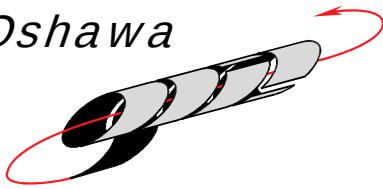


Oshawa



PUC Networks Inc.

100 Simcoe Street South, Oshawa, Ontario L1H 7M7 • Tel. (905) 723-4623 • Fax (905) 723-7947 • E-mail contactus@opuc.on.ca

February 27, 2009

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

Dear Ms. Walli:

Re: Oshawa PUC Networks Inc. (ED 2002-0560)
2009 IRM Rate Application (EB-2008-0205)

Oshawa PUC Networks Inc. wishes to submit our Response to the Interrogatories from Board Staff for Part II of the above file. The Response was submitted electronically using the OEB's RESS document filing system and two (2) paper copies have been sent to the Board Secretary.

Copies of this response have been sent electronically to the intervenors in this rate case.

Yours truly,

Vivian Leppard
Regulatory Analyst
Phone: (905) 743-5220
Email: vleppard@opuc.on.ca

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."*

OPUCN has an older distribution system which requires continuous investment to maintain system reliability and safety. Prior to the issuance of the IRM Guidelines on Incremental Capital by the OEB, there was no mechanism available to distributors to apply for such high capital replacement requirements.

The Incremental Capital Module of the IRM application provides a mechanism for such distributors to have just and reasonable compensation for unusual capital expenditures which exceed the threshold amount.

OPUCN has indeed followed the Board policy set for Incremental Capital investments which are over and above the threshold amount as determined by the Model and as described below.

The 2009 capital expenditure, net of Capital Contribution proposed by OPUCN is \$11,803,824.

The Supplementary Model calculates our threshold at \$6,567,271 and the incremental capital amount at \$5,236,549.

OPUCN has adjusted this amount by \$1,703,249 to exclude capital projects that are included in our approved rate base for which spending carries over from 2008. Included in this amount is \$1.2 million for the delay in construction of a new substation. This delay is due to a decrease in load growth caused by current economic conditions.

Therefore, OPUCN is applying for incremental capital funding to cover the remaining \$3,533,300 of eligible spending.

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.

OPUCN followed the Model in calculating its potential incremental capital expenditure allowance. This amount was adjusted to reflect amounts already included in rates. The incremental capital is new spending for which OPUCN will receive no return without the implementation of the incremental capital module. In order to continuously invest in the system it is necessary to generate the return needed for that investment.

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.

There is a carry-over of \$800,000 for 2009 which was scheduled to be spent in 2008 for the new substation. This project did not proceed as quickly as planned due to the unexpected load drop caused by current economic conditions.

The remaining carry over was caused by the necessity to accommodate new projects which were outside our control such as the work required by the construction of a Provincial Court House and road reconstruction undertaken by the Region of Durham.

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.

CAPITALIZATION POLICY

The purpose of capitalizing expenditures is to provide for an equitable allocation of cost among existing and future customers. A capital expenditure is defined as any significant expenditure incurred to acquire, construct or develop land, buildings, plant, engineering structures, machinery and equipment expected to provide future economic benefits to the company and its customers. A capital expenditure must provide a benefit lasting beyond one year. Capital expenditures also include the improvement or “betterment” of existing assets. A “betterment” includes increasing the capacity of the asset, lowering associated operating costs, improving the quality of output or extending the asset useful life. For this industry, capital assets also include grouped assets or readily identifiable assets. Capital assets include electric plant, transmission, generation and distribution facilities, meters, vehicles, office furniture, computer equipment and other equipment.

Expenditures for repairs and/or maintenance designed to maintain an asset in its original state are not capital expenditures and should be charged to an operating account.

Whether capital assets are purchased or constructed by the Corporation they are stated at cost and include contracted services, material, labour, engineering costs and overheads, including associated interest costs.

1.1 Betterments Versus Repairs

As noted previously a betterment is defined as the cost incurred to enhance the service potential of a capital asset. Service potential may be enhanced when there is an increase in physical output or service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. For example a refurbished transformer in which the service potential has been enhanced should be capitalized. Further, if during an underground fault repair, the work results in a reconfiguration of the asset that will clearly benefit future periods, there may be an argument to capitalize the work.

A repair is defined as the cost incurred in the maintenance of the service potential of a capital asset.

Major Repairs / Cost Deferrals

There may be instances where the cost of a non-capital expenditure may be deferred or in effect capitalized. For example a major infrequent repair on an existing asset, a regulatory process resulting in a major cost to the operating plant without actual replacement or betterment, and repairs to property loss resulting from extraordinary events such as an ice storm are costs which may be eligible for deferment. Normally GAAP would require such repairs be expensed. However in a rate regulated environment, where such repairs would cause a significant rate impact, there is an

argument to consider capitalization and subsequent amortization to operations over a reasonable number of years.

- 1.2 In the event of uncertainty surrounding the determination of a cost to be capital or operating or the application of materiality limits, if any exist, the Financial Analyst should be consulted.

Capital Asset Determination Procedure

In order to decide whether a transaction results in a capital expenditure or in an operating expense the following procedural test should be applied.

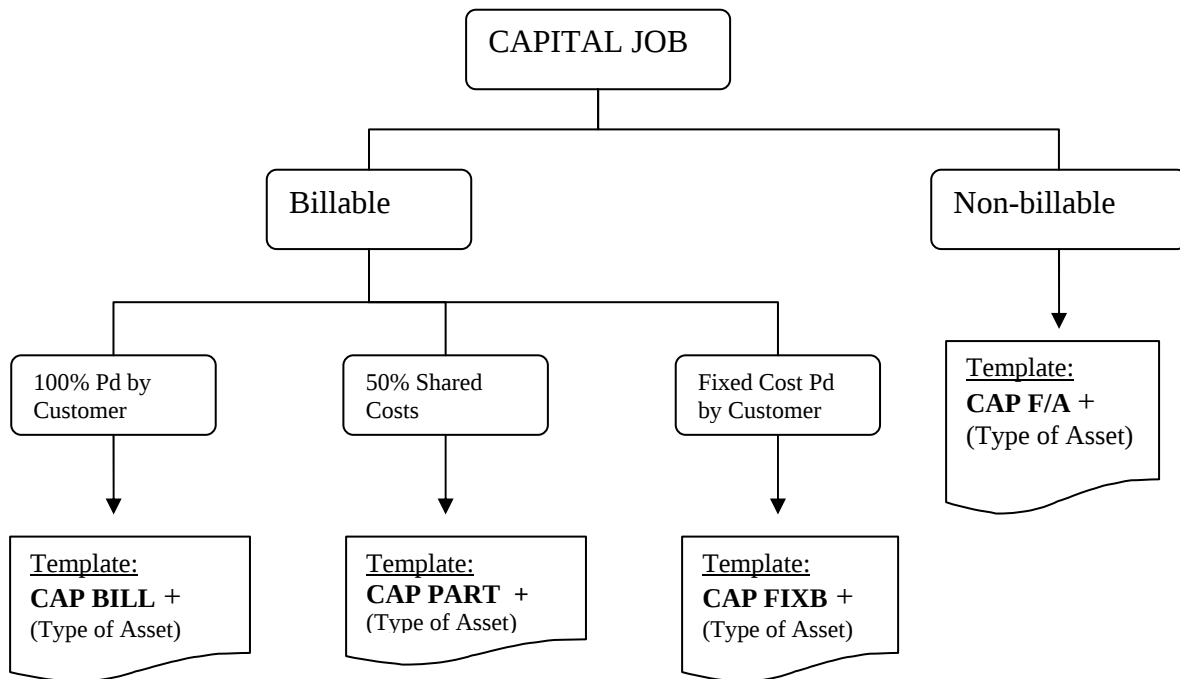
If the answers to either of the following questions is “Yes”, then the work performed or the item purchased should be classified as a capital asset.

- Does the work performed or item purchased result in an asset of property, plant or equipment that will provide a benefit to the company lasting beyond one year?
- Does the work performed or item purchased improve or better an existing asset? Specifically does the work performed extend the life, enhance the reliability, increase the capacity or output or lower the associated operating costs of the existing asset?

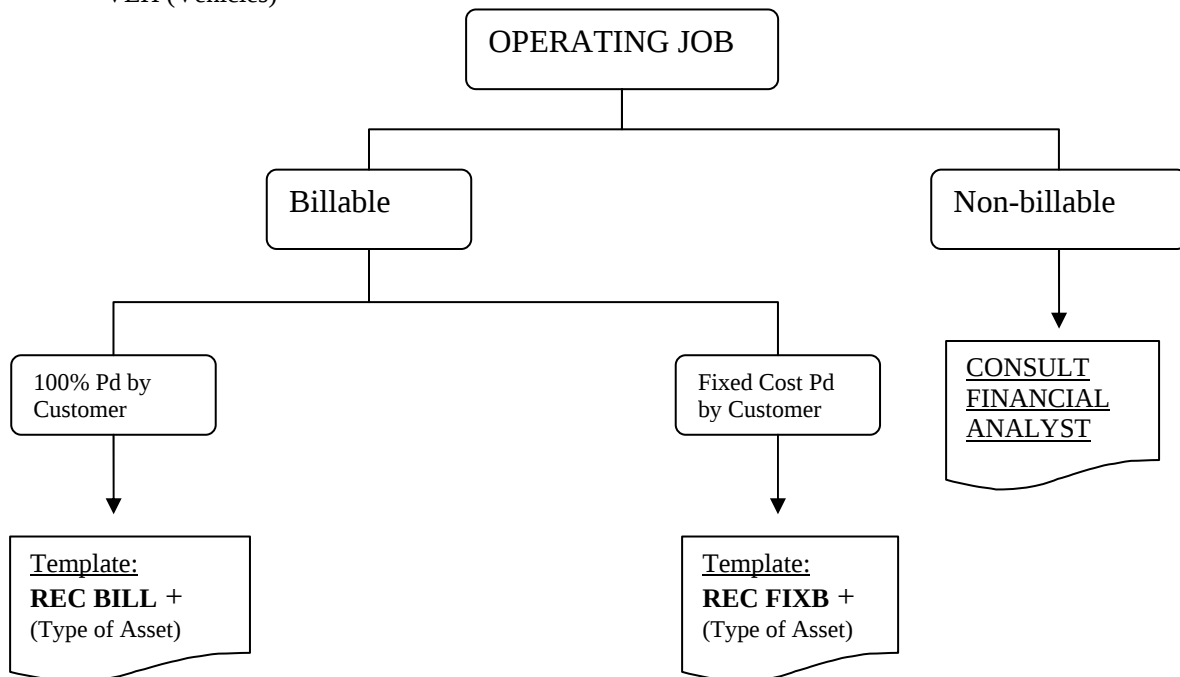
A flow chart template (Appendix A) has been developed to aid the Tech Services group to select the correct templates when setting up a capital or operating job.

In addition, the Financial Analyst position will review all green job order initiation sheets for the appropriate job template before input to the system.

Appendix A



Note: Type of Asset refers to OH (Overhead), UG (Underground), SUBSTN (Substations), MT (Meters), VEH (Vehicles)



e) Please provide OPUCN's capital expenditure plan for 2009 and 2010.

Please see the following tables.

Note that the total spending planned for 2009 includes an amount of approximately \$4.85 million in the Meter category. This is spending planned to start the installation of smart meters in our service territory. This amount is not included in the calculation of Threshold.

It is important to note that the 2010 capital budget summary is a very preliminary draft. Capital budgets are normally prepared in October each year and submitted for Executive and Board of Directors approval. The final 2010 expenditure levels will not be finalized and approved until the end of 2009.

Capital Budget Summary 2009

Description	Total MH	Labour \$	Material\$	Vehicle\$	Contract\$	Engineering\$	Total\$	Cap. Cont.	Net Budget
Enhancement	24,457	1,678,300	2,342,143	387,950	1,051,143	655,144	6,114,680	0	6,114,680
Expansion	3,800	225,000	600,000	40,000	400,000	151,800	1,416,800	991,760	425,040
Connection	1,945	102,800	454,000	30,600	79,400	80,016	746,816	721,816	25,000
Special	1,350	80,000	30,000	20,000	9,500	16,740	156,240	156,240	0
For Hire	2,295	135,000	616,000	33,700	135,500	110,424	1,030,624	1,030,624	0
Meter	2,425	137,000	3,987,500	17,300	350,000	359,344	4,851,144	0	4,851,144
Vehicle							0	0	0
Equipment							60,300	0	60,300
IRM Enhanced Projects	Contract	0	0	0	3,533,300	0	3,533,300	0	3,533,300
Total:	36,272	2,358,100	8,029,643	529,550	5,558,843	1,373,468	17,909,904	2,900,440	15,009,464

Capital Budget Summary 2010

Description	Total\$	Cap. Cont.	Net Budget
Enhancement	6,270,000	0	6,270,000
Expansion	1,416,800	991,760	425,040
Connection	746,816	721,816	25,000
Special	156,240	156,240	0
For Hire	1,030,624	1,030,624	0
Meter	4,851,144	0	4,851,144
Vehicle	0	0	0
Equipment	60,300	0	60,300
Total:	14,531,924	2,900,440	11,631,484

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.

Yes, expenditure levels could result in a further incremental capital request application before the end of the IR term. OPUCN has been very diligent in upgrading its substations over the past several years in order to enhance the reliability of distribution service. These upgrades include the replacement of electro-mechanical relays with electronic relays and the upgrading of circuit breakers to increase the operability of the system. The next phase of OPUCN's plan involves the addition of automation to the distribution system in order to meet smart grid objectives. It is important to note that the 2010 capital budget summary provided above is a very preliminary draft. Capital budgets are normally prepared in October each year and submitted for Executive and Board of Directors approval.

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).

Please see the table on the next page for this information.

Incremental Projects	Capital Cost	Incremental Depreciation	Return on Rate Base	PILs	Revenue Requirement
Concrete Pole Replacement	210,000	11,046	13,841	721	25,608
Long Term Load Transfers	907,500	47,735	59,812	3,117	110,664
Distribution System Reliability	850,000	44,710	56,022	2,920	103,652
Mobile Work Force	254,000	13,360	16,741	873	30,974
	2,221,500	116,851	146,416	7,631	270,898

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.

There are no increased revenues expected from the Concrete Pole Replacement, Long Term Load Transfer, and Distribution System Reliability Improvement projects. No formal cost benefit analyses were performed for these projects. They are being undertaken in response to safety, regulatory, and reliability improvement drivers. The analysis of benefits for the Mobile Workforce project is provided in response to Question 16 (b) below.

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?

Typical expected life of a concrete pole is considered to be approximately 45 years. This is an average figure, however, and deterioration and degradation with the age, condition and place of use are important factors contributing to the actual life of a concrete pole.

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.

Until the concrete pole failure incident of 2008, concrete poles in the OPUCN distribution system were replaced as part of a larger distribution system rebuild program contained within annual replacement budgets. Since the unexpected concrete pole failure, a targeted replacement program has been deemed necessary to remove and replace the poles identified as being at end of service life. Current OPUCN distribution standards

specify wood poles for distribution system construction. Wood poles have a typical useful life of 40-50 years.

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.

The concrete pole replacement program, pre and post the concrete pole failure of 2008, is described above. The maintenance program for concrete poles in the OPUCN distribution system is in accordance with the Ontario Energy Board requirements for assessment of distribution assets, including poles, every 3 years.

iii) Does OPUCN intend to change its maintenance program for the concrete poles that will not be replaced?

Yes, OPUCN is planning a more frequent and thorough inspection program for the poles that are not 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?

These poles have been fully depreciated so there is no remaining book value.

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)?

There is no book value to write down.

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?

There is no such amount.

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.

The poles identified in OPUCN's 2008 cost of service application as needing replacement were wood poles. The incremental capital investment sought for 2009 is necessary to target concrete poles requiring replacement.

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.

There is no amount for concrete pole replacement in the 2008 rate 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.

No cost effective insurance is available for pole failure. Based on the age of these poles OPUCN has concluded that no other remedy exists.

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?

Not applicable as answer to (a) was no

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.

The rapid growth that OPUCN was experiencing during the first two to three quarters of 2008 has slowed due to the condition of the economy. The funding generated from growth prior to the current economic conditions is utilized for the regular enhancement projects on the distribution system and not for special situations such as this. We would like to bring the Board’s attention to the fact that the amounts sought are above the threshold requirement.

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.

The report is attached below. Please note that the preliminary report on which the application was based over estimated the number of poles which will need replacement. Following the completion of the inspection it has been determined that 30 poles require replacement for a total estimated cost of \$210,000.

Concrete Pole Inspections Final Results

January 9, 2009

Inspection Period: November to December, 2008

<u>Total</u> <u>Concrete</u> <u>Poles</u>	<u>Total</u> <u>Inspected</u> <u>to date</u>	<u>%</u> <u>Complete</u>
1087	1087	100%

<u>Replace</u> <u>2009:</u>	<u>%</u>
30	3%

<u>3-10 Year</u> <u>Life:</u>	<u>%</u>
136	13%

<u>>10 year</u> <u>Life:</u>	<u>%</u>
921	84%

OPUCN performed an inspection on each of its concrete poles to determine the remaining life in the asset. The inspection was performed by two experienced Journeyman Linemen. Each pole was assessed from top to bottom to determine if the pole required immediate replacement or if the pole had remaining life left in it. An inspection record of the assessment was created for each pole.

The results were organized into 3 categories: Poles to be replaced in 2009, Poles that had 3-10 years of life, and Poles with greater than 10 years of remaining life. The poles in the latter two categories will be re-inspected in the fall of 2010.

It was determined that 30 poles, or approximately 3% of the population, require replacement in 2009.

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

OPUCN has reduced the amount requested to complete this project based on the final results of the pole assessment.

Estimated average cost to replace one of these poles = \$7,000

Number of poles to be replaced in 2009 = 30

Revised total project cost = $30 * \$7,000 = \$210,000$

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.

As OPUCN was considering its options with respect to LTLT elimination, only the amounts for work associated with LTLT elimination in 2008 were included in the rate application. Work associated with the remainder of LTLT elimination is included in this application.

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).*

The total requested amount is based on the requirement to eliminate long-term load transfers within the OPUCN service territory.

- 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.*

We have not included provision for additional revenues in this calculation.

- 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.*

The requested amount is for a project that would eliminate all LTLT within the OPUCN service territory in 2009.

- 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.*

At the time of the IRM application OPUCN had not received notice of the grant of extension from the Ontario Energy Board. The application was made on the basis that the Ontario Energy Board may wish to have the LTLT removed within the OPUCN distribution system sooner than the 4 year plan contemplated in the application for extension.

- 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”.*

The \$907,500 will be used for accelerated construction of the plant needed to transfer these customers to our system. Any new plant built to effect these transfers will be needed primarily to service these customers. It would not be built at this time if there were no load transfer arrangements to be resolved. For this reason, the spending is considered to be incremental investment required primarily for this project.

- 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.*

Not applicable as (a) was confirmed.

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?

The increased amount in rates for these customers totals \$943 based on approved 2008 rates. The cost to transfer these customers was \$19,576. There are no additional LTLT amounts included in OPUCN's rates.

Please see VECC questions 2 (b) and 2(c) for additional information.

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."

The four year plan includes work for the years, 2008, 2009, 2010, and 2011. The work in 2008 does not require a feeder extension or the installation of distribution equipment on Hydro One infrastructure. The work in the remaining three years requires two feeder extensions, one in each of two years, and the installation of distribution assets on Hydro One infrastructure in the remaining year.

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."

OPUCN proposed accelerating the elimination of LTLT in order to bring the affected customers onto its distribution system sooner. OPUCN can provide better quality service through faster response times based on physical proximity to the customers. For this reason this expenditure is 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.

The following chart shows the reliability statistics for the 2F4 feeder which is the one which will be replaced during this project. For comparison purposes, the chart also includes the statistics for feeder 5F5 which is an average performing feeder. These two feeders are similar in terms of customer mix attached to the feeder, feeder length, and routing.

Name of the feeder	Momentary interruption 2008	SAIDI -2008	SAIFI -2008
2F4	17	0.91	2.43
5F5	2	0.12	1.10

b) Please provide information on the number of customer and customer mix affected by the distribution feeder.

There are approximately 1000 customers attached to this feeder. The load is primarily residential with some commercial and one school included in these 1000 customers.

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”

On page 25 of the Decision rendered for rate case EB-2007-0150, OPUCN received specific direction from the Board with respect to reliability of service:

“As service reliability is most important to customers, the Board expects the Company to be vigilant about its service reliability performance going forward and to ensure that the capital expenditures authorized by the Board do result in substantial improvements in that regard.”

This project will have a direct impact on the improvement of reliability as it involves the replacement of a feeder identified as one of the worst performing feeders within the OPUCN system. Each potential OPUCN capital project is scored by a subject matter expert team on a number of factors, including reliability, during the assembly of the

annual capital plan. A final list of capital projects is determined by prioritizing based on the scoring and available funding. This particular project did not make the 2009 list through the regular process as there were insufficient funds available to complete the project, resulting in the project being pushed off of the list. Funding through the IRM adjustment process will allow this much needed project to be completed in 2009.

The project is clearly non-discretionary. The work is required to be completed in order to continue to improve the reliability of the OPUCN distribution system and meet the Board's mandate as described in the Decision above.

d) Why the cost of this project should be considered as being "clearly outside of the base upon which rates were derived."

At noted above, this project was not previously included in rates as its score has been such that other aging plant scored higher and thus took precedence.

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.

The Report of the Board on 3rd Generation Incentive Regulation clearly indicates, on page 25, that life-cycle replacement of aging plant is a driver which is non-discretionary in nature. This project is proposed to replace plant which is nearing the end of its engineering life and it is not prudent to run this asset to failure. This project is non-discretionary as it must be completed in order to improve the reliability of the distribution system.

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.

In the face of current economic conditions, it is no longer certain that growth will be as rapid as originally envisioned and it is no longer as certain that the revenues expected will materialize over the near or medium term. This is especially true in a city as dependent as Oshawa is on a faltering automotive industry. For this reason OPUCN is not forecasting significant funding from this source. The revenue produced by connections to this feeder must be considered as coming only from the existing customer base and as such will not be returned as increased rate base.

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?

This project is reliability driven and not primarily financially driven. However, there will be savings in the reduced need for emergency response to power outages.

b) What is the expected payback period for this project?

The driver for completing this project is an improvement in the reliability of the OPUCN distribution system. There is therefore, no financial payback for the project. The only financial impact by completing this project is the return expected from the rate base addition and savings in emergency power restoration response.

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.

Class 50 is for computer equipment. The tablets which will be purchased with this system would fall into that class. However, in order to be eligible for the accelerated CCA rate computer equipment cannot be specific to a particular application. The equipment must be sharable for several applications. Since the equipment contemplated will be specific to the requirements of the Mobile Workforce project it will not be eligible for the accelerated rate.

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.

Non-financial benefits identified for this project include:

- Automatic transfer of data from the field will cut down on data errors and save staff time used to identify and correct them.
- The reduction in the time required to update the data bases manually will improve the safety of staff and the public. Staff will be instantly aware of changes to the system which might impact the choices they make in the field. The contract underground locators will have the most up-to-date information as to plant placement and will be able to advise customers of hazards more accurately.

Although the payback period has been identified as requested it would be a mistake to consider this investment solely on the basis of cost savings. The savings are important and will flow back to the ratepayer during our next cost of service rebasing. OPUCN considers the benefits of increased safety and improved data accuracy identified to be more important than the monetary driver for this project.

Investment Payback Calculation

Note: This is a preliminary analysis designed to make an initial assessment of the project with a view to determining if it should be pursued. It has been made prior to tendering and costs have been estimated based on the best available information.

Manpower savings are based on replacing one person year currently needed to enter and verify information from the field manually, transferring information manually to drawings, and reprinting drawings for internal use.

Estimated Cost (includes tablet computers, data cards for cellular use, system software and implementation)	\$254,000
Benefits	
Manpower savings based rates as of March 1, 2009 (\$37.51 per hour for 1,885 hours per year)	\$70,700
Benefits at 25% of salary	\$17,675
<i>Total Manpower Savings</i>	<i>\$88,375</i>
Payback period	3.0 years

c) Please explain why the cost of this project should not be expensed in the normal course and addressed through organizational productivity improvement.

OPUCN considers this project to be a capital improvement and not a routine recurring expenditure which would be expensed in the normal process. It is more accurately identified as a capital improvement because of the improved safety, efficiency, and error reduction aspects of the project.

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.”

In common with other distributors in Ontario, OPUCN is expecting a large number of retirements within the next five to ten years. We need to turn to technology to find efficiencies based on equipment such as this to absorb these manpower reductions without compromising reliability and safety. While OPUCN can operate with its existing resources a project of this type would facilitate the capture of the non-monetary benefits noted above. This project will help us prepare our workforce for impending retirements and give us sufficient time to help staff adapt to the coming changes. For these reasons the project is considered non-discretionary.

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

This project is outside of rate base because it was not contemplated in 2008 when the rates were set.