

## **Board Staff Supplemental Interrogatories for Newmarket – Tay Power Distribution Ltd. Regarding the 2008 Electricity Distribution Rates Application for its Newmarket Service Area EB-2007-0776**

As identified in the Procedural Order No. 2, issued on January 30, 2009, the Board has determined that further discovery is required. The following Board Staff supplemental interrogatories are questions that relate specifically to the interrogatory responses provided by the Applicant. In addition, as it is now the end of February 2009, some of the questions seek actual 2008 data and request explanations of the differences between the data provided in the original filing and interrogatory responses and the actual 2008 data. These requests are to test the reasonableness of the forecast data submitted by Newmarket-Tay Power Distribution (NTPD).

The numbering carries on from the original set of interrogatories.

### **General – Economic Assumptions**

#### **39. Impact of current economic situation**

- a) Since the initial filing of the application and the subsequent filing of interrogatory responses, given the current economic situation, has NTPD assessed the situation and identified any specific issues that would have a material impact on its load and revenue forecasts and bad debt expense forecast?
- b) If so, can NTPD provide the necessary evidence and an estimate of the timing of any update including supporting facts and calculations?

### **Capital Related**

#### **40. Ref: Board staff interrogatory #3**

The table requested in the response has been cut off in the columns on the left and the right. Please provide the full table properly printed in landscape format.

#### **41. Ref: Board staff interrogatory #5 – Service Reliability**

In part b) of the referenced interrogatory, NTPD was requested “to provide information on Newmarket - Tay’s service reliability in the service area of Newmarket which supports and has been considered by Newmarket - Tay in deciding to and prioritizing the overhead and underground replacements documented from 2006 to 2008.”

In response, NTPD referred to the response to part c), and also stated that the applicant reports reliability indices quarterly.

- a) The response in part c) does not provide information on service reliability. Please provide a complete answer to Board staff IR #5 b) as originally posed.
- b) Please confirm which regulatory agencies or industry groups NTPD reports service reliability, and the frequency with which the data are reported.

**42. Ref: Board staff interrogatory #7**

The table requested in the response has been cut off in the columns on the right. Please provide the full table properly printed in landscape format.

**43. Ref: Board staff interrogatory #8 – Working Capital and Distribution Meter – Reverification Expenses**

In the response to this interrogatory, NTPD provided the detailed calculation of the Working Capital Allowance.

- a) Please indicate the commodity prices and RTS rates used for calculating the components of the Cost of Power for each of the 2006 and 2007 Actuals and the 2008 Test year.
- b) Under the OM&A (or Controllable Expenses) shown, NTPD lists expenses for Account 5065 – Distribution Meters – Reverification of \$126,658 for 2006, \$156,875 for 2007 and \$135,675 for 2008. NTPD is a utility named in regulation and authorized to deploy smart meters, and has been doing so. Its costs and plans were reviewed in the combined smart meter hearing conducted by the Board under File No. EB-2007-0063 during the summer of 2007. Please provide further explanation on the continuing costs for distribution meter reverification in light of NTPD's accelerated deployment of smart meters during this period.

**44. Ref: Board staff interrogatory #11, 2006 – Electricity Distribution Rate Handbook – Depreciation Expense**

In the response to this interrogatory, NTPD provided calculations of its proposed 2008 depreciation expense by asset account. The calculations showed the depreciation expense calculated on gross fixed assets net of fully depreciated assets, and also for new additions coming into service in the 2008 year. For new additions, depreciation is reduced by 50% according to the general half-year rule. NTPD also indicates the average expected economic life for each class of assets.

In Appendix B of the *2006 Electricity Distribution Rate Handbook* (the "2006 EDRH"), the Board documented the standard or guideline amortization (or depreciation) rates by

asset class and account. It is expected that a distributor would generally follow those rates unless it can support the use of a different rate.

- a) Appendix B of the 2006 EDRH states that distribution lines and feeders – overhead, distribution lines and feeders – underground, and distribution transformers, have an expected economic life of 25 years. NTPD indicates that it uses an economic life of 21 years for accounts 1840, 1845 and 1855, and an economic life of 22 years for account 1850 – distribution transformers.
  - i) Please provide the basis for NTPD's assumption of a 21-year expected economic life for underground distribution assets, and a 22-year expected economic life for distribution transformers. Please provide any studies supporting the use of such economic lives/amortization rates.
  - ii) However, staff observes that the depreciation expense on new additions in accounts 1840, 1845, 1850 and 1855 appear to assume the standard 25 year life, rather than the 21 or 22 years as stated by NTPD and after adjusting for the half-year rule. Please confirm or correct the calculation shown.
- b) With respect to Account 1980 – System Supervisory Equipment, NTPD states that the expected economic life is 15 years, consistent with Appendix B of the 2006 EDRH. However, staff observes that the depreciation expense on new additions appears to be based on a 20-year life, after allowing for the half-year rule. Please confirm or correct the calculation shown.
- c) Please provide a calculation of the estimated depreciation expense based on the amortization rates as documented in Appendix B of the EDRH. Where Appendix B does not specify an amortization rate, please use the rate documented in the response to Board staff interrogatory #11.

**45. Ref: Exhibit 1.1.4, Exhibit 5.1 / pages 128 and 130, Board staff interrogatory #16, VECC interrogatory #11, Board staff interrogatory #38**

NTPD is requesting disposition of a December 31, 2007 balance of \$49,914 for the conversion of 635 meter bases at \$78.61 per meter (material only) due to installation of smart meters.

- a) With respect to the response to VECC interrogatory #11, please confirm whether NTPD completed its smart meter installation by the end of December 2008. If not, please provide an explanation of work being done in 2009 and when it is expected to be completed.
- b) With respect to Exhibit 5.1 and response to Board staff interrogatory #38, NTPD shows \$NIL for carrying charges related to the balance in account 1556, and states that there is a 0% interest rate for the Smart Meter OM&A account in its response to Board staff interrogatory #38 e). Please explain why NTPD does not believe that the Board's prescribed rate for deferral and variance accounts would apply to calculate carrying charges on the account 1556 balance.

- c) In Exhibits 1.1.4 and 5.1, NTPD is requesting disposition of the December 31, 2007 account balance of account 1556, but treats this account balance separately from other deferral and variance accounts for which it is seeking disposition, as documented in the response to Board staff interrogatory #38.
- i) Please explain how NTPD is proposing or requesting that the account balance in 1556 be disposed of, and over what period of recovery (e.g. through a rate rider).
  - ii) Please indicate whether NTPD has recorded any further entries in Account 1556 for meter base conversion or replacement after December 31, 2007. If so, please provide the account balance as of December 31, 2008, and indicate whether this is audited or not.

#### **46. 2008 Capital Related Data**

Please provide 2008 actual year-end information (or, if not available, provide the latest actual information for each category that is available and identify the applicable date) in the same format as originally filed and compare this information against that originally filed for rate base (including working capital allowance and capital items by project).

### **Operation and Maintenance Related**

#### **47. Ref: Board staff interrogatory #21**

In response to Board staff's request to reconcile RRR filing to the evidence for 2006 OM&A Expenses, NTPD provided a table which included interest on customer deposits.

- a) Are the customer deposits included in rate base for 2008?
- b) Please provide any regulatory instrument that directs utilities to include customer deposits in the revenue requirement.
- c) If there is no regulatory instrument, please provide NTPD's rationale for inclusion of this expense.

#### **48. 2008 Operating Costs**

Please provide 2008 actual year-end information (or, if not available, provide the latest actual information for each category that is available and identify the applicable date) and compare this information against that originally filed for each of the major expense categories as in Exhibit 4 (i.e. Operation, Maintenance, Billing and Collection, Community Relations, Administration and General, Taxes other than Income, Other Operating Costs, and Amortization). Board staff is aware that approved audited statements may not be available. Please explain any variances that exceed materiality.

## **Forecasting Related**

### **49. 2008 Load and Customer Data**

Please provide 2008 actual year-end information (or, if not available, provide the latest actual information for each category that is available and identify the applicable date) in the same format as originally filed and compare this information against that originally filed for load and customer data (including by customer class: customer/connection count, kWh consumption and kW demand for those customer classes that use the kW charge determinant).

### **50. 2008 Operating Revenue Related Data**

Please provide 2008 actual year-end information (or, if not available, provide the latest actual information for each category that is available and identify the applicable date) in the same format as originally filed and compare this information against that originally filed for operating revenue (including throughput revenue and other revenue).

## **Cost Allocation & Rate Design**

### **51. Cost Allocation**

References:

- i. Exhibit 8, Section 8.1, page 139 and 140
  - ii. Appendix 2, 2006 Cost allocation Informational Filing, Sheet O1
  - iii. Response to Board staff interrogatory #35
- The 1<sup>st</sup> reference provides a narrative on the removal of the Larger User rate class and a table of proposed Revenue to Expense ratios for each rate class.
  - The 2<sup>nd</sup> reference comprises Sheet O1 of the revised Cost Allocation Informational Filing.
  - The 3<sup>rd</sup> reference provides responses to Board Staff interrogatories related to cost allocation and rate design.
- a. With respect to the removal of the Large User rate class as referenced in both the 1<sup>st</sup> reference and part 'b' of the 3<sup>rd</sup> reference; the Total of Total Revenue remains unchanged at \$14,244,657 in the January 2007 Cost Allocation Informational Filing (part 'a' of 3<sup>rd</sup> reference) and revised Cost Allocation Informational Filing (2<sup>nd</sup> reference). Please account for the Total Revenue of \$221,093 (part 'a' of 3<sup>rd</sup> reference) attributable to the Large User rate class in terms of which rate class or classes is it absorbed into.
  - b. Please provide a detailed calculation to explain the proposed Revenue to Expense ratios (Residential 93.02%, GS<50 98.45%, etc.) for each rate class as provided in the 1<sup>st</sup> reference. Please specifically include both revenues and

expenses (costs) for each rate class. For the GS>50 rate class, please provide revenue net of transformer allowance.

## 52. Loss Factors

### References:

- i. Exhibit 9, Section 9.1.4, page 152
  - ii. Response to Board staff interrogatory #37
- The 1<sup>st</sup> reference provides the current loss factor plus a calculation of actual total loss factors (TLF) for 2003 to 2007 and the weighted average for the 5-year period.
  - The 2<sup>nd</sup> reference provides responses to Board Staff interrogatories related to loss factors.
    - a. With respect to the table provided in part 'a' of the 2<sup>nd</sup> reference:
      - The table states that loss factors contained in the row populated with the 'C/F' calculation are TLF. In order for this to be the case, the kWh provided in row A would need to include losses captured by the Supply Facilities Loss Factor (SFLF), i.e. correspond to the defined meter point on the primary or high voltage side of the transformer and not the metering installation on the secondary or low voltage side of the transformer.
        - Please confirm if this is correct.
        - If it is not correct, please re-label the C/F calculation row as distribution loss factor (DLF).
    - b. The values of TLF provided in this table for years 2003 to 2007 are different from those provided in the table in the 1<sup>st</sup> reference. Please indicate which set of values are correct.
    - c. The values of TLF provided in the table appear to have been derived by the summation rather than multiplication of the values provided in the same table for DLF and SFLF. Please re-submit the values based on multiplication as TLF is defined as  $DLF \times SFLF$ .
    - d. Please explain the reason for the SFLF values provided in the table being different from the industry standard of 1.0045 for distributors directly connected to IESO controlled grid.
    - e. With respect to the TLF proposed for the Newmarket service area for 2008 for secondary metered customers < 5,000 kW
      - Please indicate if it is the 3-year average value (1.03588) or 5-year average value (1.03583) provided in the table or 1.0346 provided in the table in the 1<sup>st</sup> reference.
      - Please provide the actual TLF for 2008 and an explanation for any deviation from the proposed value indicated above.

## Deferral/Variance Accounts

### 53. Deferral and variance Accounts

References:

- i. Exhibit 5, pages 127-134
  - ii. Exhibit 9, Section 9.1.3, pages 151-152
  - iii. Exhibit 1, Section 1.1.4, pages 23-24, items l) and m).
  - iv. Response to Board staff interrogatory #38
  - v. A filing guideline related to applications for final recovery of regulatory assets for May 1, 2006 distribution rate adjustments issued by the Board to all electricity distribution utilities on July 12, 2005  
([http://www.oeb.gov.on.ca/documents/electricity\\_regulatoryasset\\_filingguidelines\\_phase2\\_120705.pdf](http://www.oeb.gov.on.ca/documents/electricity_regulatoryasset_filingguidelines_phase2_120705.pdf))
- The 1<sup>st</sup> reference provides an overview and account specific details on deferral and variance accounts.
  - The 2<sup>nd</sup> reference provides a write-up on the integration of deferral account recovery in rate design.
  - The 3<sup>rd</sup> reference provides currently approved and proposed rates and charges.
  - The 4<sup>th</sup> reference provides responses to Board Staff interrogatories related to deferral and variance accounts.
  - The 5<sup>th</sup> reference is a filing guideline related to applications for final recovery of regulatory assets for May 1, 2006 distribution rate adjustments issued by the Board to all electricity distribution utilities on July 12, 2005.
- a. In part 'a' of the 4<sup>th</sup> reference, the Board staff interrogatory stated that under proposed recovery rates (decrease of 33% over current recovery rates), the recovery amount (\$2,485,132) is less than the outstanding balance of \$2,604,905 as of April 2008 (1<sup>st</sup> and 2<sup>nd</sup> references). Please provide specific details of NTPD's plans for full recovery following April 30, 2011 as the explanation provided in part 'a' of the 4<sup>th</sup> reference is not clear.
  - b. In part 'd' of the 4<sup>th</sup> reference, for the accounts listed in the continuity schedule for disposition, the Board issued Filing Guidelines for electricity distributors (dated July 12, 2005) specifying requirements for account dispositions (see 5<sup>th</sup> reference). NTPD is requested to file the supplemental disclosure information in accordance with the filing guidelines as outlined on pages 4 and 5.
  - c. In part 'd' of the 4<sup>th</sup> reference, the continuity schedule provided shows for account 1508 (OMERS) an opening account principal balance as of January 1, 2005 of \$57,115 (and additions in 2005 of \$103,929 for a total principal balance of \$161,043 in 2005). Please explain why \$57,115 related to 2004 costs was recorded in the account although the Accounting Procedures Handbook in Article 220 (at page 16) specifies the period for recording costs in the account starting on January 1, 2005.

- d. In part 'd' of the 4<sup>th</sup> reference, the account balance for account 1562 included in the application for disposition was not listed in the continuity schedule and no explanation was provided for its exclusion. The Board has commenced a proceeding (EB-2008-0381) on its own motion to determine the accuracy of the final account balances with respect to account 1562 Deferred PILS (for the period October 1, 2001 to April 30, 2006). The results of this proceeding will impact the 1562 account balances for all distributors and may affect other accounts such as 1563 Contra - Deferred PILS, or 1592 PILS for 2006 and Subsequent Years. Does NTPD agree that the disposition of PILS account balances should not be included for disposition in this application?
- e. With respect to the two new deferral accounts proposed to be created (3<sup>rd</sup> reference and part 'f' of 4<sup>th</sup> reference):
  - o Are other electricity distributors subject to the same types of lost revenues associated with conservation related programs and Meter Data Management Repository costs proposed for recording in these accounts?
  - o With NTPD not being able to forecast the costs to be recorded in the accounts or provide additional details, why should the Board approve these accounts without first having knowledge of the potential impacts of these costs on customers?
  - o Please provide examples of other electricity distributors having received Board approval to establish the proposed deferral accounts in the past.
- f. Please provide a method of disposition of accounts and rate riders under the following two scenarios:
  - o all accounts except accounts 1562, 1563, 1565 1566, 1590, 1592 and 1595
  - o all accounts except accounts 1562, 1563, 1565, 1566 1518, 1548, 1580, 1582, 1584, 1586, 1588, 1590, 1592 and 1595