**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.

NOW is currently monitoring documents published by the OEB and the EDA in striving to become compliant with IFRS.

(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.

NOW has not conducted nor is there specific plans to study and identify potential impacts. As this is a regulatory requirement, NOW does to have a choice in the matter.

(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.

All entities have the option of re-evaluating assets with an off-set equal to the asset change to the equity. Until the evaluation is performed it is difficult to identify the potential impact of these decisions.

(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.

NOW does currently have any estimates on the cost associated with the IFRS process.

## Smart Meters

2. Ref: Ex 1/1/6:

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

NOW is approved to implement Smart Meters as part of the London Hydro RFP.

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

Response included in response to 2c) below.

(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.

Please see chart below:

**Smart Meters Variance Balances**

| | A/C#1555-0000 Smart Meter Capital & Recovery | A/C#1556-0000 Smart Meter OM&A | TOTAL | A/C#1550-0001 Smart Meters Variance Interest |
|---|---|---|---|---|
| **2006 ( 2006 Rate Approval effective July 16/06)** | | | | |
| 2006 recoveries ($0.26/account/month) | $ (9,362) | $ - | | |
| 2006 costs | | | | |
| quarterly interest entries | | | | $ (76) |
| Balance Dec 31/06 | $ (9,362) | $ - | $ (9,362) | $ (76) |
| **2007** | | | | |
| 2007 recoveries | $ (19,026) | | | |
| 2007 costs | | $ 15,850 | | |
| quarterly interest entries | | | | $ (757) |
| Balance Dec 31/07 | $ (28,389) | $ 15,850 | $ (12,538) | $ (833) |
| **2008 - to Sept 30** | | | | |
| 2008 recoveries | $ (14,430) | | | |
| 2008 costs | | $ 9,577 | | $ (515) |
| quarterly interest entries | | | | |
| Balance Sept 30/08 | $ (42,819) | $ 25,427 | $ (17,391) | $ (1,348) |
| **Forecast to Dec 31/08** | | | | |
| 2008 recoveries | $ (4,800) | | | |
| 2008 costs | | $ 6,000 | | |
| quarterly interest entries | | | | $ (175) |
| **Forecast Balance Dec 31/08** | **$ (47,619)** | **$ 31,427** | **$ (16,191)** | **$ (1,523)** |
| **Summary** | | | | |
| Total Recoveries 2006 to 2008 | $ (47,619) | | | |
| Total Costs 2006 to 2008 | $ - | $ 31,427 | | |
| NET | $ (47,619) | $ 31,427 | $ (16,191) | |

## 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.

See chart below:

**Cochrane Telecom Services - Cost Details**

| | 2006 Actual | 2007 Actual | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|
| Wages and Benefits ( CTS Employees providing services to NOW Inc.) | $ 1,039,302 | $ 783,194 | $ 856,744 | $ 882,446 |
| Wages and Benefits ( NOW Employees providing services to CTS) | N/A | $ (85,647) | $ (88,216) | $ (90,863) |
| Office Rent ( Building owned by CTS) | $ 36,758 | $ 36,847 | $ 37,952 | $ 39,091 |
| Service Centre Rent ( Building owned by CTS) | $ 17,347 | $ 18,966 | $ 19,535 | $ 20,121 |
| **TOTAL NET COSTS** | **$ 1,093,407** | **$ 753,360** | **$ 826,015** | **$ 850,795** |

## 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.

NOW does not have any plans to conduct a company specific lead-lag study. As the 2006 Electricity Distribution Rate Handbook indicates (on Page 25) that Rate Base is comprised of a working capital allowance which is 15% of the sum of cost of power and controllable expenses, NOW will continue to use this percentage until directed otherwise.

## 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.

The service centre facility in our Kapuskasing service territory currently consists of the rental of one bay in a school bus company's garage. Prior to moving to this location three years ago we explored the option of purchasing a building to meet our service centre needs. The prices for such a property came in around $300,000. With limited choice and high prices for such properties we continued with a rental arrangement with the intent of purchasing a building when a suitable location became available. Our capital budget of $200,000 is based on an identified decrease in the market prices for such facilities in the Kapuskasing area and some non-formal inquiries about potential properties or similar properties that have recently changed ownership.

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

NOW has not removed the rental costs for the current garage since we do not expect the change to occur until the end of 2009. Furthermore there would be other operating costs resulting from ownership which would partially offset the rental expenses we would save. These changes would be part of a 2010 forecast.

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.

2006 Board Approved Figures are based on 2004 Actuals. Therefore the column per Exh2/T2/S2/P1 & P2 and labelled "Variance from 2006 Board Approved" is a two year variance. Our total capital expenditure by year is summarized as follows:

**Capital Expenditure And Depreciation Expense by year**

| | Capital Expenditure | Depreciation Expense |
|---|---|---|
| 2003 | $ 63,390 | $ 371,004 |
| 2004 | $ 113,179 | $ 372,597 |
| 2005 | $ 167,266 | $ 363,348 |
| 2006 | $ 183,655 | $ 329,835 |
| 2007 | $ 404,275 | $ 337,216 |
| 2008 foreacast ( excluding smart meters) | $ 615,250 | $ 363,270 |
| 2009 forecast (excluding smart meters) | $ 391,000 | $ 404,740 |

NOW had to limit its capital expenditure from 2003 to 2006 for financial reasons.

## 2006 Actual to 2007 Actual

1820 Distribution Station Equipment - Increase $39,347

This variance is a result of converting the Cochrane Wholesale Metering Point . This project was started in the fall of 2007 and completed in early 2008.

1835 Overhead Conductors and Devices – Increase $74,390

In 2007 we continued a project in the Boisvert Crescent area in Cochrane. Total expenditure amounted to approximately $47,000. This project addresses line losses and was identified through the study conducted by the Enerspectrum Group.

In 2007 we also started a voltage conversion project in Iroquois Falls. This consisted of converting stretch of service from 2400 Delta to 7200 Y. 2007. Expenditure amounted to approximately $16,000.

The balance of expenditure in these accounts is essentially as a result of enhancement/upgrade to old deteriorating plant.

1930 Transportation Equipment - $221,551

This variance is a result of the replacement of a 1985 Digger Derrick Truck with a new one. The age of the vehicle was causing high repair/maintenance and operating costs and it was deemed more economical to replace it.

We have provided details on all other variances that exceed the materiality threshold have as part of the application.

## 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.

Neither of the above methodologies was employed. NOW has utilized historically customer counts and adjusted for the expected customer additions and deletions expected in 2008 & 2009. These expectations are based on opinion rather than regional development plans.

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?

Residential Class.

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

1 More GS < 50 customer.

(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?

As per above, 1 more GS < 50 customer.

(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?

The new GS customer has been included in the estimated customer counts for 2008 & 2009 and is used to derive the total class usage for 2008 & 2009.

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.

To avoid any errors in rate setting NOW has utilized different year ranges to calculate annual customer class profiles. Residential uses a 2002 to 2007 average, while all other classes use 2006 & 2007 only to calculate the average usage. While NOW understands that this is not ideal, it is the best data we have available. Please see Exhibit 3, Tab, 2, Schedule 2, Page 3 for a chart indicating what years were used in determining the 2008 & 2009 usage profiles (note: the cells in blue were utilized).

(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?

As the majority of spending on CDM activities (from the LDC perspective) was spend prior to 2007, it is NOWs view that the 2006 & 2007 sales reflect the incorporation of CDM activities. As average historical consumption profiles have been utilized to derive the 2008 & 2009 load forecasts, the CDM results are incorporated into the load forecasts.

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

These cells were blacked out in the model as they were not utilized. The 2008 class distribution revenue as calculated using the mid-year average customer counts multiplied by the current approved rates multiplied by 12 months plus the normalized consumption multiplied by the variable charges. In previous year (i.e. 2007 & 2006 on the previous page) this area of the chart was a data input.

Please see amended chart to reconcile the values within the application and provide more calculation details.

(note: customer counts are average of 2007 & 2008 from Ex. 3.3.4.1 & 3.3.4.2)

**2008 Bridge - Normalized - based on existing rates**

| | Customers (avg 2007 & 2008) | Fixed Charge (excl smart meters) | Months | Fixed Revenue | Normalized Consumption | Variable Charge | Variable Revenue | Total Revenue |
|---|---|---|---|---|---|---|---|---|
| Residential | 5,230 | 16.33 | 12 | 1,024,772.82 | 41,240,613 | 0.0108 | 445,398.62 | **1,470,171.44** |
| GS<50 | 782 | 21.45 | 12 | 201,158.10 | 21,997,802 | 0.0102 | 224,377.58 | **425,535.68** |
| GS>50 to 499 kW | 69 | 208.23 | 12 | 172,414.44 | 173,388 | 2.0476 | 355,030.19 | **527,444.63** |
| Unmetered Scattered Load | 15 | 10.96 | 12 | 1,972.80 | 121,104 | 0.0102 | 1,235.26 | **3,208.06** |
| Street Lighting | 1,737 | 1.04 | 12 | 21,677.76 | 5,014 | 3.3746 | 16,920.24 | **38,598.00** |

## 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).

See chart below.

**Summary of 2006 to 2009 changes to OM&A ( Cost Drivers)**

| | 2006 Actual | 2007 Actual | 2008 Bridge | 2009 Test |
|---|---|---|---|---|
| OM& Expenses | $ 1,906,576 | $ 2,137,464 | $ 2,322,354 | $ 2,311,307 |
| **Change between years** | | **$ 230,888** | **$ 184,890** | **$ (11,046)** |
| Signficant items in excess of $10,000 | | | | |
| Inflationary Factor | | $ 50,000 | $ 53,000 | $ 57,000 |
| Third Tranche CDM spending in excess of prior year costs reported | | $ 23,000 | $ (50,000) | |
| Prior Year Pole Rental adjustment | | $ 33,000 | $ 12,000 | $ (28,000) |
| Lineman on sick leave in 2007 | | $ (38,500) | $ 38,500 | |
| Dedicated NOW Management, return of full time CFO and increase shared staff time | | $ 12,000 | $ 30,000 | |
| Temporary Billing Assistance for 4 months during conversion to new billing system | | | | $ 10,500 |
| Vehicle maintenance and repair costs increase, older vehicles resulting in significant repairs | | $ 27,000 | $ (10,000) | |
| Travel Costs Adjustment - 2007 less than typical year ( details per rate application) | | | $ 20,000 | |
| Regulatory Accounting ( Variance) Interest | | $ 10,443 | $ 32,000 | $ 4,000 |
| 2008 non-recurring items ( details provide per rate application | | | $ 61,332 | $ (56,332) |
| Prior Years Audit fees booked in 2007 - non-recurring | | | $ (12,000) | |
| Hydro One Load Profile in 2007 non - recurring | | | $ (4,500) | |
| Credit for overpayment of benefits ( non-recurring) | | | $ 12,000 | |
| Low Voltage Change - included in OM&A for recovery - 2006 only 6 months | | $ 118,380 | | |
| **TOTAL SIGNIFICANT ITEMS IDENTIFIED** | | **$ 235,323** | **$ 182,332** | **$ (12,832)** |
| Change between years | | $ 230,888 | $ 184,890 | $ (11,046) |
| Unidentified Difference | | $ 4,435 | $ (2,558) | $ (1,786) |

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.

As Productivity gains have been achieved and are forecasted by keeping increased resource requirements to a minimum despite the increase in workload resulting from increased regulatory requirements (Rate Applications, IFRS, etc), implementation of a new billing system, staff changes and the smart meters project.

NOW Inc is a small organization and uses its services agreement with Cochrane Telecom Services to manage its resource requirements. With regards to operations, we serve two of our three communities with two lineman in each community and the third community is served by three lineman. For practicality and safety reasons we must maintain a minimum number of lineman and are currently operating at that level.

## 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.

The increase in 2008 is a result of 2007 (and 2006) employee compensation being less than a typical year. In 2007 we had a lineman on sick leave representing $38,500 in employee compensation savings to NOW. We also had our Chief Financial Officer on maternity leave for half of 2006 and 2007. This adjustment in 2008 amounts to $12,000 and reflects a higher salary and full time benefits not applicable to her replacement in 2006 and 2007.

2008 furthermore includes an increase in projected time required by NOW by a few shared employees amounting to $15,000. While there are no increase in employee numbers there is an increase in personnel resource time required and this is achieved through shared staff time allocation. 2007 also included a prior years benefit overpayment credit of $12,000 which has been added back to 2008. And finally $32,000 of the increase between 2007 and 2008 is a projected 3% inflationary increase.

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

Compensation Expense reported in Exh 4/T2/S7/P1 was OM&A only. Total Compensation Expense for NOW is as follows:

**Compensation Expense breakdown OM&A and Capital**

| | 2006 Actual | 2007 Actual | 2008 Forecast | 2009 Forecast |
|---|---|---|---|---|
| TOTAL Compensation OM&A | $ 991,814 | $ 1,025,461 | $ 1,145,488 | $ 1,191,628 |
| TOTAL Compensation Capitalized | $ 42,485 | $ 45,217 | $ 46,574 | $ 47,971 |
| TOTAL Compensation billed to NOW Customer Sundry Jobs | $ 14,086 | $ 22,710 | $ 20,000 | $ 20,600 |
| TOTAL NOW Compensation Expense | **$ 1,048,385** | **$ 1,093,388** | **$ 1,212,062** | **$ 1,260,199** |

## 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.

In past applications, the Board has been interested in the proximity of deemed debt / equity structures to actual. This statement is merely to indicate that NOW is aware that deemed and actual debt / equity splits are not in the same proximity and a study is underway (now in early 2009) to ensure NOW is using the most efficient financial structure.

(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.

NOW's 2009 revenue requirement is based on deemed debt / equity structures and deemed return rates. Namely 43.33% equity and 56.67% debt (combination of long-term and short-term).

## 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?

Of course anything is possible; however, historically IRM applications have not been used to adjust either the revenue requirement or the allocation of that revenue requirement.

The 70% range was utilized as it takes into account both a) the Board Staff guidelines on street light RC% and b) customer impacts. Below is a summary of class revenue and rate impacts if all classes were moved to the 100% RC%. This is meant for discussion purposes as NOW is still submitting that the 70% street lighting RC% is proper.

| | Residential | GS < 50 kW | GS > 50 kW | Street Light | Unmetered |
|---|---|---|---|---|---|
| Submitted RC% | 102.76% | 102.76% | 102.76% | 70.00% | 102.76% |
| Amended RC% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Submitted 2009 Class Distribution Revenue | 1,827,862 | 558,441 | 333,592 | 163,739 | 7,119 |
| Amended 2009 Class Distribution Revenue | 1,773,868 | 541,836 | 325,164 | 242,978 | 6,905 |

| Class | Consumption kWh | Consumption kW | May 2008 Bill | May 2009 Bill | Difference $ | Bill Impact % | Max | Min |
|---|---|---|---|---|---|---|---|---|
| Residential | 250 | | $ 41.00 | $ 43.66 | $ 2.67 | 6.51% | 6.5% | 6.1% |
| | 500 | | $ 64.24 | $ 68.42 | $ 4.18 | 6.51% | | |
| Average Customer | 805 | | $ 94.85 | $ 100.88 | $ 6.03 | 6.36% | | |
| | 1,000 | | $ 114.90 | $ 122.11 | $ 7.21 | 6.27% | | |
| | 1,250 | | $ 140.61 | $ 149.33 | $ 8.72 | 6.20% | | |
| | 1,500 | | $ 166.31 | $ 176.55 | $ 10.24 | 6.15% | | |
| | 2,000 | | $ 217.72 | $ 230.99 | $ 13.26 | 6.09% | | |
| General Service Less Than 50 kW | 1,000 | | $ 117.38 | $ 123.82 | $ 6.44 | 5.5% | 5.5% | 4.9% |
| | 2,000 | | $ 218.69 | $ 230.04 | $ 11.35 | 5.2% | | |
| Average Customer | 2,320 | | $ 251.15 | $ 264.08 | $ 12.93 | 5.1% | | |
| | 5,000 | | $ 522.63 | $ 548.71 | $ 26.08 | 5.0% | | |
| | 10,000 | | $ 1,029.19 | $ 1,079.82 | $ 50.63 | 4.9% | | |
| General Service 50 to 4,999 kW | 25,000 | 50 | $ 2,345.85 | $ 2,280.72 | $ (65.13) | -2.8% | -2.7% | -3.5% |
| | 40,000 | 75 | $ 3,593.36 | $ 3,497.79 | $ (95.57) | -2.7% | | |
| | 50,000 | 100 | $ 4,471.65 | $ 4,345.65 | $ (126.00) | -2.8% | | |
| Average Customer | 82,800 | 209 | $ 7,505.82 | $ 7,246.63 | $ (259.19) | -3.5% | | |
| | 250,000 | 500 | $ 21,478.06 | $ 20,865.11 | $ (612.95) | -2.9% | | |
| Unmetered Scattered Load - Avg Customer | 673 | | $ 73.34 | $ 94.86 | $ 21.52 | 29.3% | | |
| Street Lighting - Avg Customer (579 connections) | 49,402 | 139 | $ 5,540.01 | $ 11,499.14 | $ 5,959.12 | 107.6% | | |