

**Ontario Energy
Board**
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

February 13, 2009

Board Secretary
Ontario Energy Board
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Tillsonburg Hydro Inc. Electricity Distribution Rate Application
Board File Number EB-2008-0246 – Board Staff Interrogatories**

Further to the Board's Procedural Order No. 2, dated January 27, 2009, please find attached the Board Staff interrogatories including an accompanying spreadsheet regarding the rate application by Tillsonburg Hydro Inc.

Please forward the attached to Tillsonburg Hydro Inc. and all intervenors in this proceeding.

Yours truly,

Original Signed By

Lee Harmer
Case Manager

Enclosure

Board Staff Interrogatories for Tillsonburg Hydro Inc. 2009 Electricity Distribution Rates Application EB-2008-0246

As identified in the Procedural Order No. 2 issued on January 27, 2009, the Board has determined that the review of this application will begin with a series of interrogatories or questions to the Tillsonburg Hydro Inc, (THI or the Applicant) arising from its pre-filed updated evidence. The following Board Staff interrogatories contain questions relating to specific aspects of the application including material that was updated by the applicant on December 15, 2008.

Rate Base

1. Rate Base and Capital Expenditures

Ref: Exhibit 2 – Rate Base and Capital Expenditures

Please provide information for the period 2006 to 2009 in the following table format:

	2006 Actual	2007 Actual	2008 Bridge	2009 Test
Allowed Return on Equity (%) on the regulated rate base				
Actual Return on Equity (%) on the regulated rate base				
Retained Earnings				
Dividends paid to shareholders				
Sustaining capital expenditures (excluding smart meters)				
Development capital expenditures (excluding smart meters)				
Operations capital expenditures				
Smart Meters capital expenditures				
Other capital expenditures (please specify)				
Total capital expenditures (including smart meter meters)				
Total capital expenditures (excluding capital expenditures)				
Depreciation expense				
Construction Work in Progress				
Rate Base				

Number of Customer Additions (total)				
- Residential				
- General Service < 50 kW				
- General Service > 50 kW, Intermediate and Large Use				
Number of Customers (total, December 31)				
- Residential				
- General Service < 50 kW				
- General Service > 50 kW, Intermediate and Large Use				

2. Rate Base: Distribution Assets

Ref: Exhibit 2/Tab 1/Schedule 1/pp. 1-2

The Applicant notes that the capital assets of the licensed distribution utility consist solely of those required directly to provide electricity distribution services. These are specifically identified as “distribution stations, municipal stations, conductor, conduit, poles, transformers, services and meters.” It is further stated that THI does not own “computers (hardware and software), telecommunications gear, vehicles, [or] buildings. These assets are owned by the Town of Tillsonburg and, under the Master Service Agreement (“MSA”) between the Town of Tillsonburg and THI and are made available to THI for its use in providing distribution service to the inhabitants of the Town of Tillsonburg.

- a) Does THI have a SCADA system?
- b) If so, is the SCADA system owned by THI or by the Town of Tillsonburg?
- c) If the latter, please explain the reasons for this, and what non-distribution functions the SCADA system provides for the Town of Tillsonburg.
- d) THI states that it is participating under the London Hydro RFP process to select a vendor for smart meter procurement and deployment. THI also states that it intends on deploying smart meters in 2009. O. Reg. 427/06, as amended June 25, 2008, would authorize THI, pursuant to and in accordance with the London Hydro RFP process, to deploy smart meters.
 - i) In addition to the smart meters themselves, smart meter deployment consists of ancillary equipment, such as a WAN and collectors/repeaters to collect and transmit meter data. Will such equipment be purchased by and owned by THI or by the Town of Tillsonburg?
 - ii) If ancillary equipment such as a WAN and collectors/repeaters will be purchased by and owned by the Town, please explain the reasons for this ownership arrangement, and what non-distribution functions will be performed by such equipment.

3. 2008 Bridge Year Rate Base

Ref: Exhibit 1/Tab 1/Schedule 3 – U1

In Table 14, THI provides the 2008 bridge year rate base as filed in the original application on August 22, 2008, and amended on December 15, 2008. Table 14 shows the 2008 opening balance net fixed assets changing from \$5,362,909 to \$5,917,920, an increase of \$555,011 or about 10%. Please provide a detailed explanation for this increase.

4. Asset Management

Ref: Exhibit 2/Tab 1/Schedule 1/page 3

THI states:

“The Town of Tillsonburg recently hired an Asset Management Technologist who, among other things, is responsible for completing an Asset Condition Assessment of THI’s distribution system. THI has a long standing practice of conducting regular inspections of the distribution system and has relied on this information as a proxy for asset condition data.”

- a) Please provide further explanation on THI’s reasons for seeing the need for an Asset Management Technologist.
- b) Please provide THI’s estimate of the following:
 - i) The percentage of time that the Asset Management Technologist will be dedicated on asset condition analysis and asset management of THI’s distribution system; and
 - ii) The percentage of time that the Asset Management Technologist will be dedicated on work directly related to THI’s distribution system excluding asset condition analysis and asset management.
- c) Please indicate the status of any Asset Condition Assessment or Asset Management study that THI is conducting, or planning on conducting, on its distribution assets, including the expected completion date.
- d) Please elaborate on THI’s statement of “[its] long standing practice of conducting regular inspections of the distribution system and [that it] has relied on this information as a proxy for asset condition data.”
- e) Please indicate THI’s current assessment of its distribution system condition based on this information.
- f) Please identify any specific capital projects undertaken since 2005, or planned for 2008 or 2009 based on such inspections.

5. Service Quality and Reliability

- a) Please provide reliability performance data for the THI service area in the following table format.

	All Causes of Interruptions			All Interruptions except for Loss of Supply (Cause Code 2)		
Year	SAIDI	SAIFI	CAIDI	SAIDI	SAIFI	CAIDI
2002						
2003						
2004						
2005						
2006						
2007						

- b) Please indicate any reliability indicator and year where performance was out of standard, meaning that it was higher than the range of the previous years.
- c) For any instances of degraded reliability performance documented in b), please explain what capital or operating plans THI has implemented or is implementing to address these situations. If available, please explain the outcomes of such plans.

6. Derivation of Working Capital Allowance

Ref: Exhibit 2/Tab 4/Schedule 1 and Exhibit 2/Tab 4/Schedule 2

In these exhibits, THI summarizes its working capital allowance calculations. For each of the 2008 bridge and 2009 test years, please provide a detailed calculation of the cost of power (Account 3350 – Power Supply Expenses) estimate used to derive the Working Capital Allowance, showing the power commodity price used and the wholesale market and retail transmission charges used, as well as the commodity amounts used.

7. Smart Meters

Ref: Exhibit 9/Tab 1/Schedule 1

On pages 8-9 of Exhibit 9/Tab 1/Schedule 1, THI states that it is requesting an increased smart meter rate adder of \$1.00. It states that it is authorized to deploy smart meters pursuant to O. Reg. 427/06 and that it intends to do so in mid- to late-2009 assuming completion of contract negotiations with the selected vendor. THI states that it will file its Smart Meter Implementation Plan once this has been reviewed by its Board of Directors.

On October 22, 2008, the Board issued Guideline G-2008-0002: Smart Meter Funding and Cost Recovery. Section 1.4 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 provide documentation (e.g. any letter from the Fairness Commissioner on THI's compliance with the London Hydro RFP and pre-authorized vendors of record) supporting that THI, or the Town of Tillsonburg, is becoming authorized to deploy smart meters pursuant to O. Reg. 427/06 as amended on June 25, 2008 by O. Reg. 235/08.
- b) 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 rate test year;
 - ii) the estimated costs per installed meter, and in total;
 - iii) a statement as to whether THI 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 THI 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.

Operating Revenue - Forecasting Related

8. Customer Count, kWh and kW Forecast

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/pp 14-16;
Exhibit 3/Tab 2/Schedule 2/pp 1-4; and,
Exhibit 3/Tab 2/Schedule 4/page 1

In Attachment A, Table 11, in Exhibit 3/Tab 2/Schedule 2/Tables1&2 and in Exhibit 3/Tab 2/Schedule 4/Table 1, the Applicant provides various estimates for the 2009 forecasted customer count.

In Attachment A, Table 10, the Applicant provides a 2009 kWh and kW forecast by customer class. In Exhibit 3/Tab 2/Schedule 2/Table 1, the Applicant provides a second kWh and kW forecast ("2009TY Charge Parameters"), which contains values that are different from those in Attachment A, Table 10. In Exhibit 3/Tab 2/Schedule 2/Table 2, the Applicant provides a further forecast that purports to have been adjusted for CDM ("THI 2009TY CDM adjusted load forecast") but whose values are identical to the table apparently without CDM adjustments (Table 1). In both Schedule 2 tables, a summation error appears to have occurred.

- a) Please provide the 2009 forecast (i.e. customer count, kWh load and kW load by customer class and total, and the corresponding charge determinants) that the Applicant will rely on for the direct calculation of its proposed 2009 rates.
- b) Please describe, together with data and calculations that are sufficiently detailed to provide the basis for an independent assessment, the derivation from Attachment A, Table 10 to Tables 1 and 2 of Exhibit 3, Tab 2, Schedule 2.

9. Weather Normalization and Modelling

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/pages 5-8

On pages 5 and 6, the Applicant identifies the weather, economic activity and calendarization variables it used in its multivariate analyses. On pages 7 and 8, the Applicant reports the accuracy of its developed model. The Applicant also provides statistics that include an Adjusted R-squared value of 0.84 and a Mean Absolute Percentage Error of 0.74%. In addition, a plot of Actual vs. Fitted kWh load is shown.

- a) Please identify any changes to the model the Applicant plans to make in future applications in order to raise the Adjusted R-squared value closer to the normal 0.90-0.95 acceptance range.
- b) Please provide any statistical information (including the Adjusted R-squared value) the Applicant may have that demonstrates the Applicant's load forecasting track record over the past number of years.

10. Weather Normalization and Modelling

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/page 8

On page 8, in discussing the choice of multi-year period for defining normal weather, the Applicant states: "For Tillsonburg, the 10 year average from 1998 to 2007 has been adopted as the appropriate definition of weather normal."

- a) Please provide any information that supports using a 10-year period as the definition of normal weather and the rationale for using this specific period instead of a longer period.
- b) Please recalculate the resulting 2009 load forecast (in the same format as the forecast provided in response to Interrogatory 8) successively using:
 - i. The 30-year trend to define normal weather, and
 - ii. The 20-year trend to define normal weather.

11. Weather Normalization and Modelling

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/p 10

On page 10, Table 6, the Applicant shows a comparison of the weather-sensitive Actual load and the Weather Normalized load for the years 2003 to 2007.

- a) Please compare for each year from 2003 to 2007, the weather normalization factors inherent in Table 6 (e.g. for 2003, the reduction of 1,033,848 kWh produces a negative 0.87% factor) with the relevant annual weather normalization factors from the IESO web site.
- b) Please provide the Adjusted R-squared and Mean Absolute Percentage Error values for the Weather-Normalized Actual vs. Predicted for the 10-year normal weather period in a similar manner that was provided for the *non*-weather normalized load data on pages 7 and 8.
- c) Please provide the Adjusted R-squared and Mean Absolute Percentage Error values for the Weather-Normalized Actual vs. Predicted for the 30-year normal weather period.

12. Expected Future Change

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/p 15

On page 15, the Applicant states: "Residential and GS<50 are forecast based on the average growth from 2003 to 2007. ... No growth is expected in any of the other classes."

Please provide independent data that supports these statements as a basis for customer count and load forecasts.

13. kWh and Revenue Forecast

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/pp 3, 4 & 12

On pages 3 and 4, the Applicant notes that the expected decline in GS 500-4999 kW class load due to the layoffs at DDM Plastics is expected to be approximately 6.76 GWh. On page 12, the Applicant suggests that the expected decline in GS 500-4999 kW class load due to the shutdown at Tillsonburg LP is expected to be approximately 7.38 GWh.

- a. Please, with reference to the forecast submitted in response to Interrogatory 8, calculate the 2007 to 2009 change in GS 500-4999 kW class load.
- b. Please rationalize the balance in the GS 500-4999 kW class load that is not accounted for by the specified DDM Plastics and Tillsonburg LP reductions.

14. kWh, kW and Revenue Forecast

Ref: Exhibit 3/Tab 2/Schedule 1/Attachment A/pp 3, 4 & 12

On page 3, the Applicant, in discussing its analytical approach, states "The solution adopted for this is to calculate "weather-sensitive purchases" by ...". On page 10, Table 6, the Applicant provides the kWh forecast for its total weather-sensitive purchases. On page 10, the Applicant states "Historic class specific kWh consumption is allocated based on each class' share in WSL kWh, exclusive of distribution losses. Forecast class values are allocated based on the class share for 2007.". The Applicant then presents Table 7 where the total weather-sensitive purchase (Table 6) is apportioned to the three weather-sensitive classes.

- a. Please confirm that Table 7 shows the "billing-level" load for the three weather-sensitive loads (before certain adjustments).
- b. Please confirm that the share percentage values for the three classes for 2007 sum to 92.7% and that the 2009 class forecasts sum to 92.5% of the total weather-sensitive purchases.
- c. Please explain how the remaining 7.3%/7.5% of the purchases is accounted for including any distribution losses.
- d. Please reconcile the remaining 7.3% of the purchases with the 2007 actual distribution losses experienced by the Applicant and the remaining 7.5% of purchases for 2009 with the loss factor sought in this application.
- e. Please explain why the GS<50 kWh share percentage values for 2008 and 2009 are different from the 2007 value and how they may have been used in developing the class forecasts.

15. Other Distribution Revenue

Ref: Exhibit 3/Tab 3/Schedule 1/pages 1-2

On page 1, Table 1, the Applicant shows the 2009 revenue recovered through other rates and charges to total \$100,433. On pages 1 and 2, the Applicant provides further information under five cost groupings.

Please confirm that the sum of the amounts provided in the explanation totals \$106,000 and rationalize the difference(s) between that and the \$100,433 total.

16. Customer Count, kWh, kW and Revenue Forecast

Ref: Exhibit 3

Some of the Applicant'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 to be updated as a result of changes in the Applicant's evidence.

Operating Costs

17. Operations, Maintenance, Administration and General Expenses

The figures in the table 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.

Please confirm the utility's agreement with the numbers for Total OM&A Expenses that are summarized in the table.

	Col. 1	Col. 2	Col. 3
	2003	2004	2005
1 Operation	\$419,472	\$403,209	\$508,464
2 Maintenance	\$167,045	\$145,599	\$163,320
3 Billing and Collection	\$320,393	\$327,045	\$331,029
4 Community Relations	\$6,179	\$0	\$0
5 A&G	\$387,531	\$461,588	\$366,844
6 Total OM&A Expenses	\$1,300,620	\$1,337,441	\$1,369,657

18. Reasonableness of OMA & G Expenses

Ref: Exhibit 4/Tab 1/Schedule 1

Board Staff developed the table below to review THI's OM&A expenses from 2006 and the 2009 forecasted expenses from the evidence provided in the application's Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Tillsonburg Hydro Inc.											
Line	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	403,209	256,119	659,328	-42,696	616,632	-3,247	613,385	269,907	883,292	223,964	
2		63.5%		-6.5%		-0.5%		44.0%		34.0%	
3 Maintenance	145,599	36,753	182,352	-2,844	179,508	-16,753	162,755	23,337	186,092	3,740	
4		25.2%		-1.6%		-9.3%		14.3%		2.1%	
5 Billing & Collections	327,045	50,438	377,483	17,285	394,768	31,340	426,108	117,339	543,447	165,964	
6		15.4%		4.6%		7.9%		27.5%		44.0%	
7 Community Relations	0	25,863	25,863	-19,405	6,458	-6,458	0	0	0	-25,863	
8				-75.0%		-100.0%				-100.0%	
9 Administrative and General Expenses	466,193	-89,873	376,320	46,584	422,904	1,815	424,719	86,475	511,194	134,874	
10		-19.3%		12.4%		0.4%		20.4%		35.8%	
11 Total OM&A Expenses	1,342,046	279,300	1,621,346	-1,076	1,620,270	6,697	1,626,967	497,058	2,124,025	502,679	
12		20.81%		-0.07%		0.41%		30.55%		31.00%	

- a. Please confirm that THI agrees with the data shown in the table prepared by Board Staff. If THI does not agree with any of the data please advise why not. If THI determines that the table requires amending, please provide an amended table with full explanation of changes made.
- c. Please complete the table below by identifying the key cost drivers that are contributing to the overall increase of 31% over 2006 Historical relative to forecast 2009 cost levels.

		<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>
		2006	2007	2008	2009
	Opening Balances	1,300,620	1,621,341	1,620,270	1,626,967
1	Cost Driver 1				
2	Cost Driver 2				
3	Cost Driver 3				
4	Cost Driver 4				
...	Etc.				
	Closing Balances	1,621,341	1,620,270	1,626,967	2,124,025

19. Regulatory Costs

Ref: Exhibit 4/Tab 1/Schedule 2 page 16

The updated cost for the 2009 rate rebasing applications is forecast to be \$193k.

- 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 three year period when the applicant is subject to the 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation 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
OEB Annual Assessment									
OEB Hearing Assessments (applicant initiated)									
OEB Section 30 Costs (OEB initiated)									
Expert Witness cost for regulatory matters									
Legal costs for regulatory matters									
Consultants costs for regulatory matters									
Operating expenses associated with staff resources allocated to regulatory matters									
Any other costs for regulatory matters (please define)									
Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)									
Other regulatory agency fees or assessments									

20. OM & A Expenses

Ref: Exhibit 4/Tab 1/Schedule 2

This schedule is the Summary of THI's OM&A expenses.

- For the 2009 Forecast test year, please identify and describe any one time costs other than those explained for regulatory costs in the previous question.
- Are there any one time costs that were inadvertently carried forward from previous years into 2009?
- Are there any expenses for charitable donations in the 2009 forecast? If there are please identify them.
- 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 rationale of the drivers of the costs.
- Does THI partake in any Winter Warmth or other programs to assist low income customers? If so what are the programs and their costs for 2009?
- Has THI performed any cost benefit analysis or set timeframes to assess and achieve the efficiencies planned on page 6? If so provide them by plan.
- Please explain the analysis and conclusion for the establishment of the forecast level of bad debt, Account 5335.

21. Inflation

Ref: Exhibit 1/Tab 2/Schedule 10

On this schedule, THI states that it did not make explicit assumptions with respect to inflation. How was inflation considered in setting the 2009 expenses for labour, goods and services?

22. Customer Information System

Ref: Exhibit 4/Tab 1/Schedule 2
Exhibit 5/Tab 1/Schedule 3

On page 15 of the Exhibit 4 reference, THI states that \$117k of the 2008 to 2009 variance is due to the town's \$315k investment in a new Customer Information System ("CIS").

- a. Is this new CIS required to meet future billing technology and reporting requirements that flow from smart meters programs?
- b. On page 2 of this schedule, THI explains that electric meters are not owned by the Town of Tillsonburg "...because they are uniquely appropriate to this aspect of service and cannot be used to serve any other purpose." Are the new hardware and software for reading smart meters not unique? Please explain.
- c. THI state in Exhibit 5/Tab 1/Schedule 3 that it would like a \$1.00 rate adder for smart meters. Please explain why THI should get the same \$1.00 adder that other utilities are receiving, when they will not be expending capital for the data handling aspect of smart meters.

23. Bad Debt Expense

Ref: Exhibit 4/Tab 1/Schedule 2/page 11

THI forecasts its bad debt expense at \$17K for the 2009 test year, based on past experience, and adjusted upwards to reflect bill increases proposed in its application.

- a. Please provide THI's actual bad debt expense for each of the years 2005, 2006 and 2007, and the bad debt expense in 2008.
- b. Please explain any year-over-year variances exceeding 5% from 2005 to 2009.
- c. Please explain how THI has adjusted upwards the bad debt expense for the 2009 test year.

24. Levels of Compensation

Ref: Exhibit 4/Tab 1/Schedule 2 page 14
Exhibit 1/Tab 2/Schedule 4 Attachment A

In explaining the variances from 2008 to 2009 in Exhibit 4/Tab 1/Schedule 2 page 1, THI states that "The two recently recruited linesmen apprentices will be on staff for the full year explaining \$60k of the computed variance."

- a. What is the term of an apprenticeship?
- b. When was each apprentice hired?

The table on this Exhibit 1/Tab 2/Schedule 4 Attachment A shows the FTE's allocated to THI.

- c. Please update the table to include the 2009 forecast test year allocations.
- d. In the update, please address the apprentice lineman count for each year in terms of a) and b) above.
- e. Please complete the following table by re-allocating the FTE's into the following groupings:

Compensation					
Item	Col. 1 2006 Bap.	Col. 2 2006Act.	Col. 3 2007	Col. 4 2008	Col. 5 2009
Number of Employees					
1.1 Executive					
1.2 Management					
1.3 Non-Union					
1.4 Union					
1.5 Total					
Compensation - Avg. Base Wage					
2.1 Executive					
2.2 Management					
2.3 Non-Union					
2.4 Union					
2.5 Total					
Compensation - Avg. Overtime					
3.1 Executive					
3.2 Management					
3.3 Non-Union					
3.4 Union					
3.5 Total					
Compensation - Avg. Incentive					
4.1 Executive					
4.2 Management					
4.3 Non-Union					
4.4 Union					
4.5 Total					
Compensation - Avg. Benefits					
5.1 Executive					
5.2 Management					
5.3 Non-Union					
5.4 Union					
5.5 Total					

25. Master Service Agreement with the Town of Tillsonburg

Ref: Exhibit 4/Tab 2/Schedule 6

THI receives the services listed on page 1 of this Schedule from the Town of Tillsonburg (the Town). There is a brief explanation of the costing methodology, but no cost study is provided in evidence.

- a. Please file the cost allocation study if there is one.
- b. Has THI or the Town had an independent 3rd party review the costing of these affiliate services charged to THI?
- c. What is the forecast total for the 5% management fee in 2009?

26. Master Service Agreement with the Town of Tillsonburg

Ref: Exhibit 4/Tab 2/Schedule 6
EB-2005-0001, page 88 (Enbridge Gas)

Board staff is aware that municipal administration has other purposes and incur costs that are of little or no value to an electricity distributor, such as municipal development, government liaison, and delivering social and recreational services.

The Board in its Decision on rates for 2006 for Enbridge Gas listed 5 principles that should be addressed when an independent reviewer assesses corporate cost allocations:

“10.9.28 The Board further finds that in evaluating each service, the independent review should consider whether:

- the service is specifically required by the utility;
- the level of service provided is required by the utility;
- the costs are allocated based on cost causality and cost drivers;
- the cost to provide the service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher; and,
- there are scale economies.”

Please comment in how THI's 5% management fees from the Town are specifically derived and meet each of these principles.

27. Master Service Agreement with the Town of Tillsonburg

Ref: Exhibit 1/Tab 2/ Schedule 1 Attachment A

This attachment is the Master Service Agreement between the Town and THI. The term defined in Article 2 Term was until December 31, 2005. There is provision for automatic renewal for a further 3 years.

- a. Is there currently a Master Service Agreement between the Town and THI?
- b. If there is a current Master Agreement, what is the term and expiry date?
- c. If there is no current agreement, please explain why, and the expected changes to the Master Service Agreement that THI provided to the Board as evidence in this proceeding.

28. Policy on Procurement

Ref: Exhibit 2/Tab 1/Schedule 1 Attachment A

This attachment is the Policy on Procurement adopted by the Town. Both section 10 and the Exceptions sections leave room for sole sourcing. Please provide a list itemizing purchases of goods and services totalling greater than \$50k for which the Town purchases goods and services for THI. For each identified item state whether they were through tender or sole sourcing. If tendered, please state the number of tendered proposals called for each item.

29. Lost Revenue Adjustment Mechanism and Shared Savings Mechanism

Ref: Exhibit 5/Tab 1/Schedule 2 Attachment G

This attachment determines the total of the Lost Revenue Adjustment Mechanism (LRAM), the Shared Savings Mechanism (SSM), and carrying charges for THI's 3rd tranche CDM programs for 2005, 2006, and 2007.

- a. Please confirm that all of the CDM programs were for the residential class.
- b. Please confirm that the 2005 variable rate should be \$0.0126 per kWh, rather than the indicated \$0.014 per kWh. If not, please explain why.
- c. Board staff can not reproduce the claimed lost revenues. Please show their derivations.
- d. Please show the detailed calculations for the carrying costs for each of the three years.

Determination of Loss Adjustment Factors

30. Loss Factors:

References:

- i. Exhibit 4, Tab 2, Schedule 9, page 1
 - ii. Exhibit 4, Tab 2, Schedule 9, page 2
 - iii. Exhibit 4, Tab 2, Schedule 9, Attachment A, page 1 (*Attachment 9 in the December 15th update*)
 - iv. Exhibit 4, Tab 2, Schedule 9, Attachment B, page 1
 - v. Exhibit 1, Tab 2, Schedule 1, page 5
- The 1st reference provides historic Total Loss Factors (TLF).
 - The 2nd reference provides a list of initiatives undertaken by THI in reducing and controlling losses.
 - The 3rd reference provides a calculation of historic loss factors.
 - The 4th reference provides historic Distribution Loss Factors (DLF), TLF and Supply Facilities Loss Factor (SFLF).
 - The 5th reference provides an explanation of host and embedded utilities.
- a. Given that THI is embedded in the Hydro One Networks Inc. (HONI) distribution system (5th reference), please confirm if the DLF values provided in the 4th reference include or exclude losses that occur upstream of THI. (Please note that typically these losses are 3.4% comprising losses of 0.6% in the transformer at the grid interface and losses of 2.78% within the HONI distribution system).
 - b. Please re-submit the loss adjustment factor calculation data provided in the 3rd reference for years 2003 to 2007 in the table provided below. Please note that the table is followed by a number of explanatory notes.

		2003	2004	2005	2006	2007
	Losses in Distributor's System					
A ¹	"Wholesale" kWh delivered to distributor					
B ²	Portion of "Wholesale" kWh delivered to distributor for Large Use Customer(s)					
C	Net "Wholesale" kWh delivered to distributor (A)-(B)					
D ³	"Retail" kWh delivered by distributor					
E	Portion of "Retail" kWh delivered by distributor for Large Use Customer(s)					

F	Net "Retail" kWh delivered by distributor (D)-(E)					
G ⁴	Loss Factor in distributor's system [(C)/(F)]					
	Losses Upstream of Distributor's System					
H ⁵	Supply Facility Loss Factor					
	Total Losses					
I ⁴	Total Loss Factor [(G)x(H)]					

Row A

- If directly connected to IESO controlled grid, kWh pertain to metering installation on the secondary or low voltage side of the transformer at the interface with the transmission grid. This corresponds to the "With Losses" kWh value provided by the IESO's MV-WEB. Additionally, kWh pertaining to distributed generation should be included.
- If fully embedded within a host distributor, kWh pertains to virtual meter at the interface between the embedded distributor and the host distributor. For example, if the host distributor is Hydro One, kWh from the Hydro One invoice corresponding to "Total kWh" rather than "Total kWh w Losses" should be reported. Additionally, kWh pertaining to distributed generation should be included.
- If partially embedded, kWh pertains to sum of above.

Row B

- If Large Customer is metered on the secondary or low voltage side of the transformer, the default loss is 1%, i.e. B = 1.01 x E.

Row D

- kWh corresponding to D should equal total of "total billed energy sales in kWhs for each rate class" in item 1 of Section 2.1.3 in Electricity Reporting and Record Keeping Requirements dated April 4, 2008.

Rows G & I

- This loss factor pertains to secondary metered customers less than 5,000 kW.

Row H

- If directly connected to IESO controlled grid, SFLF = 1.0045.
- If fully embedded within a host distributor, SFLF = loss factor re losses in transformer at grid interface x loss factor re losses in host distributor's system. If host distributor is Hydro One, SFLF = 1.0060 x 1.0278 = 1.0340.
- If partially embedded, SFLF is weighted average of above.

- c. Please provide an explanation or rationale for proposing an average TLF (1.0388 or 3.88%) for 2009 as provided in the 1st and 4th references rather than a lower factor such as the actual TLF for 2005 (1.0381 or 3.81%).
- d. Please describe any steps over and above the initiatives outlined in the 2nd reference that are contemplated to decrease the loss factor during the test year (2009) and/or during a longer planning period.

Deferral and Variance Accounts

31. Deferral/Variance Accounts:

References:

- i. Exhibit 5, Tab 1, Schedule 1, pages 1-2
 - ii. Exhibit 5, Tab 1, Schedule 2, pages 1-5
 - iii. Exhibit 5, Tab 1, Schedule 2, Attachment A, pages 1-6
- The 1st reference provides a description of deferral and variance accounts.
 - The 2nd reference provides a calculation of balances by account.
 - The 3rd reference provides deferral/variance account balances.
- a. Please list and provide a brief description of all THI's deferral and variance accounts that have account balances as of December 31, 2007.
 - b. THI is requesting the disposition of regulatory deferral and variance account balances other than accounts 1580, 1582, 1584, 1586, 1588 and 1590. Please provide the information shown in the attached continuity schedule (in excel format) for each of the regulatory accounts requested for disposition in rates. Please note that it is optional to forecast the principal balances beyond 2007 and the accrued interest on these forecasted balances in the attached continuity schedule.
 - c. Please provide the interest rates that were used to calculate the carrying charges for each regulatory deferral and variance account for the period from January 1, 2005 to the date prior to disposition in rates (i.e. April 30, 2009).
 - d. The spreadsheet provides a sub-total for the accounts: 1508, 1518, 1525, 1548, 1570, 1571, 1572, 1574, 1582, 1592, and 2425.
 - Please calculate a set of rate riders that would dispose of the net balance of these accounts (excluding account 1592), and specify how many years the rate rider is assumed to be in effect. Please identify whether the balances are taken at the end of 2007, or at some other time.
 - 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.

- e. Please provide a table and explanatory notes similar to part d., assuming that all deferral and variance accounts would be cleared, except Accounts 1555, 1556, 1562, 1563, 1565, 1566, 1590 and 1592.
- f. The Accounting Procedures Handbook in article 220 states that the distributor shall stop recording amounts (except for carrying charges) in account 1508 sub-account OEB Cost Assessments and sub-account OMERS after April 30, 2006.
 - Why is THI accruing and/or adjusting balances beyond April 30, 2006 in these sub-accounts?
 - What would the balance be in both sub-accounts if principal accruals ceased at April 30, 2006?

Cost Allocation and Rate Design

32. Cost Allocation & Rate Design:

References:

- i. Exhibit 1, Tab 1, Schedule 3, page 1, line 12
 - ii. Exhibit 1, Tab 1, Schedule 4, Attachment A
 - iii. Exhibit 1, Tab 1, Schedule 5, Attachment A
 - iv. Exhibit 1, Tab 1, Schedule 6, Attachment A
 - v. Exhibit 8, Tab 1, Schedule 1, page 3, line 10
 - vi. Exhibit 8, Tab 1 Schedule 1, page 6
 - vii. Exhibit 8, Tab 1, Schedule 1, Attachment A.1, page 1
 - viii. Exhibit 8, Tab 1, Schedule 1, Attachment A.2, page 1
 - ix. Exhibit 9, Tab 1, Schedule 1, page 3
 - x. Exhibit 9, Tab 1, Schedule 3, Attachment A, page 1
- The 1st reference provides a statement about the revenue requirement for 2009.
 - The 2nd reference provides a tariff of rates and charges effective May 1, 2008.
 - The 3rd reference provides a proposed tariff of rates and charges effective May 1, 2009.
 - The 4th reference provides bill impact calculations.
 - The 5th reference provides a commentary on the Cost Allocation Review – Informational Filing (CAR-IF).
 - The 6th reference provides CAR-IF results.
 - The 7th reference provides Sheet O1 from the CAR-IF.
 - The 8th reference provides Sheet O2 from the CAR-IF.
 - The 9th reference provides proposed revenue-to-cost ratio's for 2009.
 - The 10th reference provides revenue requirements by rate class.
- a. Please reconcile the 2009 revenue requirement of \$3,325k provided in the 1st reference against the \$3,314,613 figure provided in the 10th reference in the column titled "Allocated" and row titled "Total" in the table titled "Reconciliation of Rates with Revenue/Recovery Requirements".

- b. Please confirm that the revenue-to-cost ratios provided in the column titled “THI Proposal” in Table 1 in the 6th reference are based on the CAR-IF, whereas the ratios provided in the lower table in the 9th reference are based on revenues and costs proposed for 2009.
- c. With respect to the residential rate class:
- Please explain the increase in the class revenue requirement expressed as a percentage of total revenue requirement, in the proposed allocation for 2009 (56.7% - \$1,879,956 divided by sum of proposed allocation column \$3,314,613 per 10th reference) compared to the allocation in the Cost Allocation Informational Filing (50.7% - \$1,296,389 divided by \$2,556,087 per the 7th reference), given that the revenue to cost ratio has dropped to 118% (9th reference) in the former from 126.47% in the latter (7th reference).
 - Please explain the reason for the 20% increase in the distribution component of the monthly bill from \$27.55 for 2008 to \$33.10 for 2009 (4th reference, 1,000 kWh) when the revenue-to-cost ratio has declined from 126.47% (7th reference) in the Cost Allocation Informational Filing to 118% (9th reference) in the filing for 2009.
 - As shown in the 2nd and 3rd references, the percentage increase in the monthly service charge from 2008 to 2009 (\$11.65 to \$14.30, i.e. 23%) exceeds the percentage increase in the volumetric rate (\$0.0159/kWh to \$0.0188/kWh, i.e. 18%). Please provide a calculation of rates where the percentage increase in the monthly service charge is the same as the percentage increase in the volumetric rate and comment on how the resulting monthly service charge compares with the Customer Unit Cost per month – Minimum System.
- d. With respect to the GS<50 rate class, please explain the reason for the 30% increase in the distribution component of the monthly bill from \$45.03 for 2008 to \$58.55 for 2009 (4th reference, 2,000 kWh) when the revenue-to-cost ratio has essentially remained the same from the Cost Allocation Informational Filing to the filing for 2009, i.e. respectively 115.94% (7th reference) and 115% (9th reference).
- e. Please refer to the table below. With respect to the GS>500<1500 and GS>1500 rate classes, please explain the reason for the significant increase (respectively 41% and 155%) in the distribution component of the monthly bills from respectively \$1,635.72 and \$1,874.37 for 2008 to \$2,307.40 and \$4,786.70 (4th reference, 1,000 kW and 1,500 kW respectively) when the revenue-to-cost ratios have increased to a lesser extent from 59.80% and 33.39% respectively in the Cost Allocation Informational Filing (7th reference) to 70% and 57% respectively in the 2009 filing (9th reference).

	Monthly Charge - 2008	Monthly Charge - 2009	RC ratio – CA filing	RC ratio – 2009 filing
GS>500<1500	\$1,635.72	\$2,307.40	59.80%	70%
GS>1500	\$1,874.37	\$4,786.70	33.39%	57%

- f. Please refer to the table below. With respect to the GS>50<500, GS>500<1500, GS>1500 and Street Light rate classes, please explain the reason for the Monthly Service Charge proposed for 2009 (respectively \$111, \$751, \$1,151 and \$1,150) as shown in the 3rd reference being significantly higher than the Customer Unit Cost per month – Minimum System (respectively \$53.95, \$223.63, \$233.04 and \$14.78), as shown in the 8th reference.

	Monthly Charge - 2009	Minimum System Cost
GS>50<500	\$111	\$53.95
GS>500<1500	\$751	\$223.63
GS>1500	\$1,151	\$233.04
Street Light	\$1,150	\$14.78

- g. With respect to the USL rate class, as shown in the 2nd and 3rd references, the percentage increase in the monthly service charge from 2008 to 2009 (\$12.38 to \$20.00, i.e. 62%) contrasts against the percentage decrease in the volumetric rate (\$0.0100/kWh to \$0.0026/kWh, i.e. -74%). Please provide a calculation of rates where the percentage increase in the monthly service charge is the same as the percentage increase in the volumetric rate and comment on how the resulting monthly service charge compares with the Customer Unit Cost per month – Minimum System.
- h. With respect to the Street Light rate class:
- The revenue-to-cost ratio has decreased/improved from 348.85% in the Cost Allocation Informational Filing (7th reference) to 211% (9th reference) in the proposal for 2009. In order to analyze the impact of further improvement, please provide a calculation of rates that would yield a revenue- to-cost ratio of 150% together with a total bill impact calculation.
 - As shown in the 2nd and 3rd references, the percentage decrease in the monthly service charge from 2008 to 2009 (\$1336.76 to \$1150.00, i.e. 14%) is less than the percentage decrease in the volumetric rate (\$4.4791/kW to \$3.0283/kW, i.e. 32%). Please provide a calculation of rates where the percentage decrease in the monthly service charge is the same as the percentage decrease in the volumetric rate and comment on how the resulting monthly service charge compares with the Customer Unit Cost per month – Minimum System.
- i. Please file an electronic copy of Run 1 of the Cost Allocation Informational Filing to be a part of the record of this application.

33. Specific Service Charges:

Ref: Exhibit 1, Tab 1, Schedule 5, Appendix A, page 3

- The reference provides a list of specific service charges proposed for 2009.

Please confirm that the proposed specific services charges as shown in the reference are identical to standard charges in Schedule 11-3 of the 2006 EDR Handbook.

34. Retail Transmission Rate:

References:

- i. Exhibit 4, Tab 2, Schedule 12, page 1
 - ii. Guideline – Electricity Distribution Retail Transmission Service Rates (G-2008-0001)
- The 1st reference states that THI has applied for authorization to charge revised Retail Transmission Rates.
 - The 2nd reference provides electricity distributors with instructions on the evidence needed, and the process to be used, to adjust retail transmission service rates to reflect changes in the Ontario Uniform Transmission Rates.

On August 28, 2008, the Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new Uniform Transmission Rates (UTR) for Ontario transmitters, effective January 1, 2009. The change in the UTRs affects the retail transmission service rates (RTSR) charged by distributors. Given that THI is fully embedded within Hydro One Distribution, its wholesale cost of transmission service is affected by the approved UTRs change.

On October 22, 2008, the Board issued its Guideline on Electricity Distribution Retail Transmission Service Rates, outlining the evidence it expects distributors to file in support of their cost of service applications.

THI is expected to file an update to that application detailing the calculations for adjusting its RTSRs.

- a. Please file a variance analysis using 2 years of actual data examining what, if any, trend is apparent in the monthly balances in the RTSR deferral accounts.
- b. Please file a calculation of the proposed RTSR rates that includes the adjustment of the UTRs effective January 1, 2009 and an adjustment to eliminate ongoing trends in the balances in the RTSR deferral accounts.