



MIDLAND POWER UTILITY CORPORATION
16984 Highway#12 P.O. Box 820
Midland Ontario L4R 4P4

December 12, 2008

Kirsten Walli, Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

Midland Power Utility Corporation – License #ED-2002-0541
OEB File No.: EB-2008-0236

Enclosed please find Midland's Interrogatory Response to the SEC Interrogatories. I would also refer SEC to the Interrogatory Response Summary submitted with the OEB Staff Interrogatory Response, which provides details on all proposed changes to the Rate Application as a result of the interrogatories received from OEB Staff, VECC and SEC.

As indicated in the summary, please contact the undersigned should your require any further information.

Yours very truly,

MIDLAND POWER UTILITY CORPORATION

A handwritten signature in black ink, appearing to read 'Phil Marley'.

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**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
Midland Power Utility Corporation for an Order or
Orders approving or fixing just and reasonable
rates and other charges for the distribution of
electricity commencing May 1, 2009.**

**RESPONSE BY MIDLAND POWER UTILITY CORPORATION TO
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 MPUC to date to facilitate the transition.
- (b) Please advise whether MPUC 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 MPUC.

- (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.

RESPONSE:

a) MPUC has attended a seminar through the CMA association to gain preliminary knowledge of IFRS. MPUC has also met with our Auditors, BDO in 2008 to discuss in general terms what impact IFRS will have on MPUC's financial statements and accounting policies. MPUC is also a member of the Cornerstone Hydro Electric Concepts (CHEC) Group who are working together to obtain economies of scale in regard to the transition to IFRS.

b) MPUC is planning to conduct such a study. As indicated in (a) above, MPUC is a member of the CHEC Group and through this membership will be formulating a plan to identify IFRS issues and to assess their impact on each LDC. One of the main issues facing LDCs is the treatment of Regulatory Assets within the IFRS framework. The CHEC Group has met with the OEB to obtain information on the treatment of Regulatory Assets within IFRS and once the OEB provides direction, MPUC will take the appropriate steps to comply with IFRS and OEB Regulations.

c) MPUC's plan is to work with the CHEC Group to identify potential issues, one of which will be the Choice of Accounting Policy. At this point, MPUC's investigation has not determined what management judgements and assumptions will be required and is unable to provide a yes or no response at this time.

d) As indicated above, MPUC is planning to conduct a study to identify and assess the potential impact on the LDC. MPUC has not included conversion costs relating to the IFRS transfer in the expenses included in this Rate Application. MPUC does expect that these costs will be incurred. Should the OEB require MPUC to incorporate two sets of bookkeeping records, additional staff will be required for regulatory purposes. The transfer to IFRS will be a one-time expense and MPUC expects that audit fees, consulting fees and training will total \$100,000. MPUC is therefore requesting an additional \$25,000 per year over 4 years. MPUC would respectfully request that the Board include this expenditure when considering final rates.

Smart Meters

2. Ref: Ex 1/1/7/pg5:

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

RESPONSE:

- (a) The accumulated dollar amount collected through MPUC's Smart Meter Rate Adder total is estimated to be \$61,100 at April 30, 2009 which is the end of the 2008 rate year.

The accumulated dollar amount collected through MPUC's Smart Meter Rate Adder is \$50,430 as at October 31, 2008.

- (b) The balance of MPUC's Smart Meter Capital Variance Account #1555 is \$32,035 as at October 31, 2008. The estimated balance of this account at the end of the 2008 rate year (April 30, 2009), is projected to be \$40,700.

The balance of MPUC's Smart Meter OM&A Variance Account #1556 is estimated to be \$0 at the end of the 2008 rate year (April 30, 2009).

OM&A Costs

3. Ref. Ex. 4/2/2: with respect to the labour/burden increases:
- (a) for each of the yearly comparisons set out in Board Staff IR # 18 (2009 vs. 2008, 2008 vs. 2007, etc.), please provide a table showing changes in compensation costs year over year with an explanation showing what portion are due to staff changes and what portion is due to inflationary wage adjustments or benefit cost increases.

RESPONSE:

MPUC has divided the labour/burden comparisons into three categories:

- inflationary wage adjustments: these adjustments reflect year over year increases for management and unionized labour, along with changes in management incentive plan;
- experience factor adjustments: these adjustments reflect step increases to staff as they progress through the salary grid/collective bargaining agreement; and
- staffing changes: these adjustments reflect changes in staff throughout the year.

The table below sets out the comparisons of Board Staff IR #18 2007 Actual vs. 2006 Actual labour/burden changes. The inflationary wage adjustments include \$29,800 in incentive plan increases over 2006.

2007 Actual vs 2006 Actual

Inflationary Wage Adjustments	\$	41,195
Experience Factor Adjustments	\$	11,436
Staffing Changes	-\$	15,296
	\$	<u>37,335</u>
Less: Capitalized Wages/Burden	-\$	140,382
Total per Ex.4/2/2 pg. 26	-\$	103,047
Less: #3700 - Community Relations	-\$	990
Total Board Staff IR#18	-\$	<u>102,057</u>

The table below sets out the comparisons of Board Staff IR #18 2008 Bridge Year vs. 2007 Actual labour/burden changes. The inflationary wage adjustments include a decrease of \$18,400 in incentives over 2007.

2008 Bridge Year vs 2007 Actual

Inflationary Wage Adjustments	-\$	12,691
Experience Factor Adjustments	\$	3,707
Staffing Changes	\$	102,490
		<u>\$ 93,506</u>
Less: Capitalized Wages/Burden	-\$	4,533
Total per Ex.4/2/2 pg. 45	\$	88,973
Add: #3700 - Community Relations	\$	711
Total Board Staff IR#18	\$	<u>89,684</u>

The table below sets out the comparisons of Board Staff IR #18 2009 Test Year vs. 2008 Bridge Year labour/burden changes. The inflationary wage adjustments include a decrease of \$8,900 in incentives over Bridge Year 2008.

2009 Test Year vs 2008 Bridge Year

Inflationary Wage Adjustments	\$	31,500
Experience Factor Adjustments	\$	16,400
Staffing Changes	\$	43,100
		<u>\$ 91,000</u>
Less: Capitalized Wages/Burden	\$	1,100
Total per Ex.4/2/2 pg. 65	\$	92,100
Add: #3700 - Community Relations	\$	100
Total Board Staff IR#18	\$	<u>92,200</u>

The table below sets out the comparisons of Board Staff IR #18 2009 Test Year vs. 2006 Actual labour/burden changes. The inflationary wage adjustments include an increase of \$2,500 in incentives over 2006.

2009 Test Year vs 2006 Actual

Inflationary Wage Adjustments	\$ 37,605
Experience Factor Adjustments	\$ 22,495
Staffing Changes	\$ 161,741
	<u>\$ 221,841</u>
Less: Capitalized Wages/Burden	-\$ 143,815
Total	<u>\$ 78,026</u>
Add: #3700 - Community Relations	\$ 1,801
Total Board Staff IR#18	<u>\$ 79,827</u>

4. Ex. 4/2/2: on pg. 1, MPUC states that labour/burden increases by \$30,186 in 2006 actual over 2006 EDR due to decreases in some areas and increases in other areas. However, at pg. 22, MPUC states that the total staff complement was 16 in 2006 EDR and 15 in 2006 actual. Please explain why labour/burden increased by \$30,186 when it appears that total staff complement decreased by 1.

RESPONSE:

The 2006 EDR was based on 2004 expenses. Capitalized and Rework labour/burden decreased by \$6,900 in 2006 over the 2006 EDR. Inflationary wage adjustments over the two years were \$30,200, experience factor adjustments totalled \$28,800, and staffing changes resulted in a reduction of \$35,600, for a total increase in 2006 of \$30,200.

2006 EDR vs 2006 Actual

Inflationary Wage Adjustments	\$ 30,165
Experience Factor Adjustments	\$ 28,762
Staffing Changes	-\$ 35,618
	<u>\$ 23,310</u>
Add: Capitalized Labour/Burden	\$ 6,876
Total	<u>\$ 30,186</u>
Total Board Staff IR#18	<u>\$ 30,186</u>

5. Ex. 4/2/2, p. 52- Acct. 5105. Please explain the reason for the increase of one engineering position in 2008, which is said to be responsible for the increase in labour/burden for this account in the amount of \$62,098. Please confirm that this additional staff member appears to be in addition to the increase discussed under account 5005.

RESPONSE:

MPUC confirms this unionized staff member does not include the increase discussed under account #5005. In 2008, one of our outside hourly workers was transferred to the engineering department. As indicated in Exhibit 2, Tab 1, Schedule 1, pages 3 & 4, in 2007 MPUC completed a study on contracting out vs. using in-house labour. As part of this analysis it was determined that one outside hourly worker would be transferred to the engineering department. The additional staff member noted in account #5005 is a management position.

6. Ex. 4/2/2, p. 62: Account 5620- please provide a more detailed explanation for the 18% increase in this account in 2008 over 2007. Specifically, please provide a breakdown of the increase in internet access costs, bank charges, software support costs, and other major drivers of the increase, as well as an explanation as to what steps MPUC took to mitigate these increases.

RESPONSE:

The major cost drivers of the increase include internet service and software support costs at 13% or \$11,836. These additional costs are as a result of dedicated fibre access required for the Harris billing system. Bank charges have increased \$3,083 or 3% as MPUC expects to incur additional charges under our Line of Credit. General office supplies have increased \$1,374 or 2% as a result of inflationary increases.

7. Ex. 4/2/2, p. 64- Account 5675- please provide a more detailed explanation for the 25% increase in this account in 2008 over 2007. Specifically, please provide a breakdown of the increase in wireless expenses, emergency telephone access, snowploughing and any other major drivers of the increase, as well as an explanation as to what steps MPUC took to mitigate the increase.

RESPONSE:

Wireless, snow removal, utility and general plant expenses are expected to increase by 1% or \$992. Materials are expected to decrease by 3% or \$2,632, and labour/burden is expected to decrease by 1% or \$617 over 2007 levels. Emergency telephone access charges are expected to increase by 28% or \$20,000. In order to provide MPUC ratepayers with a safe, cost effective, community based 911 emergency response service, MPUC shares the cost with the fire, ambulance and police emergency services (Mid-

Com). MPUC ratepayers benefit from this service as MPUC is called immediately to power emergencies. This ultimately saves time and lives when minutes count - downed power lines, storms, fires, car accidents and the like. This program has, in the past been free of charge, however, the Town of Midland has levied a cost of \$3 per hour to MPUC.

8. Ex. 4/2/2, p.72- Account 5315 - with respect to the 7.5% increase in Customer Billing in 2009, please explain why staff member wage progression and/or collective bargaining increases appear to have a greater impact on this account than other accounts.

RESPONSE:

In 2008, the staff member included in Customer Billing Account #5315 was at a probationary level for the first 5 ½ months of the year. The first wage progression percentage increase was 10% in 2008, and will again increase 10% in May 2009. In addition, no medical/dental/insurance benefits were paid for the first 5 ½ months of 2008. In total, Labour/Burden accounted for 5.4% of the Customer Billing increases.