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

Ontario

BY E-MAIL

November 5, 2009

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Board Staff Interrogatories
2010 Electricity Distribution Rates
Cambridge and North Dumfries Hydro Inc.
Board File No. EB-2009-0260

In accordance with Procedural Order No. 1, please find attached Board staff interrogatories in the above proceeding. Please forward the following to Cambridge and North Dumfries Hydro Inc. and to all other registered parties to this proceeding.

Sincerely,

Original Signed By

Keith C. Ritchie
Project Advisor - Applications

Attachments

Board staff Interrogatories
2010 Electricity Distribution Rates
Cambridge and North Dumfries Hydro Inc. ("C&ND Hydro")
EB-2009-0260

Rate Base

1. Ref: Exhibit 2/page 6/ll. 1-9 and Exhibit 4/page 75/ll. 1-7 – Capitalization Policy

In these Exhibits, C&ND Hydro states that it does not have a formal capitalization policy, but generally follows GAAP, particularly CICA Handbook Section 3060 – Capital Assets. It further states that it "does not currently capitalize interest on funds used during construction unless such funds relate to specific borrowings for capital purposes, and does not capitalize, through internal cost allocations, any indirect administrative support costs such as Finance, Human Resources, or Corporate Services."

a) Please explain why C&ND Hydro, given its relative size, does not have a formal capitalization policy. Has C&ND Hydro considered adopting or adapting the capitalization policies of other distributors, particularly distributors of similar size and operating environments? Has C&ND Hydro considered partnerships with other, similar distribution utilities for the development of a capitalization policy? Please provide sufficient detail in your response.
b) Please identify any instances where C&ND Hydro has capitalized interest on funds used during construction due borrowing to fund (a) specific capital project(s).

2. Ref: Exhibit 2/page 78 and Exhibit 3/page 32 – Disposals of Land and Buildings

In its application C&ND Hydro notes that, as a result of completion of the voltage conversion project, it will be decommissioning and disposing of three substations.

a) Please confirm that the amounts shown for disposals in 2010 of $67,043 for land and $8,723 for buildings are related to substation decommissioning.
b) C&ND Hydro has estimated $5,000 as the net gain on disposition of utility property for the 2010 year, after reducing by 50%. It states that vehicles generally sell in excess of book value but substation equipment and property sells at a loss due to environmental evaluation and clean-up, and property location and size. In addition to disposals of land and buildings of about $75,000, C&ND Hydro shows disposals of $74,890 for 2010 under Account 1925 – Transportation Equipment. Please provide further information on how C&ND Hydro has estimated the revenues from disposals of $10,000 in 2010

(or $5,000 after reducing by 50%) given that land and buildings, and transportation, disposals are expected to be about $75,000 each.

Capital Expenditures

3. Ref: Exhibit 2/page 91/Table 28 – Capital Expenditures

In the referenced table, C&ND Hydro provides the forecasted capital expenditures for 2010, 2011 and 2012. Elsewhere in **Exhibit 2**, in the tables for the fixed asset continuity schedules, the capital additions in each historical year and the bridge and test years are provided.

Please provide an expanded version of Table 28 providing capital expenditures in each year from 2004 to 2008 actuals, 2009 bridge, 2010 test, and the forecasts for 2011 and 2012.

4. Ref: Exhibit 2/page 89 – Computer Software

Please confirm that the ERP Software Replacement, projected at $650,000 and to comply with IFRS, is expected to be in service in 2010.

5. Ref: Exhibit 2/page 75 and Exhibit 2/page 89 – CIS replacement and upgrade

On **Exhibit 2/page 75**, C&ND Hydro documents the costs in 2009 to replace its CIS system at $1.002 million for software and $70,000 for hardware, and indicates that it is to be cut over on November 2, 2009.

On **Exhibit 2/page 89**, C&ND Hydro projects CIS upgrade costs of $200,000 to deal with issues and possible new regulatory requirements.

a) Please confirm whether the new CIS system has come into service by November 2, 2009 and an overview of any issues associated with the transition to the new system. If the new system has not come into service, please provide updated information on the status of this project and when it is expected to go in service.
b) The projected 2010 budget for upgrading the new system is nearly 20% of the original cost.
    i) Please indicate what "issues that are identified later", as documented on **Exhibit 2/page 89**, other than to accommodate regulatory features not currently known, C&ND Hydro is anticipating.
    ii) Please indicate what software support is contracted for under the original $1.002 million cost. If software support during the initial period is not factored in the original cost, please explain.

iii) Please provide the basis for C&ND Hydro's estimate for the $200,000 CIS upgrade budget for 2010.

6. Ref: Exhibit 2/page 15 – Rebuilds

C&ND Hydro notes that it is completing in 2009 a rebuild of older parts of its distribution system in the City of Cambridge. This is a project that commenced in the 1990s and involves a voltage conversion from 4 kV to 27.6 kV. The utility states that it will begin in 2009 a rebuild of lines in the Township of North Dumfries that are 50-60 years old, and that this project will reduce the risks of PCBs.

a) Please provide further information on C&ND Hydro's prioritization to complete the City of Cambridge rebuild and voltage conversion in contrast to rebuilding assets in North Dumfries.
b) Please provide information on the condition of assets to be rebuilt in North Dumfries, including any consideration of reliability (i.e. Worst Performing Circuits) that justify this project.
c) Has C&ND Hydro commenced the North Dumfries rebuild?
d) C&ND Hydro has indicated that the North Dumfries rebuild will reduce the risk of PCBs.
   i) Please explain whether PCB removal was part of the City of Cambridge rebuild just being completed.
   ii) Please provide an estimate of the percentage of capital costs for these rebuilds that is attributable to PCB removals.
   iii) Please indicate C&ND Hydro's treatment of PCB removal-related costs and whether these costs are proposed for rate recovery in this application. If so, please explain how these are being reflected in rates.
   iv) Beyond PCB removal in these rebuild projects, does C&ND Hydro have specific projects to test PCBs and remove PCBs in accordance with federal regulatory requirements? Please provide a detailed explanation.

Service Quality and Reliability

7. Ref: Exhibit 2/pg. 9-11 – Service Reliability

On this page, C&ND Hydro documents its service reliability measures for SAIDI (System Average Interruption Duration Index), SAIFI (System Average Interruption Frequency Index) and CAIDI (Customer Average Interruption Duration Index) for 2008, for all service interruptions.

a) Please provide reliability performance for the period 2006 to 2008 actuals for SAIDI, SAIFI and CAIDI, with and without Loss of Supply interruptions, by filling out the following table in addition to what is provided in **Exhibit 2/pp. 10-11**.

	All Service Interruptions			Service Interruptions excluding Loss of Supply (Cause Code 2)		
	SAIDI	**SAIFI**	**CAIDI**	**SAIDI**	**SAIFI**	**CAIDI**
2002						
2003						
2004						
2005						
2006	0.93	1.36	0.69	0.93	1.36	0.69
2007	1.51	1.74	0.86	1.51	1.74	0.86
2008	0.70	1.08	0.65	0.68	1.04	0.65

b) The 2006 Electricity Distribution Rate Handbook specifies the standard for reliability performance as being "within the range of the last three year's performance". For any year and reliability indicator where performance did not meet the standard, please describe the reasons for below-standard performance and what actions C&ND Hydro took or is taking to remedy the situation. Please identify, as appropriate, operating or capital projects linked to reliability improvement.

c) On **Exhibit 2/page 9/ll. 9-10**, C&ND Hydro indicates that it annually provides a report on its reliability in detail and on benchmarking its performance relative to other similar distributors. Please provide a copy of the most recent report. Please discuss how C&ND Hydro incorporates the results of this report, and those of its Customer Satisfaction Survey (**Exhibit 1/Appendix B**) in its Asset Management and capital and operating projects.

8. Ref: Exhibit 2/page 9 – Service Quality

a) Please provide the following information on C&ND Hydro's service quality performance as requested in the following table:

Service Quality Indicators

	Standard	2002	2003	2004	2005	2006	2007	2008
1a Low Voltage Connections Met	90%							
1b High Voltage Connections Met	90%							
2 Underground Cable Locates	90%							
3 Appointments Met	90%							
4 Telephone Accessibility	65%							
5 Written Response to Inquiries	80%							
6a Emergency Response - Urban	80%							
6b Emergency Response - Rural	80%							

b) For any year and reliability indicator where performance did not meet the standard, please describe the reasons for below-standard performance and what actions C&ND Hydro took or is taking to remedy the situation. Please identify, as appropriate, operating or capital projects linked to service quality improvement.

Customer and Load Forecast

9. Ref: Exhibit 3/pp. 13-16 – System Load Regression Model

C&ND Hydro indicates that it has estimated the system load regression model based on monthly data from 1996 to 2008 inclusive. It states that class-specific modelling was unsuccessful, and that a system consumption model was adopted. The model is summarized on **Exhibit 3/page 15**, and model statistics are provided in the table at **Exhibit 3/page 14/ll. 8-9**. The statistical results indicate that the Spring/Fall Flag and population parameters are statistically insignificant at the 90% confidence level. In addition, the population coefficient has a negative coefficient, which is unintuitive. In response to this, C&ND Hydro documents, at **Exhibit 3/pg. 15/ll. 10-13** that:

> "The Population variable has a negative coefficient as shown [in] the table above. This is affected by the successful Conservation and Demand Management programs undertaken by Cambridge and North Dumfries Hydro Inc. over the pass few years. Customers are embracing the Conservation culture and as result per Capita energy usage is less."

a) Please provide further explanation and support for C&ND Hydro's view that it is the impacts of CDM which account for the negative population coefficient.
b) Given that the population and Spring/Fall Flag variables have insignificant coefficients, please provide C&ND Hydro's explanation for why it has preferred the documented model.
c) Please provide results of stepwise regression to include/exclude the population and Spring/Fall Flag variables.
d) Please provide C&ND Hydro's views about whether the poorer fit when more recent data is used, could be indicative that the model is not properly specified.
e) Please describe what alternative modelling efforts, such as alternative econometric model forms or additional variables, were examined by C&ND Hydro to improve the system load regression model.

10. Ref: Exhibit 3/pp. 17-18 – Weather-normalized load forecast

In **Exhibit 3/page 18/Table 7**, C&ND Hydro documents 2010 weather-normalized load forecasts of 1,522,594 kWh (13 year average), 1,523,221 kWh (10 year average) and 1,526,541 kWh (20-year trend). On **Exhibit 3/page 17/ll. 9-11**, the utility states:

> "Cambridge and North Dumfries Hydro Inc. decided to use the load forecast based on the 13 years average of the heating and cooling degree days for rate setting purposes in this application."

Please provide further explanation as to why C&ND Hydro believes that the 13-year average, which is the lowest of the three estimates, is preferred.

11. Ref: Exhibit 3/pp. 21-22/Tables 12, 13 and 14 – Average Usage per Customer - Streetlights

Exhibit 3/page 21/Table 12 indicates that the average annual usage per streetlight connection was around 800 kWh for 2003 to 2005 inclusive, and then dropped to about 765 kWh for 2006 to 2008. C&ND Hydro has used the average annual growth rate of -1.17% to forecast the average annual consumption per streetlight connection of 754 kWh for 2009 and 745 kWh for 2010, as shown in **Exhibit 3/page 22/Table 14**.

Please provide further explanation of:

a) What change in operations or technology accounted for the stepwise reduction in average consumption from 2005 to 2006; and
b) What operations or technology changes are ongoing to imply that 2009 and 2010 consumption will see further decreases relative to the consistent consumption from 2006 to 2008.

12. Ref: Exhibit 3/pp. 21-22/Tables 12, 13 and 14 – Average Usage per Customer – Unmetered Scattered Load

Exhibit 3/page 21/Table 12 indicates that the average annual usage per Unmetered Scattered Load ("USL") connection was around 5,809 kWh for 2066, 4,827 for 2007 and 4,612 for 2008. C&ND Hydro has used the average annual growth rate of -10.90% to forecast the average annual consumption per USL connection of 4,109 kWh for 2009 and 3.662 kWh for 2010.

a) Given that Unmetered Scattered Load is not metered and that the consumption is estimated, please provide further explanation for the documented reductions in average annual consumption from 2006 to 2008. Please indicate if special studies of a sample of USL connections are used to derive the annual estimates.
b) Please provide further explanation and support that the average annual consumption per USL connection is expected to reduce at 10.90% per annum.

Operating Revenues

13. Ref: Exhibit 3/pp. 30-31 – Specific Service Charges

In its explanation of the variances of Specific Service Charge revenues, C&ND Hydro states: "The increase in Collection Notices/Documents fees relates to the increase of rate to $15,000 from $8.80 effective May 1, 2006 and more emphasis on collection of document fees."

Please confirm whether the Collection Notices/Documents fees rate effective May 1, 2006 was $15.00 and not $15,000, as shown.

14. Ref: Exhibit 3 – Specific Service Charges and Conditions of Service

C&ND Hydro has its Conditions of Services posted on its website at http://www.camhydro.com/pdf/conditions_service2006.pdf .

a) Please confirm that this is C&ND Hydro's current version of its Conditions of Service. If not, please provide a version of the current version.
b) Please confirm that there are no changes to C&ND Hydro's Conditions of Service that would be necessary as a result of C&ND Hydro's proposals in this application. In the alternative, please identify and explain what changes to the Conditions of Service are foreseen.
c) Please confirm that there are no rates and charges documented in C&ND Hydro's Conditions of Service that are not documented on C&ND Hydro's Board-approved Tariff of Rates and Charges. Charges on a time and material basis do not have to be explicitly identified. If there are charges that should be included on the Tariff of Rates and Charges, please identify and explain these. If necessary, please provide an updated proposed Tariff of Rates and Charges as documented in **Exhibit 8/pp. 27-29**.

15. Ref: Exhibit 3/page 34 – Miscellaneous Non-Operating Income

With respect to the Table provided at **Exhibit 3/page 34/line 1** of account 4390 – Miscellaneous Non-operating Income:

a) Please confirm the total shown for the 2009 Bridge year, against the components of $50,000 for Scrap Sales, $12,000 for Discounts Earned, and $33,000 for Miscellaneous.
b) Please provide some examples of typical activities or incomes that would fall under "Miscellaneous".
c) C&ND Hydro has estimated Scrap Sales at $50,000, below 2006 to 2008 actuals. C&ND Hydro states that "[s]crap sales are directly impacted by the volatility in commodity prices. By the nature of this volatility, it was difficult to accurately forecast balances for 2009 and 2010 but commodity prices are currently below historical highs.
    i) Please identify the nature of commodities that compose scrap sales.
    ii) Please provide C&ND Hydro's income from scrap sales for 2009 Year-to-Date.
    iii) Please provide further explanation of why C&ND Hydro is projecting that scrap sales for each of 2009 and 2010 should be about 50% of the average annual scrap sales income from 2006 to 2008.

Operating Expenses

16. Ref: Exhibit 4/pp. 6-7 – OM&A

C&ND Hydro states that: "Commencing in 2007 and throughout 2008 when copper was an expensive commodity, theft of copper grounds became an issue at Cambridge and North Dumfries Inc. The cost of replacing the stolen material amounted to $118,394 which is reflected in additional maintenance costs."

a) Please confirm whether the $118,394 for the replacement of stolen copper is for one year or two.
b) Please confirm whether any of these losses were covered by insurance, and if so, the amount of the insurance claim received.
c) Is theft of copper, or other distribution assets and material, an issue continuing in 2009 and does C&ND Hydro see this continuing in 2010 and beyond? Please provide a detailed explanation.
d) What steps has C&ND Hydro undertaken to address this issue, to reduce theft of its property and to protect its assets and employee and public safety?

17. Ref: Exhibit 4/page 31/ll. 14-20 and Exhibit 2/page 52 – Sub-Contracting

C&ND Hydro states that sub-contracting costs have increased by $78,000 during the period, starting in 2006 to handle overflow locates in the summer months. C&ND Hydro documents that it updated its GIS system in 2007. Please provide further explanation of the increased sub-contracting costs to handle cable locates beginning in 2007. Further explain how the GIS system upgrade has factored into the actual and proposed costs for such sub-contracted work in 2008 and in the 2009 Bridge and 2010 Test Years.

18. Ref: Exhibit 4/pp. 32-33 and Exhibit 6 – Monthly Billing

C&ND Hydro is proposing a revenue requirement of $24,958,934, including a revenue deficiency of $2,461,873 grossed up for PILs.

On **Exhibit 6/page 5**, C&ND Hydro states the following as being key drivers for the increases:

> "In Exhibit 4, a discussion of the various key drivers is included. The major key cost drivers are as follows:
> - Increase staffing cost relating to annual wage increases and new staff ($395,000)
> - Increase in benefit cost ($166,000)
> - Costs associated with a new customer billing system ($111,000)
> - Switching to monthly billing ($255,000)
> - Increased bad debts ($90,000)
> - Inflation and non labour items and all other charges ($164,000)"

This indicates that $376,000 of the increase is due to the new billing system and going to monthly billing, while increased bad debt accounts for a further $90,000 of the increase.

a) Please provide C&ND Hydro's views as to whether a move to monthly billing should not result in a decrease in bad debt, as it would more quickly allow the utility to identify and deal with delinquent customers.
b) Please provide C&ND Hydro's views as to the benefits for customers, including operational productivity gains by the utility, that result from the new billing system and the move to monthly billing. Please identify whether these are reflected in the proposed revenue requirement, and if so, where.

19. Ref: Exhibit 4/page 27/Table 11 and Exhibit 4/page 33 – Inflation on Non-labour Items and All Other Charges

C&ND Hydro estimates that "Inflation on Non-Labour Items and All Other Charges" represents about $457,000 of the estimated $2,535,000 increase in OM&A from 2006 Board approved. Table 11 shows a decrease of $246,000 in 2006 Board approved, which indicates that the increase from 2006 actuals to 2010 test year is $703,000, occurring mostly in 2007, 2009 and 2010.

a) Please provide a clearer definition of what C&ND Hydro means by the term "Inflation on Non-labour Items and All Other Charges".
b) On Exhibit 4/page 33, C&ND Hydro estimates that about $262,000 of the $457,000 is attributable to inflation. Please provide further explanation of and support for C&ND Hydro's statement. Also, identify the inflation factor used to derive this estimate that the inflationary effect is $262,000.
c) On Exhibit 4/page 33/ll. 15-16, C&ND Hydro indicates that the 2010 amount (a cost driver increase of $164,000), includes $40,000 for rebasing regulatory costs (1/4 of $160,000), IFRS one-time costs of $25,000 (1/4 of $100,000), and incremental LEAP costs of $21,000. This would total $86,000. Please provide an explanation for the other $78,000 in 2010 increased OM&A costs due to this driver.

20. Ref: Exhibit 4/pp. 24-25 – LEAP

a) In the above reference, C&ND Hydro states that the amount of $30,000 is included in the 2010 Test Year for Low Income Energy Assistance Program. Please identify whether the amounts relate to existing or new program(s).
b) Please provide further explanation of why C&ND Hydro anticipates that 0.33 FTE is required for LEAP administration.
c) Please provide the estimated costs in the 2010 bridge year associated specifically with LEAP administration for each of the 0.33 FTE and annual CIS software upgrade.

Employee Compensation

21. Ref: Exhibit 4/pp. 57-58 and Exhibit 4/page 60/Table 20 – Performance Plan

C&ND Hydro states that it has an incentive performance plan as part of compensation for management and executive. On **Exhibit 4/page 57/ll. 20-25**, it states:

> "Cambridge and North Dumfries Hydro Inc. considers all of its Performance Plans to accrue benefits to the Ratepayers. The corporate strategic work plan is designed to exceed customers and other stakeholders' expectations through operational excellence. Any performance pay related to efficiencies and the improvement in EBITA will ultimately benefit Cambridge and North Dumfries Hydro Inc.'s customers in the form of savings at the next cost of service application."

Further, in **Table 23**, C&ND Hydro shows the following statistics for the average annual incentive pay for Executive and Management categories:

	Last Rebasing Year 2006	Historical Year 2007	Historical Year 2008	Bridge Year 2009	Test Year 2010
Compensation - Average Yearly Incentive Pay					
Executive	$ 10,684	$ 15,921	$ 16,388	$ 19,143	$ 19,714
Management	$ 3,757	$ 4,453	$ 4,776	$ 5,462	$ 5,769

a) Does C&ND Hydro consider that improvement in EBITA also benefits the shareholder? Please explain your response.

b) The above information provides the average annual incentive pay. Please indicate the range of incentive payments possible under the plan for each year and for each of the Executive and Management categories.

c) Please provide support for savings in this cost of service/rebasing application that will benefit customers that justify the average annual incentive compensation to Executives and Management in recent years, as documented in Table 23 and replicated above.

d) Please provide further explanation of the increases in the average annual incentive compensation. In particular, the expected incentive payments for both Executive and Management are higher for the 2009 Bridge and 2010 Test years compared to historical actuals.

e) Please provide further explanation on the components of the performance incentive plan, with respect to operational, financial and service quality and reliability/customer satisfaction goals. Please indicate how the targets are established.

Property Taxes

22. Ref: Exhibit 4/page 89

C&ND Hydro provides a table showing its Property Taxes paid in **Table 45**.

a) On **lines 5-6**, C&ND Hydro states "The distribution station reflects a disposal over the period. In addition to the property taxes, incremental amounts payable in PILs have also been paid." Please explain what is meant by "incremental amounts payable in PILs".
b) Do the "incremental amounts payable in PILs" only pertain to the distribution station? If not, please explain.
c) Please provide an estimate of these "incremental amounts payable in PILs" for each of the years shown in **Table 45**.
d) On **lines 8-9**, C&ND Hydro states: "The amounts shown above are not reported separately in our USoA filing based on the fact that a portion is included in internal burden calculations. The net of any amounts not capitalized would be included in OM&A expenses shown in Exhibit 6, Table 1, Page 4." Account 6105 – Taxes Other Than Income Taxes is part of the Uniform System of Accounts documented in Article 220 of the Board's Accounting Procedures Handbook, and states:

> A. This account shall include the amounts of ad valorem, gross revenue or gross receipts taxes, "payments-in-lieu of taxes", capital taxes, payments equivalent to municipal and school taxes, property taxes, property transfer taxes, franchise taxes, commodity taxes, and all other related taxes assessed by federal, provincial, municipal, or other local governmental authorities, except income taxes.

Please explain why C&ND Hydro does not record Property Taxes in Account 6105, but includes the amount in OM&A expenses, either as a part of burdens or as net amounts included in other OM&A expenses.

Regulatory Costs

23. Ref: Exhibit 4/page 36 – 2010 Rebasing Application

C&ND Hydro has estimated costs for this rate rebasing application as follows:

- Legal: $60,000
- Consulting: $40,000
- Intervenor costs: $60,000

This totals $160,000, which C&ND Hydro has proposed to recover over four years at $40,000 per year.

Please provide further support for the above cost estimates associated with the 2010 rebasing application. In particular, what is the $60,000 for Legal Costs based on? C&ND Hydro filed the Application itself and has not indicated that it is yet been represented by Legal Counsel.

Depreciation

24. Ref: Exhibit 4/page 74/ll. 8-11

In this Exhibit, C&ND Hydro states:

> "Prior to 2008 a full year's amortization was taken on capital additions during the current year. Effective 2009 Cambridge and North Dumfries Hydro Inc. used the half year rule for calculating depreciation expense for additions for the 2009 Bridge Year and 2010 Test Year."

The general rate treatment by the Board for electricity distributors has been to apply a "half year" rule for capital additions in the year they come into service. Since they are not in the opening balances but are in the closing balances, averaging the opening and closing balances means that they only contribute 50% of their value to the rate base in the first year. Similarly, amortization or depreciation expense is calculated on a half-year rule for the year that assets enter service.

a) Please explain why C&ND Hydro had been applying a full year of depreciation expense for the year that assets entered service. How long has C&ND Hydro used this approach?
b) Please explain why C&ND Hydro has changed its policy.

PILs

25. Ref: Exhibit 4/page 85/Table 42 – Ontario Capital Tax

In the calculation of the Ontario Capital Tax ("OCT") for the 2009 bridge and 2010 test years, no exemption is made. Please explain why C&ND Hydro has not applied the $15 million base exemption for the calculation of the OCT in those years. If appropriate, please provide a corrected calculation of the OCT for the 2009 bridge and 2010 test years.

26. Ref: Exhibit 4/page 85/Table 42 and Exhibit 4/page 170 – Apprenticeship Training Tax Credit

C&ND Hydro's 2008 filed tax return shows an Apprenticeship Training Tax Credit ("ATC") claim of $15,560 for that year. C&ND Hydro's detailed tax calculations shown in Table 42 do not appear to show forecasts for the ATTC for the 2009 bridge and 2010 test years.

a) Please confirm whether the forecasted corporate income taxes for 2009 and 2010 include or exclude an amount for ATTC.
b) If there is an allowance for the ATTC in those years, please document explicitly the amounts in the tax calculations.
c) If C&ND Hydro is forecasting no ATTC in the 2009 and 2010 years, please provide an explanation.

Cost of Capital

27. Ref: Exhibit 5/pg. 1 – Capital Structure

In this Exhibit, C&ND Hydro states that it "… continues to have an actual debt/equity structure that departs from the OEB deemed structure for rate making purposes, but is not proposing any departure from the deemed structure for the purposes of rate making in the application."

a) For each of 2006 actual, 2007 actual and 2008 actual, please provide C&ND Hydro's actual capital structure.
b) Please describe C&ND Hydro's philosophy underlying its actual capital structure.
c) Does C&ND Hydro have any plans to more closely align its actual capital structure with the deemed capital structure?
    i) If yes, please explain.
    ii) If not, please explain C&ND Hydro's reasons for maintaining its existing capital structure, including how the utility, its shareholders, debt holders and ratepayers benefit from its approach.

28. Ref: Exhibit 5/pp. 1 and 6, Exhibit 1/pg. 70 – Long-term Debt

One of the debt instruments owned by C&ND Hydro is a Promissory Note due to the Corporation of the Township of North Dumfries, the minority shareholder in C&ND Hydro's corporate parent. A copy of the Promissory Note is documented in **Exhibit 5/pg. 6**. Note 12 of the C&ND Hydro's 2008 Audited Financial Statements (**Exhibit 1/page 70**) also documents C&ND Hydro's outstanding debt at that time.

a) Note 12 of the 2008 Audited Financial Statements states that the principal is "due on six months demand notice". However, the copy of the Promissory Note states that "[t]he Township may demand repayment of all or part of the outstanding Principal with interest at the Established Rate [documented as 4.993%] upon two (2) months' written notice of demand". Please explain the difference in the terms as shown in the Promissory Note and as documented in Note 12 of the Audited Financial Statements.
b) If there has been an update to the Promissory Note documented in **Exhibit 5**, please provide a copy of the updated note.
c) The terms of the Promissory Note state that "[i]nterest at the Established Rate shall accrue from July 1, 2006 until the Principal is paid in full, with interest on overdue interest at the Established Rate". However, the terms do not document a term length or maturity date, or terms for repayment except for payment on demand by the Township. Please explain any terms for repayment of principal on this debt. Has the Township ever called for payment on the principal, or is there any indication that the Township intends to call payment?
d) Please confirm that C&ND Hydro does not forecast any new or renewed debt during the 2009 bridge or 2010 test years. In the alternative, please provide C&ND's forecasts of any such new or renewed debt, including updating **Tables 1 and 2** of **Exhibit 5**.

Cost Allocation

29. Ref: Exhibit 7/page 7/Table 5 – General Service > 5,000 kW (Large Use)

In **Table 5**, the Revenue-to-Cost ("R/C") ratio shown for the General Service > 5,000 kW customer class ranges from 67.20% for the initial Cost Allocation Study, 45.40% when adjusted for the Transformer Allowance, and 56.14% for the updated 2010 Cost Allocation Study.

a) Please provide further detailed discussion of why the R/C ratios for this class are, initially, so low. What assumptions or allocators has C&ND Hydro made that factor into these low R/C ratios?
b) For this class, are the results of the cost allocation study impacted by loss and reclassification of customers from this class? Please explain your response.

30. Ref: Exhibit 7/page 7/Table 5 – Streetlighting

In **Table 5**, the Revenue-to-Cost ("R/C") ratio shown for the Streetlighting customer class ranges from 9.82% for the initial Cost Allocation Study, 10.41% when adjusted for the Transformer Allowance, and 13.72% for the updated 2010 Cost Allocation Study.

Please provide further detailed discussion of why the R/C ratios for this class are, initially, so low. What assumptions or allocators has C&ND Hydro made that factor into these low R/C ratios.

Rate Design

31. Ref: Exhibit 8/pg. 1 – Revenue Requirement and Revenue Offsets

In the Rate Design Overview, C&ND Hydro states that its proposed 2010 service revenue requirement is $24,958,934, with revenue offsets of $1,488,010, to produce a base revenue requirement of $23,470,733. However, **Table 1 – Calculation of Base Revenue Requirement – 2010 Test Year** shows revenue offsets of $1,613,010, resulting in a base revenue requirement of $23,345,924. Please reconcile Table 1 with the discussion above in the table on **Exhibit 8/pg. 1**.

32. Ref: Exhibit 8/pg. 14/Table 13 and Exhibit 8/pg. 16/Tables 15 and 16 – Retail Transmission Rates

C&ND Hydro proposes that there be no adjustment to the Retail Transmission Service ("RTS") Network Services rate despite the variance showing an over-collection from May 1, 2007 to April 30, 2009 of $474,881 on IESO and Hydro One Networks billings of $15,797,650. Board staff observes that this variance is about 3% of actual billings. C&ND Hydro proposes that no adjustment be performed as the variance is not consistent (i.e. tending to over- or under-collect).

a) Please provide further explanation or support for C&ND Hydro's proposal to not adjust the RTS Network Services rate for the RSVA variance. Since May 1, 2009, do the monthly variances exhibit any trend or pattern?
b) Based on Tables 15 and 16 of Exhibit 8, please provide 2010 RTS Network Services rates that would result from adjustments including that for the 2-year over-collection of 3.0%.

Embedded Distributors

33. Ref: Exhibit 8/pp. 6-8/Tables 8 and 9

a) Please provide the spreadsheets used to derive the proposed embedded distributor rates for Hydro One Networks Inc. and Waterloo North Hydro Inc. (collectively, the "Embedded Distributors") in working Excel format.
b) Please identify what, if any changes, have been made to the methodology from that submitted by C&ND Hydro on behalf of itself and the Embedded Distributors and accepted by the Board in the application dealt with under Board file number EB-2007-0900.
c) Please identify the cost of capital and the tax/PILs rate used to derive the proposed rates.

d) If the cost of capital or tax/PILs rate differ from that used elsewhere in this application to derive the revenue requirement for other customer classes, please explain.

34. Ref: Exhibit 7/page 4 – Cost Allocation and Embedded Distributors

Under details of its Cost Allocation Study, C&ND Hydro notes that the calculations of embedded distributor rates for Hydro One Networks Inc. and Waterloo North Hydro Inc. are dealt with outside of the cost allocation model. C&ND Hydro requests that these calculations take precedence over the cost allocation ranges.

a) Please indicate whether embedded distributor revenues are recorded in account 4080. If recorded elsewhere, please indicate which account is used and why.
b) Please provide further explanation of the difficulties that C&ND Hydro encountered in trying to model the embedded distributor classes in the total distribution system cost allocation model; and
c) Does C&ND Hydro believe that it would be possible, by the time of its next rebasing application, to make appropriate corrections or adjustments so that the embedded distributors can be included like other customer classes in a total distribution system cost allocation model? Please explain your response.

Deferral and Variance Accounts

35. Ref: Exhibit 9/page 2/ll. 4-6 – Accounts 1518 and 1548

a) Please confirm that the Continuity Schedule for 2008 shown on **Exhibit 9/page 6** shows the net of revenues and costs for 2008 for accounts 1518 and 1548 under the column Transactions (reductions) during 2008, excluding interest and adjustments.
b) The application, at **Exhibit 9/page 2/ll. 4-6**, indicates that the transactions in 1518 and 1548 include only the revenue from retailers during 2005 to 2007, but incremental operating costs were left in operating expense. Please provide an updated Continuity Schedule including the adjustments related to the costs that were left in operating expense during 2005 to 2007.
c) Please update all relevant schedules and Tables elsewhere in the application (e.g. **Exhibit 9/page 9/Table 5**, and Rate Rider Calculations etc.) that would be impacted due to these adjustments.

36. Ref: Exhibit 9/pg. 9/Table 5

C&ND Hydro has proposed to dispose of a number of Deferral and Variance (“D/V”) Account balances, as listed on **Exhibit 9/page 7**:

Group 1

a. 1550 Low Voltage Account
b. 1580 RSVA Wholesale Market Service Charge Account
c. 1584 RSVA Retail Transmission Network Charges Account
d. 1586 RSVA Retail Transmission connection Charge Account
e. 1588 RSVA Power (Not Including Global Adj. Sub. a/c) Account
f. 1588 RSVA Power Account – Global Adj. Sub. Account
g. 1590 Recovery of Regulatory Accounts Balances Account

Group 2

- 1508 Other Regulatory Assets Account – OEB Cost Assessment
- 1508 Other Regulatory Assets Account – Pension Contributions
- 1518 RCVA Retail Account
- 1548 RCVA Service Transaction Account
- 1582 One Time Wholesale Market Service Account

There are other D/V Accounts for which C&ND Hydro is not proposing disposition of the audited December 31, 2008 balances including interest to April 30, 2010.

a) For those D/V accounts for which C&ND Hydro is not proposing disposition, please provide an explanation of why C&ND Hydro is not proposing to dispose of the balances for those accounts.

b) **Exhibit 9/page 9/Table 5** provides the calculation of the total D/V account balance of ($9,314,681) for which C&ND Hydro is proposing disposition.

i) In **Table 5**, under Group 2, C&ND Hydro lists the Smart Meter D/V accounts 1555 and 1556, but shows no amounts to be disposed. Please confirm that C&ND Hydro is not seeking disposition of the balances in the Smart Meter D/V accounts 1555 and 1556. If C&ND Hydro is seeking disposition of these account balances, please provide an update to Table 5 and a detailed explanation of why this is being proposed.

ii) Please provide an update to **Table 5** showing, as an additional group, with individual account details, the December 31, 2008 principals, and the associated interest for 2008, 2009 and January 1 to April 30, 2010, for the D/V accounts for which C&ND Hydro is not proposing disposition.

37. Ref: Exhibit 9 – Account 1588

On October 15, 2009, the Board's Regulatory Audit & Accounting group issued a bulletin related to Regulatory Accounting & Reporting of Account 1588 RSVA Power and Account 1588 RSVA Power Sub-account Global Adjustment. Please confirm whether or not C&ND Hydro plans on making any changes to its filing with respect to Account 1588.

Smart Meters

38. Ref: Exhibit 1/pages 9 and 15 and Exhibit 8/page 17 – Smart Meters

C&ND Hydro notes that it is authorized to deploy smart meters under O. Reg. 427/06 as it is procuring and deploying smart meters and related infrastructure pursuant to the London Hydro RFP. C&ND Hydro currently has an approved smart meter funding adder of $1.00 per month per metered customer. C&ND Hydro is not proposing to change the funding adder, nor, subject to clarification, does it appear that C&ND Hydro is proposing that amounts in the established deferral/variance accounts 1555 and 1556 be reviewed and disposed of at this time.

Please provide information of smart meter rate adder revenues collected, or forecasted to be collected, and smart meter capital and operating costs booked to sub-accounts of accounts 1555 and 1556, and on smart meters installed and forecasted to be installed, per the table shown in Appendix 2-S of the Board's Filing Requirements.

LRAM/SSM

39. Ref: Exhibit 1/page 30

At lines 4 to 7, C&ND Hydro states:

> "In preparing this Application, Cambridge and North Dumfries Hydro Inc. has considered the impacts on its customers, with a goal of minimizing those impacts and in doing so, Cambridge and North Dumfries Hydro Inc. has elected not to file an application for a CDM-related lost revenue adjustment ("LRAM") or shared saving ("SSM") with this Application."

As proposed in the Application, most customers would see bill decreases, at least for 2010, due to the proposal to refund the significant deferral/variance account balance over a period of one year.

Please confirm that, by electing to not apply for LRAM or SSM recovery in this application, C&ND Hydro is foregoing the opportunity of ever seeking LRAM or SSM recovery for the period up to 2008.

Green Energy and Green Economy Act

40. Ref: Exhibit 4/page 26

C&ND Hydro indicates that it has included a new staffing position for contract administration and customer contact requirements for the FIT and microFIT programs of the OPA.

a) Is this position dedicated to the FIT and microFIT program administration? If not, please indicate what other activities the employee will be engaged in, and the percentage of time that the employee is expected to be involved in Green Energy and Green Economy Act activities.

b) Please estimate the costs in the 2010 test year related to this staffing position.