EB-2008-0234

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 Lakeland Power Distribution Ltd. 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 LPD to date to facilitate the transition.

(b) Please advise whether LPD 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 LPD.

(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.

General: Revenue Requirement

2. Please provide LDP's revenue requirement for 2006, 2007 & 2008.

Related Party Transactions

3. Ref a: Ex 1/1/13

   Ref b: Ex 1/3/1/Appendix A – 2007 Audited Financial Statements

In Ref a, the company stated that it purchases management and administration services under a Service Agreement from its affiliate.

In Ref b, it states that the transactions between related parties are measured at the exchange value established and agreed to by the related parties.

(a) Please file a copy of the Service Agreement.

Rate Base

4. 2009 Rate Base

Ref a: Ex 2/1/2/pg2
Ref b: Ex 2/1/2/pg1/Table 1 – Rate Base Variance
Ref c: Ex 2/1/1/pg1

2009 rate base is shown as $15,499,710 in Ref c & Ref a, but $15,521,320 in Ref b. This also affects the year over year rate base variance analysis.

(a) Please reconcile.

OM&A Costs

5. Account # 5065 Meter Expense

Ref a: Ex 4/2/2/pg1 – OM&A Cost Table
Ref b: Ex 4/2/1/pg 15
Ref c: Ex 3/2/1/pg1 – Table "Customer / Connection Forecast"

(a) In Ref b, LPD states that its meter reading service is contracted out to a non-affiliated third party under an SLA.

(i) If the meter reading service is charged on a per hour basis, please provide the hourly rate charged by the third party meter reader and the estimated number of hours required to perform meter reading services for each of the year 2006 – 2009 as per the original SLA;

(ii) If the meter reading services is charged on a per meter basis, please provide the charge rate per meter for each of the year 2006 – 2009.

(b) In Ref a, 2007 actual meter expense dropped by 11% compared to 2006 actual level. 2008 bridge year spending is budgeted to increase by 35% over 2007 actual. 2009 test year spending is forecasted to drop 10% compared to 2008 but still represents an increase of 22% over 2006 actual. The company has not provided any explanations with respect to the year over year variances for this account (the variance is below the materiality threshold defined by LPDL, which is $33,000 or 1% of its distribution expenses before PILs). It appears that the significant year over year variance is not driven by volume as LPDL's customer / connection growth is less than 1% each year from 2006 – 2009 (Ref c). Please provide detailed explanations.

6. Ref : Ex 4/2/3/pg3: Account # 5085 – Misc. Distribution Expense

2006 actual spending increased by $176K or 503% over approved 2006 level. LPD has explained that the increase was due to significant amount of time spent on GPS mapping and layout designs for new and existing customers.

(a) Compared to 2006 approved spending, 2007 actual and 2008 – 2009 forecasted spending almost quadrupled. Please list the underlying cost drivers contributing to the increased spending level for each of the year 2007 – 2009.

7. Account # 5095 – Overhead Distribution Lines and Feeders – Rental

Compared to 2006 actual level, spending in this category started to increase from 2007 by over 50%.

(a) Please advise whether the increase from 2007 and beyond is due to the adjustment in pole rental charges payable to Bell and Hydro One. If yes, please provide the unit charge before and after the adjustment.

8. Account # 5130 – Maintenance of Overhead Services

Ref: Ex 4/2/3/pg4

LPD states that the increased 2006 spending was due to storm restoration costs. 2008 spending has been forecasted to increase by $51K, or 20% ,over 2007, and there is a further 15% increase forecasted for 2009.

(a) Please provide a detailed explanation by identifying the underlying cost drivers contributing to the year over year increases.

9. Account # 5135 – Overhead Distribution Lines and Feeders – Right of Way

Ref a: Ex 4/2/3/pg4
Ref b: 4/2/Appendix B – Maintenance Plan for Tree Trimming

LPD states that tree trimming is the single largest expense in this account.

(a) In Ref b, LPD has provided a tree trimming cost summary for 2008 & 2009. Tree trimming cost per plan is $114,795 for 2008 and $ 110,850 for 2009. In Ref a, $124,000 has been budgeted for 2008 and $130,000 in 2009. Please confirm the correct amount budgeted for 2008 & 2009 respectively.

(b) The tree-trimming plan filed in the application was dated April 16, 2002. Please confirm whether this is the “new” tree-trimming plan identified in the evidence.

(c) LPDL is adopting a new tree-trimming plan based on a 7-year cycle. Compared to the company's previous practice prior to the adoption of its new 7-year cycle, is the new plan covering more work (for instance, by area or by hours) each year? If yes, what is the % increase of the work load?

10. Account # 5155 – Maintenance of Underground Services

Ref a: Ex 4/2/3/pg5
Ref b: Ex 2/2/1/ -- Capital Additions, Account #1840 & 1845

Spending in this category has increased, year over year, by $15K or 48% in 2007, $9K or 19% in 2008, and a further $30K or 56% in 2009. LPD states that the cost increase is mainly due to numerous cable failures, underground locates and servicing of new subdivisions.

Capital additions on account # 1840 (Underground conduit) and #1845 (underground conductors and devices) amount to $71,190 in 2006, $149,023 in 2007, $180,366 in 2008, and $182,160 in 2009, representing a 156% increase within 3 years.

In general, increased capital spending (based on needs and priority) should lead to savings on assets maintenance expenses. Therefore:

(a) please explain why LPD requires increased spending on both capital expenditures and maintenance expenses related to its underground distribution assets.

11. Account # 5320 – Collecting

Ref: Ex 4/2/2/pg2

2006 actual spending was $23K or 30% lower than 2006 approved. Spending was up again by 32% in 2007 and a further 37% in the following year.

Please identify underlying cost drivers and explain the year over year variances.

12. Account # 5675 – Maintenance of General Plant

Ref a: Ex 4/2/3/pg8
Ref b: Ex 4/2/2/pg 3

2006 actual general plant maintenance expense was $104K or 270% higher than the 2006 approved level. LPD explains that $75K was due to the cost for the cleanup of the contamination at the Bracebridge operation building.

(i) Excluding the impact of the contamination which was only a one-time event, the remaining variance is $29K above 2006 approved level. Please provide an explanation.

Wages and Compensation

13. Ref: Ex 4/2/7/pg5

(i) In 2007, the average yearly base wages for management was 18% higher than 2006 (from $61K in 2006 to $72K in 2007). Please explain.

(ii) In 2007, the average yearly base wages for non-unionized staff was 24% greater than in 2006 (from $30K in 2006 to $37K in 2007). There is a further 13% increase in 2008. During the period, the number of non-unionized staff has not changed. Please explain the increases.

(iii) In 2007, the average yearly base wages for unionized staff has increased by 11% over 2006 (from $46K in 2006 to $51K in 2007). There is a further 21% increase in 2008. Please advise whether a collective agreement is in place, describe the provisions, and explain the double-digit increase over 2007& 2008.

Cost Allocation

14. Ex. 8/1/2, pg. 4:

(a) Please expand Table 3 by providing the existing revenue shares (of the existing revenue requirement) of the various rate classes.

(b) Please confirm that the proposed revenue to cost ratios will mean that the GS>50kW rate class will be over-contributing to LPD's revenue requirement in the amount of $167,331 and the Streetlighting class will be under-contributing in the amount of $157,167.

(c) At p. 5 of Ex. 8/1/2, the company states that "in light of uncertainty identified by OEB staff with respect to the analysis of cost allocation results for this class, LPDL submits that its approach to the implementation of the cost allocation study in respect of the Street

Lighting class, as proposed in this Application, is appropriate for the 2009 Test Year…" However, the Board Report also stated, with respect to other rate classes, there may be problems with data, in particular accounting and load data, that make it undesirable to necessarily insist on a revenue to cost ratios of one for all rate classes. Please explain, therefore, why LPDL proposes to move the Residential and GS<50 rate classes to 100% revenue to cost ratio while leaving the GS>50 well above that level and the Streetlighting class well below that level.

15. Ex. 9: Rate Design

(a) Please provide the existing and proposed fixed/volumetric charge split for each rate class.

(b) Please provide the Lower Bound (avoided costs), upper bound (avoided costs plus allocated customer costs) and ceiling (120% of upper bound) for each rate class [Note: the Lower Bound, Upper Bound and Ceiling are defined in the Report of the Board, Application of Cost Allocation for Electricity Distributors, p. 12]