

Board Staff Interrogatories
2009 Incentive Regulation Mechanism Rate Application
Oshawa PUC Networks Inc.
EB-2008-0205
Part II: Request for Incremental Capital Investment

Incremental Capital Investment Request

1. Sheet G2.1 of the 3rd Gen. IRM Supplementary filing module indicates that Oshawa PUC Networks Inc.'s ("OPUCN") capital additions were as summarized in the table below:

OPUCN's Capital Additions (\$ million)

2005 Actual	2006 Actual	2007 Actual	2008 Re-Basing	2008 Forecast	2009 Proposed
\$10.2	\$9.5	\$11.4	\$11.0	\$9.3	\$10.1

- a) Given that the proposed 2009 capital additions of \$10 million is slightly less than the average capital additions made by OPUCN over the four previous years, please explain why OPUCN's incremental capital investment request is consistent with the Board policy set out on page 31 of the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* dated September 17, 2008 (the "Supplemental Report") that "the capital module is intended to be reserved for unusual circumstances."
- b) Given that the Board approved approximately \$11 million in new capital additions as part of OPUCN's 2008 cost of service application, please explain why OPUCN's proposed \$10 million capital additions in 2009 is not fully underpinned by existing rates.
- c) Given that OPUCN forecast that it will under-spend by \$1.7 million its capital expenditures incorporated into its based 2008 rates, please clarify whether what portion of the 2009 proposed capital additions are carry-overs from the planned 2008 capital expenditures.
- d) Please provide OPUCN capitalization policy. This should include a description of the direct overhead and indirect overhead capitalized. Please provide a 5 year history of the percentage of overhead capitalized in capital expenditure projects and the reasons for the choices made.
- e) Please provide OPUCN's capital expenditure plan for 2009 and 2010.

- f) Please provide an indication whether expenditure levels could result in a further incremental capital request application before the end of the incentive regulation (IR) term.
- g) Please provide an analysis of the revenue requirement associated with the capital spending over the IR term broken down for each of the four projects (i.e., the incremental depreciation, OM&A, return on rate base and PILs associated with the incremental capital).
- h) As applicable, please provide an estimate of the benefits and revenues that will accrue for each of the four projects until the end of the IR term.

Concrete Pole Replacement

- 2. OPUCN states on Adobe page 34 of its application that “the majority of concrete poles are more than 30 years of age.”
 - a) At the time they were purchased, what was the expected useful life of these concrete poles?
 - b) Given the “age and condition” of the concrete poles
 - i) Please indicate how many of these concrete poles were replaced since they were installed, and when those replacements occurred. Please also indicate what type of pole was used as replacements and what their useful expected life is.
 - ii) Please explain what OPUCN’s replacement and maintenance program of the concrete poles has been since their installation and why they are in the condition described above.
 - iii) Does OPUCN intend to change its maintenance program for the concrete poles that will not be replaced?
 - c) What is the current net book value of all OPCUN concrete poles currently in service? What is the net book value of OPCUN concrete poles that have been replaced?
 - d) Will OPUCN write down any remaining book value of the concrete poles being replaced in 2009? If not, what will be OPUCN’s accounting treatment, if any (e.g., adjusting the useful life of the remaining poles)?
 - e) What is the amount included in OPUCN’s 2008 rate base for the book value of its concrete poles in service at the time of its 2008 cost of service application?

3. On Adobe page 427 of OPUCN's 2008 cost of service application dated October 3, 2007 (EB-2007-0710), OPUCN noted that "Older concrete poles have experienced re-bar deterioration and replacements are being made in the downtown area utilizing decorative poles."
 - a) Please clarify whether the requested \$1,521,800 of incremental capital investment for the replacement of the concrete poles includes the costs of replacing the concrete poles identified in OPUCN's 2008 cost of service application.
 - b) Please indicate what is the amount included in OPUCN's existing rates for the replacement of concrete poles identified in OPUCN's 2008 cost of service application.
4. OPUCN writes on Adobe page 34 of its application that "The investigation and subsequent report indicated that the failure of the concrete pole was due to a number of factors, including; age and condition of the pole, improper number of steel reinforcing rods installed in the pole at the time of manufacture, and the fact that a hole had been drilled through one of the reinforcing rods by the manufacturer to allow an attachment bracket to be installed on the pole."
 - a) Does OPUCN intend to seek any remedy outside of the Board's process and, if so, what form might it take (e.g., legal action against the manufacturer, insurance claim, etc.)? If not, please explain why.
 - b) If OPUCN answered yes to a) what is the amount OPUCN expects to claim and how does OPUCN expects to track those payments over the IR term?
5. OPUCN indicates on Adobe page 36 of its application that, "the substantial cost of this program must be recovered through a rate rider because no other funding is available. The poles are replacing poles already in place in established areas where no load growth is expected and so the costs will not be recovered through increased load on the associated distribution system." On Adobe page 37 OPUCN writes that it is "currently experiencing rapid growth of its customer base."
 - a) Please confirm whether OPUCN considers that none of the rapid customer base growth that OPUCN is experiencing will generate funding to support the concrete pole replacement project cost and, if confirmed, explain why this would be the case.
6. On Adobe page 34 of its application, OPUCN's writes that "The concrete poles are currently being inspected by an internal subject matter expert team to determine

their eligibility to remain in service. The investigation is expected to be complete and results known by December 12, 2008.”

- a) Please provide the results of this investigation.
- b) Please provide a revised total project estimate based on the results of the investigation.

Long Term Load Transfer Elimination

- 7. Section 6.5.4 of the Distribution System Code (DSC) requires distributors to eliminate long term load transfers (LTLT). The requirement to eliminate LTLT has been in place since May 1, 2002, when the DSC came into force. Effective March 12, 2007, the deadline to meet this requirement was extended from October 17, 2008, to January 31, 2009.
 - a) Given that OPUCN's requirement to eliminate LTLT has been known for a number of years, please confirm whether the associated amount claimed by OPUCN is outside of the base upon which rates were derived.
 - i) If confirmed, please clearly explain why this is the case.
- 8. On Adobe page 37 of its application, OPUCN writes that it is “currently experiencing rapid growth of its customer base.” On Adobe page 70, OPUCN writes that “the feeder extension will allow OPUCN to extend its distribution system not only for the connection of the LTLT customers but also future load growth.”

On Adobe page 71 of the application, OPUCN writes that “by connecting these customers to a new OPUCN urban feeder, reliability and power quality will be significantly improved.” OPUCN also writes that, “the feeder extensions allow for the completion of the feeder loop. By completing the feeder loop, OPUCN can provide back-up service to most, if not all, customers in the event of equipment failure, improving the reliability of distribution service to all of the customers connected to the feeder.”

- a) In light of the above, please confirm whether the total requested amount of \$907,500 is directly related to the claimed driver for the request (i.e., the elimination of LTLT).
- b) Please confirm that the requested \$907,500 in incremental capital investment is net of additional revenues to be collected from the customers to be transferred to OPUCN as a result of the elimination of the LTLT and “the future load growth.” Please also provide an estimate of the expected cash flow from these additional revenues over the IR term.

9. Board staff notes that OPUCN's proposed LTLT elimination plan described on Adobe pages 36 to 38 was based on the extension OPUCN requested to meet the requirement set out in Section 6.5.4 of the DSC. The Board granted this extension to OPUCN in the Decision and Order in EB-2008-0149 issued on November 26, 2008.

OPUCN describes its plan on Adobe page 37 as "a multiyear plan to ensure that funding and manpower for other important distribution system projects remain available to OPUCN." In the next paragraph, OPUCN mentions that the plan "contemplates the construction of distribution plant over a 4 year period in order to transfer these customers to the OPUCN distribution system." OPUCN's proposed schedule for the transfer of the LTLT customers is as follows:

2008: 7 customers
2009: 9 customers
2010: 6 customers
2011: 10 customers

OPUCN then writes that "this project would allow the removal of all long term load transfers within the OPUCN service territory in 2009."

- a) Please clarify that the \$907,500 amount is for a project that would result in the elimination of all LTLT in 2009, instead of the elimination occurring between 2008 and 2011.
- i) If confirmed, please explain why this project would be a prudent expense, given that the Board granted an extension to OPUCN to complete the elimination of its LTLT.
 - ii) If confirmed, please also clarify whether the \$907,500 would be for the accelerated construction of the "distribution plant" and, if so, why the spending of this amount in one year instead of four should be considered to be "incremental capital investment".
 - iii) If not confirmed, please clarify that the \$907,500 amount will be for the implementation of OPUCN's multi-year plan, as originally contemplated. Please also clarify what would be the expected capital investments in 2010 and 2011.
- b) What was the cost and what is the amount included in OPUCN's rates for the 7 customers which had their LTLT eliminated in 2008? Are there any additional LTLT amounts included in OPUCN's rates and, if so, what are they?
10. On page 3 of the Decision and Order in EB-2008-0149, OPUCN's LTLT elimination plan is described as "two feeder extensions and installation of distribution equipment

on a recently constructed pole owned by Hydro One under a joint-use arrangement with Hydro One.” Please reconcile this plan with OPUCN’s plan set out in the current rate application, described on Adobe page 37 as “the construction of distribution plant over a 4 year period.”

11. OPUCN writes on Adobe page 37 of its application that it “would prefer to accelerate” the elimination of LTLT. Given that the Board has granted OPUCN the extension it sought in EB-2008-0149, please explain how OPUCN’s preference to accelerate the elimination of the LTLT is consistent with the requirement set out that in the Supplemental Report that the incremental capital investment request be “clearly non-discretionary.”

Distribution System Reliability Improvement

12. On Adobe page 39 of its application, OPUCN writes that “this project would target the replacement of a specific distribution feeder identified as a poor performer.”

- a) Please provide reliability statistics associated with this distribution feeder.
- b) Please provide information on the number of customer and customer mix affected by the distribution feeder.

Please explain, in accordance with the incremental capital investment eligibility criteria set out in the Supplemental Report:

- c) Why this project should be considered as being “clearly non-discretionary”
 - d) Why the cost of this project should be considered as being “clearly outside of the base upon which rates were derived.”
13. On Adobe page 39 of its application, OPUCN writes that its “distribution system is a relatively aged system requiring a substantive level of capital funding each year in order to enhance the distribution system and ensure a continued reliable supply of electricity distribution services.”

Please explain why the feeder replacement project should be considered as being supported by “unusual circumstances,” as contemplated by the Board on page 31 of the Supplemental Report.

14. On Adobe page 39 of its application, OPUCN writes that, “With the rapid expansion of its customer base, OPUCN finds it increasingly difficult to allocate capital funds each year to make improvements to these identified distribution feeders in order to

improve their performance.”

Please confirm whether OPUCN considers that some of the “rapid expansion of its customer base” will contribute to fund the replacement of the feeder identified, and if so, what this funding would approximately amount to.

15. On Adobe page 39 of its application, OPUCN states that, “the feeder would be replaced using current design and construction standards allowing for a significant reduction in the number of outages for the customers connected to it.”

- a) What are the savings OPUCN expects from the feeder replacement on an annual basis?
- b) What is the expected payback period for this project?

Mobile Workforce

16. OPUCN writes on Adobe page 42 of its application that, “By completing the project in 2009, an inefficient paper based process can be replaced with a highly efficient computer based process. OPUCN estimates that 1 person year of work can be eliminated through the implementation of this project, which is necessary to meet the required operational efficiency targets OPUCN intends to implement to automate current manual process.”

- a) Please indicate whether the equipment that is contemplated to be purchased to implement this project would qualify under the capital cost Allowance (“CCA”) Class 50 and be eligible for the accelerated CCA rate announced in the January 27, 2009, federal budget. If so, please indicate what the total expected tax savings would be under the CCA rate announced in the federal budget. If not, please indicate what would be the applicable CCA rate and the associated total tax savings.
- b) Given the expected savings that would result from the estimated efficiency gains, what is the expected payback period for this project? Please provide the discounted cash flow other analysis (detailing the expected capital, operation, maintenance and administration expenses, among other things) used to justify this project.
- c) Please explain why the cost of this project should not be expensed in the normal course and addressed through organizational productivity improvement.

17. Please explain, in accordance with the incremental capital investment eligibility criteria set out in the Supplemental Report:

- a) Why this project should be considered as being “clearly non-discretionary.”
- b) Why the cost of this project should be considered as being “clearly outside of the base upon which rates were derived.”