

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Newmarket-Tay Power Distribution Ltd. for an Order or Orders approving just and reasonable rates and other service charges for the distribution of electricity within its Newmarket Service Area, as of the date of the Ontario Energy Board's Rate Order.

**INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

February 20, 2009

**NEWMARKET-TAY POWER DISTRIBUTION LTD.
2008 RATES REBASING CASE
EB-2007-0776**

**ENERGY PROBE RESEARCH FOUNDATION
SUPPLEMENTAL INTERROGATORIES**

Interrogatory # 45

Ref: Response to Energy Probe Interrogatory # 6

- a) Please indicate which of the 2 large vehicles was received in 2008 as indicated in the response.

Response:

The Intl. Navistar Model 4900

- b) Was the second large vehicle received before the end of 2008?

Response:

Yes

- c) What is the actual amount of capital expenditures for 2008 in account 1930?

Response:

\$725,825

Interrogatory # 46

Ref: Response to Energy Probe Interrogatory # 7

- a) Please confirm that each of the vehicles listed to be replaced are fully depreciated

Response:

They are fully depreciated.

- b) For each vehicle listed, please provide the actual resale value if the vehicle was replaced in 2008.

- c) How has the resale value, if any, been accounted for? Please specify the account that has been used to record this revenue in 2008.

Response:

The construction of some feeder lines from the Ontario Energy Board-ordered Holland Junction Station were delayed due to land issues. The Applicant is facing significant carry-over from the 2008 construction costs into 2009. Due to the 2009 construction

and maintenance program, the Applicant has a need for all vehicles. As a result, the Applicant believed it was prudent not to dispose of any major vehicles in 2008.

Interrogatory # 47

Ref: Response to Energy Probe Interrogatory # 9, VECC Interrogatory # 16, Exhibit 3.1.2

- a) Please update the response to Energy Probe Interrogatory # 9 to reflect the actual December 2008 number of customers for each class shown.

Response:

Actual numbers of customers by class are as follows:

Residential	24,667
GS<50	2,728
GS>50	377

- b) Are the customer counts shown in Exhibit 3.1.2 year end figures or averages for the year?

Response:

The customer counts shown are year end figures.

- c) Please provide the number of residential customers that was used in the cost allocation filing that resulted in the weather normalized kWh per customer of 10,158. Was this customer number a year end number or the average for 2004?

Response:

The number of residential customers used in the cost allocation filing was 22,685, and was based on the actual number at the end of 2004.

- d) Please illustrate how the 2008 residential volume of 242,306,934 kWh was calculated using the various average consumption per customer figures and the number of customers (year end or average).

Response:

<u>2008 Residential kWh Projection</u>	
2007 Yr-End Actual Customers	24,069
2008 Yr-End Projected Customers	24,569
Total	48,638
Average Customers	24,319
Weather Normalized kWh/Customer	10,158
CDM Savings %	-1.47%
OPA Savings %	-0.44%
Total Savings %	-1.91%
Total Savings kWh/Customer	-194

<u>Adjusted Weather Normalized/Customer</u>	<u>9,964</u>
<u>2008 projected residential kWh</u>	<u>242,306,934</u>

Actual usage by this class for 2008 was 236,001,322 kWh.

Please note that the applicant feels the projected kWh value is reasonable. Using actual 2008 data, the 5 year average kWh using average customers as a base is 10,028 and the actual 2008 kWh / customer is 9,684.

5 Year Residential Usage			
Year	Avg Res Customers	Actual kWh	Avg kWh per Customer
2004	22,191	220,448,036	9,934
2005	22,902	243,141,981	10,617
2006	23,383	231,442,383	9,898
2007	23,858	239,181,560	10,025
2008	24,368	236,001,322	9,685
	<u>116,701</u>	<u>1,170,215,282</u>	<u>10,028</u>

Interrogatory # 48

Ref: Response to Energy Probe Interrogatory # 11 e)

The response provided does not answer the question of whether or not the OEB has reviewed and/or approved the total savings shown. Has there been a formal review by the OEB of the claimed savings? Has the Board approved the estimate of the total savings shown?

Response:

In keeping with the Provincial Government's mandate to create a "culture of conservation" in the Province of Ontario, the Applicant has encouraged its customers to partake in this initiative. The Applicant has also participated in all Ontario Power Authority (OPA) programs and exceeded the OPA's targets. Based upon the OPA targets for Newmarket, the Applicant used the results to more accurately calculate its customer usage.

The Applicant has not requested any additional monies from the Ontario Energy Board (OEB) for lost revenue and therefore has not requested a formal review by the OEB.

Interrogatory # 49

Ref: Response to Energy Probe Interrogatory # 12

The 2007 actual kWh figure shown in this response of 91,102,385 is 211,968 kWh less than the actual 2007 figure shown in Exhibit 3.1.2 (page 88) of 91,314,353 kWh. This difference is the

kWh for the USL class.

- a) Please explain why the USL related volume of 211,968 kWh is subtracted in the response to Energy Probe Interrogatory # 12, when it appears to have already been removed from the 2007 data.

Response:

This was subtracted in error.

- b) What is the impact on revenues of an increase in the GS < 50 volumes of 211,968 kW?

Response:

The Distribution Revenue (using 2005 Rates) is \$2,982.

- c) Please show the customer numbers or other factors used to calculate the customer growth figure of 1,496,402 kWh.

Response:

Actual usage by this class for 2008 was 90,153,061 kWh.

2008 GS<50 Increase due to Customer Additions

1	Total 2007 kWh	91,102,385
2	2007 Total Customers (Yr End)	2,599
3	kWh/Customer (1 divided by 2)	35,053
4	2008 Total Customers (Yr End)	2,642
5	Total 2008 kWh @ 2007 Usage (3 multiplied by 4)	92,598,787
	<u>Increase due to Customer Additions (5-1)</u>	<u>1,496,402</u>

Interrogatory # 50

Ref: Response to Energy Probe Interrogatory # 13

Please explain why 2005 rates have been used to calculate the revenues. Why were 2007 rates not used?

Response:

The Applicant has not had or requested a Distribution Rate change since 2005.

Interrogatory # 51

Ref: Response to Energy Probe Interrogatory # 14 g)

- a) Please update the table shown in this response to reflect actual 2008 figures.

Account Name	US of A	Aug-07	Aug-08	2008 Test	2008 Actual
SSS Administration Charge	4080	(60,231)	(62,303)	(90,500)	(93,814)
Retail Service Revenues	4082	(25,106)	(26,321)	(36,500)	(39,872)
STR Revenues	4084	(960)	(1,074)	(1,500)	(1,384)
Revenue-Rentals	4210	(53,759)	(51,395)	(68,200)	(78,356)
Revenue-Late Payment Charges	4225	(119,881)	(105,092)	(180,000)	(161,260)
Specific Service Charges	4235	(196,852)	(165,759)	(305,245)	(259,475)
Revenue-Sale of Scrap Metals	4325	(17,115)	(14,665)	(10,000)	(10,795)
Gain on Sale of Assets	4355	(10,272)	(20,644)		(750)
Loss on Sale of Assets	4360				
Revenue-Miscellaneous	4390	2,204	(10,274)	(20,000)	(6,849)
Interest Earned	4405	(244,388)	(146,382)	(42,000)	(156,834)
Grand Total Other Revenue		(726,360)	(603,909)	(753,945)	(809,389)

There was an accounting error in the original IR response in the “Gain on Sale of Assets” account for August. This has since been corrected.

- b) Does the interest earned (US of A account 4405) include the interest earned and the interest cost associated with balances for deferral, variance and/or regulatory asset accounts? If yes, please provide the actual 2008 figure broken down into the two components, the first being associated with the deferral/variance/regulatory asset figure and the second associated with all other sources of interest.

Response:

No it does not.

Interrogatory # 52

Ref: Response to Energy Probe Interrogatory # 23

- a) Please explain why rate base should include any net assets related to account 1985 Sentinel Lighting Units when the 2007 Electricity Distribution Rate Handbook indicated that this account was a non-distribution asset.

Response:

These Lights should not have been included. The impact is a reduction in the Rate Base of \$118.75.

- b) For accounts 1840/1845/1855 please explain why the net balance forward is depreciated over 21 years while the additions appear to be depreciated over 25 years.

Response:

This class is depreciated over 25 years.

- c) For account 1850 please explain why the net balance forward is depreciated over 22 years while the additions appear to be depreciated over 25 years.

Response:

Please see response for Interrogatory Response #52 b).

- d) Please provide any depreciation studies that have been used to justify a depreciation period of 21 years for accounts 1840/1845/1855 or 22 years for account 1850 instead of the 25 years specified in the 2006 EDR Handbook for these accounts.

Response:

These classes are depreciated over 25 years.

- e) Please explain the difference between the total depreciate expense shown in the response to Interrogatory # 23 of \$4,302,881 and the \$4,337,658 shown in Exhibit 2.1.7.

Response:

Outstanding

Interrogatory # 53

Ref: Response to Energy Probe Interrogatory # 8

- a) Please confirm that the OM&A component of the working funds allowance for 2008 of \$5,747,977 includes \$5,483,028 for OM&A costs and \$264,949 for property and capital taxes.

Response:

The Applicant confirms that the above statement is correct.

- b) Were property and capital taxes included in the controllable expenses used for calculating the allowance for working funds in the 2006 EDR model?

Response:

The Applicant did not apply for a rate change through the 2006 EDR model.

- c) Please confirm that the OM&A expense of \$5,483,028 includes \$338,937 of re-allocated depreciation expense.

Response:

This statement is incorrect. The above mentioned value is charged to Vehicle burden accounts and then reallocated to direct accounts based on Vehicle hour rates, and material stores burden rates. These accounts can be OM&A or Capital.

Interrogatory # 54

Ref: Response to Energy Probe Interrogatory # 25

Please confirm that the Holding Company is not a regulated entity.

Response:

Please describe “Regulated Entity” as it is defined by Energy Probe. Based on the Applicant’s definition, the holding company is not a regulated entity.

Interrogatory # 55

Ref: Response to Energy Probe Interrogatory # 29

The applicant indicates that the total project costs associated with the 2008 rates rebasing application to be \$60,000. The applicant also indicated that it budgeted \$25,000 in 2008 for this process.

Given that the base rates established for 2008 will be used to set rates for 2009, 2010 and 2011 under the IRM mechanism, does Newmarket – Tay believe that the cost of \$60,000 should be amortized over four years (i.e. \$15,000 per year)? If not, please explain why not.

Response:

The Applicant agrees with the four-year amortization period, however, as demonstrated in the initial submission and subsequent response to Energy Probe’s first round of interrogatories, the Applicant is of the opinion that the costs of this proceeding will significantly exceed both the \$25,000 and subsequent \$60,000 figures. Should actual costs exceed the \$60,000, the Applicant requests a deferral account for recovery of these funds.

Interrogatory # 56

Ref: Response to Energy Probe Interrogatory # 30

Newmarket – Tay forecast an increase in property tax of 11.6% in 2008 as compared to the 2007 level.

- a) Please explain what the drivers are in this increase of more than \$12,000.**

Response:

The Ontario Energy Board ordered the construction of the Holland Junction Station. The Applicant was required to purchase land and land rights in King Township to facilitate this site. As a result, the Applicant will be incurring additional property taxes. The full incremental expenses are not known at this time, due to timing of the purchase of property, however, the Applicant believes that its original estimate is low by \$1,500 to \$2,000 per year.

- b) Please provide the actual 2008 property taxes.

Response:

\$117,737

Interrogatory # 57

Ref: Response to Energy Probe Interrogatory # 31 c)

- a) Please explain where the \$3,701,699 figure comes from since it is different than the \$3,720,133 figure shown in the calculation of the CCA for 2008 at page 124 of the evidence.

Response:

Through the Interrogatory process, the Applicant realized the tax calculation contained two minor errors:

- 1) The Applicant assumed a half-year rule for the full year of 2007 additions, where in actuality there was a year-end on April 30, 2007 for the merger with Tay Hydro. The Applicant then used actual data for the IR, and
 - 2) The Applicant had recorded class 47 assets in Class 1 in 2006.
- b) Please explain how the figure of \$72,910 was calculated.
- c) Please review the following calculation and provide any feedback as to why the calculation is not a correct response to Interrogatory #31 c):

UCC at start of year	5,693,312
Net cost of additions	7,143,625
Adjustment for additions	<u>(3,571,813)</u>
Base amount for CCA	9,265,124
CCA for the year (8%)	741,210
CCA claimed	<u>655,727</u>
Difference	85,483

Response:

As noted in the interrogatories, the method of calculation has been prepared by the Applicant's auditors, from deregulation to 2004, when the Applicant prepared the tax return. This method has also been audited and accepted by the Ministry of Finance auditors.

If the Applicant uses the method as requested, the results are as follows:

UCC Start 2008	8,614,242
Net Cost as listed in Energy Probe IR 31a)	7,143,625
Adjustment for additions as listed in Energy Probe IR 31a)	-3,571,813
Base amount UCC	12,186,054
CCA on IR as requested	974,884
CCA Claimed on IR	901,974
Difference	72,910

The Applicant's calculation is as follows:

UCC Start	\$8,614,242.
Net addition	\$7,457,944
Adjustment	-\$3,728,972
Total UCC	\$12,343,214
CCA at 8 percent	\$ 987,457
CCA on 2008 proxy return	\$ 901,974
Difference	\$85,483

It should be noted that this change cannot be taken in isolation. There would be a cumulative effect on UCC balances from the first date of filing a PIL return if the Applicant were to change its CCA calculation method to match IR's.

Interrogatory # 58

Ref: Response to Energy Probe Interrogatory # 33 d

Response:

The Applicant's tax practice is to capitalize these amounts and use a 30 percent declining balance. The client has left these amounts in class ten. The CCA rates for class 10 are the same at 30 percent.

Software - Class 10 2006 2007
Rate 30 percent declining balance

2006 Additions	\$321,695.00
2006 CCA	\$48,254.25
2006 Ending UCC	\$273,440.75
2007 Opening	\$273,440.75
2007 Additions	\$193,978.80
2007 CCA	\$111,129.05
2007 Ending UCC	\$356,290.51
2008 Opening	\$356,290.51
2008 Additions	\$91,500.00
2008 CCA	\$120,612.15
2008 Ending UCC	\$327,178.35

- a) **Please confirm that if the software expenditures had been put in CCA Class 12 for 2006, 2007 and 2008, the CCA claim for 2008 would be \$142,740. If this cannot be confirmed, please provide the calculations that result in a different 2008 CCA claim under the assumption that these additions were put into Class 12 in each of 2006, 2007 and 2008.**

Response:

If placed using class 12 the results would be as follows:

Software – Class 12 2006 2007
Rate 100 Percent Declining Balance

2006 Additions	\$321,695.00
2006 CCA	\$345,822.13
2006 Ending UCC	\$24,127.13
2007 Opening	\$24,127.13
2007 Additions	\$193,978.80
2007 CCA	\$121,116.53
2007 Ending UCC	\$96,989.40
2008 Opening	\$96,989.40
2008 Additions	\$91,500.00
2008 CCA	\$142,739.40
2008 Ending UCC	\$45,750.00

- b) Please provide a listing of the software capital expenditures for each of 2007 and 2008 and into the components and show for each item whether it is considered systems software or applications software. Please indicate how each component meets the definition of “systems software”.

Response:

Please define application software and system software.

Additions 2007

Financial System Software Including training support and customization	\$ 124,228	Application software
File Nexus System Software Document storage and retrieval	\$ 31,722	Application software
Operational database for system engineering	\$ 32,460	Application software
Immaterial amounts	<u>\$ 5,568</u>	
Total	\$ 193,978	

Additions 2008

Financial System Software Including training support and customization	\$ 25,085	Application software
Interactive Voice Response Software	\$ 20,250	Application software
Immaterial amounts	<u>\$ 964</u>	
Total	\$ 46,299	

- c) Please confirm that system software acquired after March 22, 2004 and before March 19, 2007 should be recorded in Class 45, with a CCA rate of 45%.

Response:

Please define application software and system software.

- d) Please confirm that system software acquired after March 18, 2007 should be recorded in Class 50, with a CCA rate of 55%.

Response:

Please define application software and system software

Interrogatory # 59

Ref: Response to Energy Probe Interrogatory # 34

Revenue Canada defines data network infrastructure equipment to be recorded in CCA Class 46 as equipment that supports advanced telecommunication applications including assets such as switches, multiplexers, routers, hubs, modems and domain name servers that are used to control, transfer, modulate and direct data. Similarly, assets to be recorded in CCA Classes 45 and 50 are defined as general purpose computer equipment and systems software that is not used principally as electronic process control, communication control, or monitor equipment, and the systems software related to such equipment, and data handling equipment that is not ancillary to general purpose computer equipment.

- a) Please provide a listing of the computer equipment capital expenditures for each of 2006, 2007 and 2008 into the components and show for each item whether it is considered network infrastructure equipment or general purpose computer equipment based on the definitions provided above.

Response:

Additions 2006

New Domain Controller	\$ 58,778.20	Data Network Infrastructure
Billing Server	\$ 43,730.00	Data Network Infrastructure
Network printers	\$ 4,329.37	Data Network Infrastructure
Router	\$ 483.81	Data Network Infrastructure
Network Computers	\$ 12,071.59	Data Network Infrastructure
U P S	\$ 16,124.00	Data Network Infrastructure
Immaterial Amounts	\$ 1,416.00	Data Network Infrastructure

Total	<u>\$136,932.97</u>	
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Additions 2007

Financial Systems Server	\$ 27,437.00	Data Network Infrastructure
Enlarge Sequel Server	\$ 6,301.00	Data Network Infrastructure
Router	\$ 985.00	Data Network Infrastructure
Tape drive and Back UP System	\$ 3,459.12	Data Network Infrastructure
UPS	\$ 5,639.30	Data Network Infrastructure
Network computers	\$ 18,548.40	Data Network Infrastructure

T1 phone Hub	\$ 1,300.00	Data Network Infrastructure
Printer	\$ 2,162.00	Data Network Infrastructure
Immaterial Amounts	\$ 779.00	

Total	\$ 66,610.82	
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Additions Actual 2008

Exchange Mail Server	\$ 21,350.00	Data Network Infrastructure
New Interactive Voice		
Response Server	\$ 23,013.60	Data Network Infrastructure
Routers	\$ 1,925.00	Data Network Infrastructure
Network Computers	\$ 24,026.96	Data Network Infrastructure

Total	\$ 70,315.56	
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- b) Please confirm that general purpose computer equipment acquired after March 22, 2004 and before March 19, 2007 should be recorded in Class 45, with a CCA rate of 45%.

Response:

Please define General Purpose Computer Equipment

- c) Please confirm that general purpose computer equipment acquired after March 18, 2007 should be recorded in Class 50, with a CCA rate of 55%.

Response:

Please define General Purpose Computer Equipment

Interrogatory # 60

Ref: Response to Energy Probe Interrogatory # 36

- a) The original application proposed to settle the outstanding account balances as of April 30, 2008. Given that rates are not likely to be implemented until May 1, 2009 at the earliest, does Newmarket – Tay now propose to settle the projected outstanding balances as of April 30, 2009? If not, why not?

Response:

The Applicant confirms that the Deferral Account Balances Recovery Rate will be adjusted to reflect a more current balances and recovery term, once these are known. The Applicant, as stated before, would like to provide overall rate stability to it's customers in these uncertain times.

- b) Please provide the actual balances as of April 30, 2008 if they are different from that shown in Exhibit 5.

Response:

The Deferral Account balances total \$2,729,181 vs. \$2,604,905 projected in the submission.

- c) Please calculate the DA rate that would be required over the period May 1, 2009 through April 30, 2012 (i.e. a three year IRM plan term), taking into account the actual April 30, 2008 balance, and the recovery from the rider currently in place that is described as collecting at an accelerated pace.

Response:

Actual Balance to Recover as at Apr 30, 2008	2,729,181
Estimated Deferral Account Recovered May 1, 2008 to Apr 31, 2009 at existing rate	(1,250,000)
Projected Balance Apr 30, 2009	1,479,181
Annual recovery required	739,591

The following revised rates would be adequate to collect this balance over the remaining 2 years.

	Unit	Revised Rate
Residential	kWh	0.0010
GS<50	kWh	0.0010
USL	kWh	0.0010
GS>50	kW	0.4470
Sentinel Lights	kW	0.3008
Street Lights	kW	0.1969

Interrogatory # 61

Ref: Response to Energy Probe Interrogatory # 37

Is Newmarket – Tay aware of any 2008 rate rebasing Decisions where the Board approved a short term debt component of 1.3% as opposed to 4.0% of rate base? If yes, please provide a copy of the relevant Decision(s).

Response:

In the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors there is a 3-year implementation plan indicated in Section 3.1 Term and Starting Base. The Applicant assumed that this phase is applied to all components of the change.

Interrogatory # 62

Ref: Response to Energy Probe Interrogatory # 40

Under the Specific Service Charges there are no charges shown for access to power poles or pole rentals. Please confirm that Newmarket – Tay does not receive any revenue associated with pole rentals.

Response:

The Applicant does receive revenue from Pole Rental. These revenues were included in Account 4210 – Rent From Electric Property, as described in the US of A.

Interrogatory # 63

Ref: Response to Energy Probe Interrogatory # 44

The Ontario Energy Board's Decision and Order on Cost Awards in the EB-2007-0063 Smart Meters proceeding, issued December 13, 2007, ordered Newmarket Hydro Limited to immediately pay Energy Probe \$227.65, and ordered Tay Hydro Electric Distribution Co. Inc. to immediately pay Energy Probe \$22.99.

Please provide the dates that these payments were issued and the dates that they were deposited by Energy Probe.

Response:

An omission occurred due to the varied form of invoicing in this proceeding. Remittance with interest of the outstanding amounts has been made. The Applicant appreciates the dunning notice.