

- a) Given the general economic situation in Ontario, has West Coast Huron 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 West Coast Huron 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: Exh2/Tab3/Sch2

- a) Please provide a list of criteria and the rationale that West Coast Huron 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 West Coast Huron 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 West Coast Huron 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 West Coast Huron'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

3. Ref: Exh2/Tab4/Sch1 & Exh4/Tab2/Sch1

In this Exhibit, for 2007 meter reading expense and customer billing expense, West Coast Huron reports the following amounts:

- \$3,365 in Exh2/Tab4/Sch1/p2 and a different number, \$90,990 in Exh4/Tab2/Sch1/p3, for meter reading expense (APH account 5310)
- \$22,557 in Exh2/Tab4/Sch1/p2 and a different number, \$287,904 in Exh4/Tab2/Sch1/p3, for customer billing expense (APH account 5315)
- There are also different numbers reported in Exh2/Tab4/Sch1/p2 versus Exh4/Tab2/Sch1/p3, for accounts 5325 and 5340, although the differences are immaterial.

For each account, please:

- a) State the amount reported to the Board for the account in West Coast Huron's 2007 annual filing pursuant to RRR 2.1.7.
- b) Identify the components of any difference between the amount in a) and the amounts reported in Exh2/Tab4/Sch1 and Exh4/Tab2/Sch1.
- c) Explain each component of any difference identified in b). Please include an explanation of which other accounts now contain any such difference by component.
- d) State which amount (the amount in a) above or the amount in Exh2/Tab4/Sch1 or Exh4/Tab2/Sch1 has been reflected in West Coast Huron's 2007 audited financial statements and identify the line item in the audited financial statements.
- e) State which value should be relied upon in this proceeding, and, if different from the value reported in the 2007 audited financial statements, explain why the Board should rely on such different value.
- f) Explain the differences in amounts reported in Exh2/Tab4/Sch1 versus Exh4/Tab2/Sch1 and update the necessary schedules as appropriate.

4. Ref: Exh4/Tab1/Sch1

The figures in Table 1 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.

Table 1

West Coast Huron Energy Inc.			
	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>
	2003	2004	2005
1 Operation	\$353,748	\$355,584	\$352,016
2 Maintenance	\$0	\$0	\$800
3 Billing and Collection	\$298,799	\$300,181	\$296,804
4 Community Relations	\$26,362	\$35,976	\$87,834
5 Administrative and General Expenses	\$438,078	\$419,708	\$669,363
6 Total OM&A Expenses	1,116,986	1,111,450	1,406,817

- a) Please confirm West Coast Huron's agreement with the numbers for Total OM&A Expenses that are summarized in Table 1.

Board staff also prepared Table 2 below to review West Coast Huron's OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below.

Table 2
West Coast Huron Energy Inc.

	Col. 1 2006 Bd Appr.	Col. 2 2006 Actual	Col. 3 2007	Col. 4 2008 Bridge	Col. 5 2009 Test
1 Operation	\$355,584	\$352,301	\$266,504	\$237,000	\$380,750
2 Maintenance	\$2,821	\$115,972	\$43,195	\$109,300	\$91,800
3 Billing and Collection	\$300,181	\$328,405	\$378,933	\$399,324	\$436,800
4 Community Relations	\$35,976	\$56,633	\$30,797	\$20,000	\$26,000
5 Administrative and General Expenses	\$419,717	\$592,087	\$652,188	\$641,900	\$885,900
6 Total	1,114,279	1,445,398	1,371,617	1,407,524	1,821,250

Board Staff Table 3 below was created to review West Coast Huron's OM&A forecasted expenses from the evidence provided in the application's Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Table 3
West Coast Huron Energy Inc.

	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 11
	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
1 Operation	355,584	-3,283	352,301	-85,797	266,504	-29,504	237,000	143,750	380,750	28,449
2 Maintenance	2,821	-0.9%	115,972	-24.4%	43,195	-11.1%	109,300	60.7%	91,800	8.1%
3 Billing & Collections	300,181	113,151	328,405	-72,777	66,105	-17,500	399,324	-16.0%	436,800	-20.8%
4 Community Relations	35,976	20,657	56,633	-25,836	30,797	-10,797	20,000	6,000	26,000	-30,633
5 Administrative and General Expenses	419,717	172,370	592,087	60,101	652,188	-10,288	641,900	244,000	885,900	298,813
6 Total OM&A Expenses	1,114,279	331,119	1,445,398	-73,781	1,371,617	35,907	1,407,524	413,726	1,821,250	375,852
		29.7%		-5.1%		2.6%		29.4%		26.0%

- b) Please confirm that West Coast Huron agrees with the two tables prepared by Board Staff presented above. If West Coast Huron does not agree with any table please advise why not. If West Coast Huron determines that the tables require amending, please provide amended tables with full explanation of changes made.
- c) Please complete Table 4 by identifying the key cost drivers that are contributing to the overall increase of 26% over 2006 Historical relative to 2009 cost levels.

Table 4

	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>
	2006	2007	2008	2009
Opening Balances	1,314,279	1,653,084	1,586,867	1,695,682
1 Cost Driver 1				
2 Cost Driver 2				
3 Cost Driver 3				
4 Cost Driver 4				
... Etc.				
Closing Balances	1,653,084	1,586,867	1,695,682	2,164,296

5. Ref: Exh4/Tab2/Sch3

Page 7 states for Account 5630, Outside Services Employed that the increase of \$55,658 is due to Environmental Services provided by the Town of Goderich.

- a) Please provide a more detailed explanation of these Environmental Services.
- b) Does West Coast Huron have a planned vegetation management programme? If not, why not?
- c) If West Coast Huron has a planned vegetation management programme, what annual cycle does it employ?
- d) In their application before the Board, EB-2007-0681, Hydro One Networks Inc. stated that they were intending to reach an optimum cycle of eight years for their vegetation management programme. Please comment on whether such an approach would be appropriate, or alternatively not be appropriate for West Coast Huron.

6. Ref: Exh4/Tab2/Sch3/p9

This schedule shows in Account 5630, Outside Services Employed, that the increase of \$131,400 is due to the 2009 Cost of Service Application and increased legal expenses.

- a) Please provide the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 actual, 2007 actual, 2008 bridge year, and 2009 Test Year regarding the following regulatory costs and present it in the table format shown below.
- b) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are "One-time Cost" and not expected to be incurred by the applicant during the impending period when the applicant is subject to the 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation of IRM process.
- c) Please state the utility's proposal on how it intends to recover the "One-time" costs as part of its 2009 rate application.

Regulatory Cost Category	Ongoing or One-time Cost?	2006 Board Approved	2006 Actual	2007 Actual	% Change in 2007 vs. 2006	2008 (As of Sept 2008)	% Change in 2008 vs. 2007	2009 Test Year	% Change in 2009 vs. 2008
1. OEB Annual Assessment									
2. OEB Hearing Assessments (applicant initiated)									
3. OEB Section 30 Costs (OEB initiated)									
4. Expert Witness cost for regulatory matters									
5. Legal costs for regulatory matters									
6. Consultants costs for regulatory matters									
7. Operating expenses associated with staff resources allocated to regulatory matters									
8. Any other costs for regulatory matters (please define)									
9. Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)									
10. Other regulatory agency fees or assessments									

7. Ref: Exh4/Tab2/Sch1

Beginning on Page 6 West Coast Huron itemizes the account balances for OM&A expenses in the test year.

- a) For the 2009 Forecast test year, please identify and describe any onetime costs other than those explained for regulatory and legal costs above.
- b) Are there any one time costs that were inadvertently carried forward from previous years?
- c) Are there any expenses for charitable donations in the 2009 forecast? If there are please identify them.
- d) Are there any costs in the forecast for conversion due to the adoption of International Financial Reporting Standards? If there are please itemize the costs and the rational of the drivers of the costs.
- e) Does West Coast Huron partake in any Winter Warmth or other programmes to assist low income customers? If so what are the programmes and their costs for 2009?
- f) Please identify any programmes in the 2009 forecast that are specifically aimed at productivity and efficiency improvements.

- g) What inflation rate is used for 2009 and what is the source document for the inflation assumptions?
- h) It appears that West Coast Huron has not made a budget provision for bad debt in 2008 and 2009 in Account 5335. Are bad debt expenses included in any other account? If so, please provide the levels for bad debt for 2006 Board approved, 2006 Actual, 2007 actual and budgeted 2008 and 2009.

8. Ref: Exh4/Tab2/Sch6

- a) For what year are the costs provided in this table? If they are not for 2009, please provide the 2009 estimates.
- b) Please provide a similar breakdown of purchased services for 2006 Board Approved, 2006 Actual, 2007 and 2008.
- c) For the 2009 test year, what portion of total OM&A expenses is related to purchased services from third parties?
- d) For each contracted service, please identify the year in which a tendering process was used to obtain the contract.
- e) For each purchased service, please identify as to whether the vendor is an affiliate or an arms length 3rd party.

Compensation

9. Ref: Exh4/Tab2/Sch7

This schedule contains the compensation and benefits statistics. Although the changes in the levels of compensation and benefits appear forecasted to be 3% for 2009, there are large historical increases that have resulted in large component changes from 2006 to 2009.

- a) The following table summarizes the data found on this referenced schedule for Base Wages and Benefits. The indicated percent changes are from one year to the next. Column 1 contains the Board approved 2006 figures while Column 2 contains the actual 2006. The percentage change found in Column 6 is based on comparing 2009 to Actual 2006. Please explain the drivers of the large percentage changes observed in Column 6, referencing the year over year changes for both Base Wage and Benefits by employee type that contribute to these increases.
- b) Executive and Management receive incentive pay. Please describe the basis of determining the incentive payments? In the description identify the specific goals and the means of quantifying the payout versus results, and whether any of these incentives are tied to productivity or efficiency improvements or to return to the shareholder.

Table 5

West Coast Huron - Compensation

	<i>Col 1</i>	<i>Col. 2</i>	<i>Col 3</i>	<i>Col 4</i>	<i>Col 5</i>	<i>Col 6</i>
	2006 BAP	2006Act	2007	2008	2009	2009/06
Compensation - Avg. Base Wage						
1.1 Executive	9,888	9,833	9,833	9,833	10,128	
1.2 Management	55,799	32,424	40,445	43,872	45,188	
1.3 Non-Union		6,632	7,417	7,184	7,400	
1.4 Union	52,689	57,555	76,641	70,997	73,127	
1.5 Total	118,376	106,444	134,336	131,886	135,843	
Percentage change						
2.1 Executive		0%	0%	0%	3%	3%
2.2 Management		-42%	25%	8%	3%	39%
2.3 Non-Union			12%	-3%	3%	12%
2.4 Union		9%	33%	-7%	3%	27%
2.5 Total		-10%	26%	-2%	3%	28%
Compensation - Avg. Benefits						
3.1 Executive		200	219	231	238	
3.2 Management	5,358	8,511	12,779	12,828	13,213	
3.3 Non-Union		775	975	975	1,004	
3.4 Union	4,926	17,042	24,489	25,224	25,981	
3.5 Total	10,284	26,528	38,462	39,258	40,436	
Percentage change						
4.1 Executive			10%	5%	3%	19%
4.2 Management		59%	50%	0%	3%	55%
4.3 Non-Union			26%	0%	3%	30%
4.4 Union		246%	44%	3%	3%	52%
4.5 Total		158%	45%	2%	3%	52%

c) Please complete the following table.

	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>	<i>Col. 5</i>
	2006	2006	2007	2008	2009
	Board	Actual			
	Approved				
1 Total Compensation					
2 Less Capitalized Amount					
3 Less Billable					
4 Less Other					
5 Compensation charged to OMA&G					

Rate Base

10. Ref: Exh2/Tab2/Sch2/p3

In this Exhibit, for 2007 meters, West Coast Huron reports \$320,108 (APH account 1860). Please:

- a) State the amount reported to the Board for the account in West Coast Huron's 2007 annual filing pursuant to RRR 2.1.7.
- b) Identify the components of any difference between the amount in a) and the amount reported in Exh2/Tab2/Sch2.
- c) Explain each component of any difference identified in b). Please include an explanation of which other accounts now contain any such difference by component.
- d) State which amount (the amount in a) above or the amount in Exh2/Tab2/Sch2 has been reflected in West Coast Huron's 2007 audited financial statements and identify the line item in the audited financial statements.
- e) State which value should be relied upon in this proceeding, and, if different from the value reported in the 2007 audited financial statements, explain why the Board should rely on such different value.

11. Ref: Exh2/Tab2/Sch4/p2

In this Exhibit, for 2007 accumulated depreciation, West Coast Huron reports \$1,329,086 (APH account 2105). Please:

- a) State the amount reported to the Board for the account in West Coast Huron's 2007 annual filing pursuant to RRR 2.1.7.

- b) Identify the components of any difference between the amount in a) and the amount reported in Exh2/Tab2/Sch4.
- c) Explain each component of any difference identified in b). Please include an explanation of which other accounts now contain any such difference by component.
- d) State which amount (the amount in a) above or the amount in Exh2/Tab2/Sch4 has been reflected in West Coast Huron's 2007 audited financial statements and identify the line item in the audited financial statements.
- e) State which value should be relied upon in this proceeding, and, if different from the value reported in the 2007 audited financial statements, explain why the Board should rely on such different value.

12. Ref: Exh2/Tab1/Sch1

- a) Please provide West Coast Huron's Code of Business Conduct.
- b) For the years 2003 to 2009 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars or % where indicated):
 - i Net income;
 - ii Actual Return on Equity (%);
 - iii Allowed Return on Equity (%);
 - iv Retained Earnings;
 - v Dividends to Shareholders;
 - vi Sustainment Capital Expenditures excluding smart meters;
 - vii Development Capital Expenditures excluding smart meters;
 - viii Operations Capital Expenditures;
 - ix Smart meters Capital Expenditures;
 - x Other Capital Expenditures (identify);
 - xi Total Capital Expenditures including and excluding smart meters;
 - xii Depreciation.

13. Ref: Exh2/Tab1/Sch1

For each of the years 2003 to 2009 please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars or % where indicated):

- a) Average Fixed Assets in Service
- b) Average Depreciation Rate as a % of Average Fixed Assets in Service;

- c) Working Capital as a % of Average Fixed Assets in Service;
- d) Number of Customer Connections in each Customer Category
 - i New Connections
 - ii Service Upgrade Connections
 - iii Population (actual or estimated) of Service Area.

14. Ref: Exh2/Tab1/Sch1/p2/line6

- a) Please confirm that West Coast Huron Rate Base is described arithmetically as follows:

Rate Base = Gross Assets in Service – (Accumulated Depreciation
+ Contributed Capital) + Working Capital

- b) Please confirm that the existing rate base and capital expenditure for 2009 contains AFUDC (also known as “Interest During Construction”) and capitalized overhead.

15. Ref: Exh2/Tab2/Sch1

Please confirm that the continuity statement has included interest during construction and all overheads.

16. Ref: Exh2/Tab4/Sch1/p6

The 2009 working capital estimate, (based on 15% of power cost and O&M cost), makes up about 24% of the rate base.

- a) Please identify the commodity prices, the wholesale market service charges and the transmission rates used to arrive at the 2009 forecast.
- b) In view of the impending closure of the Volvo grading equipment manufacturing plant and probable reduction in power purchased, please provide a revised working capital estimate to reflect the lower anticipated power costs.

Capital Expenditures

17. Ref: Exh2/Tab3/Sch1

In this Schedule, West Coast Huron sets out its capital expenditure forecast for 2008 and 2009.

- a) Please provide actual capital expenditure data from 2005 to 2007.
- b) Please provide the breakdown for each 2005 through 2009 showing the total of capital expenditures that are “one-time programs” vs. “ongoing programs”.
- c) Please provide an overview of why West Coast Huron’s capital expenditure programs have varied significantly on a year by year basis over the 2005 to 2009 period.

- d) Please discuss the extent to which West Coast Huron considered a more phased approach to its capital program and if a more phased approach was considered, why it was not adopted. If a more phased approach was not considered, please explain why not.
- e) Please state why West Coast Huron believes that it has the capacity to complete such a large capital program in 2009. In this context, please provide an update as to where the 2008 capital program stands on a completion basis as of September 30, 2008. Please also discuss whether or not West Coast Huron anticipates having any carryover projects from 2008 and if so what their impact would be in 2009.
- f) Please provide an explanation on the measures that West Coast Huron has taken or will undertake, e.g. use of tendering process and deploying the lowest bid contractor, negotiations with suppliers on purchase of material and equipment, etc. to execute capital program projects in the most cost-effective way.
- g) If available, please provide the Capital Expenditure plans/forecasts for 2010, 2011, and 2012.

18. Ref: Exhibit(s) General

On September 30, 2008, Volvo announced that it was closing its grading equipment manufacturing plant, a major energy consumer, in Goderich.

- a) Are there any plans by West Coast Huron which result in reducing the number or scope of the capital projects in response to this large reduction in load?
- b) If so, please provide the details of these changes and the quantitative effect on rate base.
- c) Is the South Loop project, planned to improve the capacity restraints, no longer necessary, or reducible in scope, in the light of the impending Volvo plant closure? If so, please provide details.
- d) Is there any change in plans regarding the acquisition of a new bucket truck and/or repairing and upgrading the existing bucket truck? If so, please provide details.

19. Ref: Exh2/Tab1/Sch1

Please provide the following information on service reliability indicators recorded and used by West Coast Huron:

- a) a listing of the Service Reliability Indicators maintained and used, and their actual values for the years 2002 through 2007;
- b) West Coast Huron's 2008 and 2009 reliability improvement targets, if any, for the SAIDI, SAIFI and CAIDI indicators; and
- c) If West Coast Huron has established reliability improvement targets, a copy of the plan that identifies programs or projects that West Coast Huron will undertake to

achieve these targets. Do any specific capital expenditure projects relate specifically to increasing reliability?

Smart Meters

20. Ref: Exh1 /Tab1/Sch6

West Coast Huron states that it has current approval for \$0.26 per customer per month to cover the costs of Smart Metering. 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 West Coast Huron 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 West Coast Huron's authorization.
- b) Please confirm that West Coast Huron is planning to commence smart meter deployment, once authorized, no later than December 31, 2009. Provide supporting documentation on West Coast Huron'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 West Coast Huron 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 West Coast Huron 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 West Coast Huron is not planning smart meter deployment until 2010, please provide West Coast Huron's rationale for proposing an increased smart meter rate adder of \$1.00 per month per metered customer.
- e) Please explain the impact on West Coast Huron's plans for smart meter deployment should the Board determine that West Coast Huron's existing smart meter funding adder of \$0.26 per month per metered customer continue.

- f) Based on the capital expenditures for smart meters in 2007, 2008 and projected 2009, please provide justification of the continuance of the \$0.26 per customer per month or any other figure for smart metering.
- g) If West Coast Huron is seeking a monthly charge rider for anticipated smart meters, please specify the amount desired and supporting quantitative material justifying that request.
- h) Please provide copies of all directives and regulations West Coast Huron has received from the Ontario Government directing or allowing the utility to undertake smart meter activities.

21. Ref: Exh2/Tab3/Sch1 Capital Budget by Project - 2008

On page 7, West Coast Huron indicates that the capital expenditure amount for account 1860 – Smart Meters is \$2,037,923 in 2008. Please indicate how many smart meters West Coast Huron plans to install in 2009.

Payments in Lieu of Taxes (PILS)

22. Ref: Exh4/Tab3/Sch1/p1

- a) West Coast Huron has calculated their 2009 regulatory income before tax at \$384,776. Board staff cannot reconcile this figure using the same rate base of \$5,280,630, a deemed equity at 43.3% and cost of equity at 8.57%, where use of these figures yields \$195,954. Please calculate, and show the calculations of the before-tax regulatory income, when calculated on those assumptions.
- b) Please calculate and show the calculations of income tax using the following assumptions
 - i) Net income before taxes of \$384,776 and 195,954
 - ii) Proportions: Short term debt 7.3%; Long term debt 31.09% and Equity 66.15% at costs of 4.77%, 7.25% and 8.68% respectively
 - iii) Proportions: Short term debt 4.0%; Long term debt 52.7% and Equity 43.3% at costs of 4.47%, 6.10% and 8.57% respectively
- c) Please calculate and show the calculations for the taxes as calculated in b) above, **grossed up** for rate purposes.

23. Ref: Exh4/Tab3/Sch1/p1

Please provide an explanation and details explaining 2009 items entitled “Other Additions” \$164,390 and “Other Deductions” \$170,696.

Cost of Capital/Capital Structure

24. Ref: Exh6/Tab1/Sch2/p1

In this Exhibit, for 2007, West Coast Huron reports the following amounts:

- \$353,532 for short-term debt
- \$1,505,068 for long-term debt

For each account, please:

- a) State the amount reported to the Board for the account in West Coast Huron's 2007 annual filing pursuant to RRR 2.1.7 and the respective APH account numbers.
- b) Identify the components of any difference between the amount in a) and the amount reported in Exh6/Tab1/Sch2.
- c) Explain each component of any difference identified in b). Please include an explanation of which other accounts now contain any such difference by component.
- d) State which amount (the amount in a) above or the amount in Exh6/Tab1/Sch2 has been reflected in West Coast Huron's 2007 audited financial statements and identify the line item in the audited financial statements.
- e) State which value should be relied upon in this proceeding, and, if different from the value reported in the 2007 audited financial statements, explain why the Board should rely on such different value.

25. Ref: Exh6/Tab1/Sch2 Short-Term Debt

In the table shown under "Capital Structure", West Coast Huron has used a short-term debt rate (or "Cost Rate") of 4.77%.

The Board Report on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (the "Board Report") states the following in section 2.2.2:

"The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers' acceptance rate plus a fixed spread of 25 basis points." This is consistent with the Board's method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers' acceptance rate as published on the Bank of Canada's website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor's rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data

available three full months in advance of the effective date of the rates.” [Emphasis in original]

- a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources. [Short term debt rate as per the Board is 4.47%].
- b) Please confirm whether West Coast Huron is proposing that the deemed short-term debt rate would be updated based on January 2008 Consensus Forecasts and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If West Coast Huron is not proposing that the methodology in the Board Report be followed, please provide West Coast Huron’s reasons for varying from the methodology in the Board Report.

26. Ref: Exh6/Tab1/Sch2 & Exh6/Tab1/Sch3 - Long-Term Debt & Weighted Average Cost of Capital

West Coast Huron indicates that long term debt is mainly a note for \$974,454 held by the sole shareholder, yielding 7.25%. This is debt held by an affiliate and is payable on demand by and to the sole shareholder by West Coast Huron. The Board’s long term debt rate is 6.10% for affiliates.

The Board Report on Cost of Capital, section 2.2.1 sets the following policy for setting the debt rate:

“For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.

The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt.

The Board has determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with “A/BBB” rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with “A/BBB” rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and “A/BBB” corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.” [Emphasis in original]

What is West Coast Huron's intent with regard to taking action to reduce debt interest expense by acquiring less costly non-affiliated debt or renegotiating a lower debt rate from its affiliate, the sole shareholder?

Load Forecast

Weather Normalization and Modelling

27. Ref: Exh3/Tab2/Sch1/p1

On page 1, West Coast Huron states that the weather normalization that was generated was performed by Hydro One.

Please provide the Hydro One report and any spreadsheets received from Hydro One containing data supporting the calculation of the normalized historical load. (Any *summary reports* that the West Coast Huron received from Hydro One that show the weather correction factors by class (as distinct from raw unprocessed data) are particularly requested.)

28. Ref: Exh3/Tab2/Sch1/pp1-7

In pages 1 to 7 West Coast Huron explains how it developed its 2009 load forecast for the weather-sensitive classes. While some details are missing, the essential approach used appears to be that West Coast Huron:

- o determined the 2009 forecasted customer count for each customer class,
- o determined the weather-normalized retail energy for each customer class for 2004,
- o determined the 2004 retail normalized average use per customer ("retail NAC") for each class by dividing each of the weather-normalized retail energy values by the corresponding number of customers/connections in each class existing in 2004,
- o applied the 2004 retail NAC for each class to the 2009 Test Year *without modification*, and
- o determined the 2009 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value for each class by the 2009 forecasted customer count in that class.

Please:

- a) confirm that the above is the essence of West Coast Huron's load forecasting methodology,
- b) differentiate the approach used for weather sensitive loads from that used for non-weather sensitive loads, and
- c) fully correct any errors in the above explanation.

29. Ref: Exh3/Tab2/Sch1/p 1

Expected Future Changes

On page 1, West Coast Huron states that it "has used a simple trend growth in customer connections, by class, to forecast Bridge and Test Year customer numbers."

Please:

- a) Explain how West Coast Huron's forecasting methodology is differentiated from a "rear view mirror" approach that relies solely (or substantially) on the future being an extrapolation of the past and ignores both broader economic effects that would impact the Province as a whole and energy consumption changes as a result of CDM, and
- b) Compare the economic assumptions made in the application with economic forecasts prepared by national economic forecasting institutions (e.g. Canadian chartered banks) and regional equivalents (e.g. Boards of Trade or regional councils).

30. Ref: Exh3/Tab2/Sch1/pp 1-7

Customer Count and Revenue Forecast

On page 2, West Coast Huron develops its customer count forecast. In subsequent pages this customer count forecast is used to develop a kWh/kW load forecast. Please:

- a) Clarify if the Volvo plant closure (The Toronto Star, October 1, 2008, announcement: "Volvo plant closure takes toll on Goderich.") has been included in West Coast Huron's forecast and, if not,
- b) Explain the anticipated effect on West Coast Huron's 2009 load of the planned closure.

31. Ref: Exh3/Tab2/Sch1/pp 2, 3 & 6

Customer Count and Revenue Forecast

On page 2, West Coast Huron shows its only GS customer classes to be "GS<50, GS>50 to 499 kW and GS>500 to 4999 kW." On page 3, West Coast Huron claims to have a "GS>3000 to 4999 kW" class. On page 6, West Coast Huron claims to have "GS>50 to 999, GS>1000 to 2999 and GS>3000 to 4999" classes.

Please state the GS customer classes for which West Coast Huron is developing its customer and other forecasts.

32. Ref: Exh3/Tab2/Sch1/ pp 3&4

kW and Revenue Forecast

West Coast Huron briefly outlines on page 3 the method used for determining the class loss factors. It also states that "associated loss factors are reported in the following table below" though in fact, such loss factors do not appear to be reported on the next page. Please provide:

- a) a detailed description of the process used to develop the class loss factors,
- b) the class load factor supporting values and calculations, and
- c) details of the loss factors that appear not to have been reported on page 4.

33. Ref: Exh3/Tab2/Sch1/pp 4&5

Customer Count, kWh load, kW load and Revenue

On page 4, West Coast Huron provides two tables containing different data but both titled: "Normalized Average Consumption kWh". Similarly, on page 5, West Coast Huron provides two tables containing different data but both titled: "Normalized Average Consumption kW".

Please provide the correct titles for the four tables.

34. Ref: Exh3/Tab2/Sch1/pp1-7

Customer Count, kWh load, kW load and Revenue

On page 2, West Coast Huron explains that for certain customer classes "the percentage change for 2008 represents the annual average growth for 2002 to 2007." However, without the basic data for the 2002 to 2007 period an independent assessment of this calculation is not possible. Also, on pages 1 to 7, West Cost Huron explains how it determined the 2004 retail normalized average use per customer ("retail NAC") for each class and apparently used this value for other years also. This does not appear to adequately weather-normalize the energy usage in historical years and does not allow for the possible change in energy usage per customer over the 2002 – 2009 period due, for example, to Conservation and Demand Management. The minimal amount of weather normalization and the constant retail energy assumption could potentially lead to forecasting errors.

- a) Please file a data table for the historical years 2002 to 2007 that shows:
 - i. the actual retail energy (kWh) for each customer class in each year,
 - ii. the weather normalized retail energy (kWh) for each customer class in each year (where, for the customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year *and not rely on results for any other year*),
 - iii. the values of the weather conversion factors used,
 - iv. the customer count for each class in each year,
 - v. the retail normalized average use per customer for each class in *each year* based on the *weather corrected* kWh data in item ii. above, and
 - vi. as a footnote to the table, the source(s) of the weather correction factors.
- b) Please file a data table for the 2002 to 2009 period:
 - i. utilizing the retail normalized average use per customer values for each class in each year obtained in a) v. above for the historical years 2002 to 2007,
 - ii. including 2008 and 2009 projections for the retail normalized average use per customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) for each class, and
 - iii. as a footnote to the table, for each of the weather-sensitive classes describe in detail the trend analysis performed in ii. above.
- c) Please file an updated version of the historical/forecast table in Exh3/Tab2/Sch1/p7, utilizing the *weather corrected* data determined in b) above.

35. Ref: Exh3/Tab2/Sch1/pp1-7

Customer Count, kWh load, kW load and Revenue

Some of West Coast Huron's evidence may require to be adjusted in light of responses to the preceding customer count, load and revenue forecasting interrogatories.

Please re-file any Exhibit 3 tables that require updating as a result of changes in the West Coast Huron's evidence.

36. Ref: Exh3/Tab2/Sch1/pp1-7

Customer Count, kWh load, kW load and Revenue

In Exhibit 3, West Coast Huron has developed its load and revenue forecasts. While there is no precise method to measure the accuracy of a forecast until after the actual load has been delivered, West Coast Huron's forecasting track record may provide some indication of its forecasting accuracy.

Please provide any data that illustrates the accuracy of West Coast Huron's previous load forecasts.

37. Ref: Exh5/Tab1/Sch1 Deferral and Variance Accounts

For all of West Coast Huron's deferral and variance accounts please complete the attached continuity schedule for regulatory assets. Please note that including forecasted principal transactions beyond 2007 and the accrued interest on these forecasted balances in the attached continuity schedule is optional.

Cost Allocation

38. Ref: Exh3/Tab3/Sch4/p1; Informational Filing EB-2007-0001 (filed separately, document D08-36624)

The Approved Distribution Revenues from the respective classes in Exhibit 3 match the approved revenues in RP-2005-0020/EB-2005-0431. However, the class revenue amounts shown in the Informational Filing Worksheet O1 'Revenue to Cost Summary Worksheet' are not consistent with Exhibit 3, differing by 10% or more for some classes.

Please explain why these differences occur, or alternatively identify which source should be disregarded.

Revenue to Cost Ratios

39. Ref: Exh8/Tab1/Sch2/p5

Please confirm that the information on the revenue to cost ratios proposed for 2009 may be relied upon in West Coast Huron's application, despite the inconsistency that has been identified in the 2006 information.

40. Ref: Exh8/Tab1/Sch2; Exh9/Tab1/Sch7

The 2009 Total Revenue Requirement shown in each table in Exhibit 8 is \$2,618,540. The Distribution Revenue Requirement shown in Exhibit 9 is \$2,541,041 before

Transformer Ownership Allowance, and \$2,672,398 including the allowance. Please explain how these totals can be reconciled, or alternatively please make an appropriate adjustment(s) in one or both of the exhibits to accomplish this.

41. Ref: Exh8/Tab1/Sch2/pp1&4; Exh9/Tab1/Sch8/pp 8 & 10

The illustrative impacts for the Large User class (Distribution Cost sub-total) ranges from 50% to 130%, and the impact on Un-metered Scattered Load is 47%. At the same time, the proposal is that the revenue to cost ratio for the Large User class will be decreased slightly from 108% to 106%, while the ratio for USL is increased substantially from 64% to 83%. Please provide an explanation of this apparent inconsistency between a large rate increase and lower revenue to cost ratio on the one hand for Large Users, and a small rate increase and higher revenue to cost ratio for Un-metered Scattered Load on the other hand.

42. Ref: Exh8/Tab1/Sch2/p5

Reconciliation of Class Revenue and Total Revenue Requirements

- a) Does the revenue component of the “applied for RC%” include revenue from the Smart Meter rate adder? If so, please provide a calculation of the ratio net of the Smart Meter adder, and a recalculation of the Subsidization Value for each class that is affected.
- b) Please confirm that the revenue component is net of the “cost” of the transformer ownership allowance for the three classes affected by this allowance.

Rate Design

43. Ref: Exh1/Tab1/Sch6; Exh9/Tab1/Sch1/p1

Please confirm that the current Monthly Service Charges for all classes with metered loads include an adder for Smart Meters of \$0.26 per month, and that the proposed rates continue to include this adder.

44. Ref: Exh9/Tab1/Sch7

Please confirm that the proposed variable charges are gross of the transformer ownership allowance for the three applicable classes.

45. Ref: Exh9/Tab1/Sch8/p9

The illustrative impact for Streetlighting is for 1 kW but only 25 kWh. Please provide an impact calculation for a representative streetlight connection that has a more typical amount of monthly energy consumption.

Retail Transmission Rates

46. Ref: *Electricity Distribution Retail Transmission Service Rates, Guideline G-2008-0001, October 22, 2008 and Exh9*

Under the OEB Guideline, West Coast Huron 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 West Coast Huron'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 have recovered the wholesale cost of Network and Connection transmission service if the Uniform Transmission Rates approved for implementation January 1, 2009 had been in effect throughout the 2-year period described in part a). Please provide the calculation of the respective adjustment factors for Network and Connection rates.

Deferral and Variance Accounts

47. Ref: Exh1/Tab1/Sch5/p3

Please confirm that West Coast Huron does not have a balance in Account 1550 'LV Variance', and does not require continuation of this account.

Please confirm that West Coast Huron is not currently charging a rate rider for Regulatory Asset Recovery, and is not applying for disposition of the balance of any deferral or variance accounts. Despite this aspect of West Coast Huron's application:

- a) Please provide a continuity schedule for West Coast Huron'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 and 2425. Please calculate a set of rate riders that would dispose of the net balance of these accounts, identifying the date of the balance and how many years the rate rider would be in effect. Please also provide details of how the individual balances would be allocated to customer classes, where possible using updated values of the same allocators as were used for the respective accounts in the 2006 model for regulatory asset recovery rate riders.

- c) Please provide a table and explanatory notes similar to part b, assuming that all deferral and variance accounts would be cleared, except Accounts 1562 and 1563.