Veridian Connections Inc.
2010 Electricity Distribution Rates
EB-2009-0140
Board Staff Interrogatories

General

1. Responses to Letters of Comment

Following publication of the Notice of Application, has the Applicant received any letters of comment in respect of this application? If so, please confirm whether a reply was sent by the Applicant in response to such comments and if so, please file copies of such responses with the Board. If not, please explain why a response was not sent and confirm if the Applicant intends to respond and file a copy of the response if and when such response is given.

Exhibit 1: Administrative Documents

2. Budget/Economic Assumptions

Refs: Exhibit 1 / 2 / 2 / p3
When discussing inflation factors for purchased goods and services, the Applicant states: “For adjusting 2008 distribution rates under 2nd Generation IRM a price escalator of 2.1% was used and for 2009, a price escalator of 2.3% was used.”

Please explain the relevance of the statement about 2008 distribution rates with respect to the current application.

3. Addendum to Revenue Requirement Work Form

Refs: Exhibit 1 / 2 / 5 / p1 and Exhibit 10 / 1 / 1 / Att. 4 / p73
A number of the values in the two references for Veridian_Gravenhurst’s GS<50kW class at 2,000 kWh/month appear to differ.

Please confirm the correct set of values and the exhibit that the Applicant is relying on.

Exhibit 2: Rate Base

4. Transfer of Assets at Book Value

Refs: Exhibit 2 / 2 / 1 / pp 2-4
On page 4, the Applicant states that in 2007 it undertook a corporate restructuring and regulatory compliance initiative "which included the transfer to Veridian of assets owned and used by affiliates to deliver distribution services. Prior to the transfer, these assets had been leased directly to Veridian or had been included in the cost of distribution services provided by affiliates. These assets were transferred at the book value of $8.2M."

a. Please describe the due diligence and audit process the Applicant conducted with regard to the $8.2 million asset transfer to (i) ensure the assets, at the time of their financial transfer to Veridian, had a fair market value of not less than $8.183 million (as shown in Table 2) and therefore the Applicant did not pay a premium and (ii) confirm that the Applicant did not rely on the value of the assets as recorded in the accounting systems of affiliates where the Applicant had no control and where the assets may have been recorded at an inflated value.
b. Please list all assets that were part of the $8.2 million transfer, together with their book value at time of transfer, that meet or exceed the Applicant's $240,000 threshold value.

5. Annual Capital Expenditures

Refs: Exhibit 2 / 2 / 1 / p4, Exhibit 2 / 2 / 3 / pp2-5 and Exhibit 2 / 4 / 1 / pp 1-2
In Exhibit 2 / 2 / 1 / p4, the Applicant equates Gross Fixed Assets to Annual Capital Expenditures by the use of the statement: "Veridian's annual increase in gross fixed assets (i.e. annual capital expenditure) is …".

In Exhibit 2 / 2 / 1 / p4 / Table 2, the Applicant provides its Annual Capital Expenditures. Expressing the values in million's of dollars and to one decimal point in order to facilitate comparison, the annual values are:

2006 Actual	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
$23.6	$14.9*	$18.3	$23.2	$22.2

* After "Removal of Non-Standard Additions" of $19.083 million.

In Exhibit 2 / 2 / 3 / p2, the Applicant presents a graph that shows the Total Gross Capital. Interpolating the values from the graph, Board staff obtains values that appear identical to those values shown in Exhibit 2 / 2 / 3/ p5 and entitled Total Investment; i.e.

2006 Actual	2007 Actual	2008 Actual	2009 Forecast	2010 Forecast
$22.4	$20.9	$23.9	$19.9	$25.7

These 2009 and 2010 values are the same as those in Exhibit 2 / 4 /1 / pp 1-2 and entitled "Total Gross Investment". In that exhibit the Applicant presents a summary of its Capital Plan and notes: "Included for reference is projects completed in 2008 in part because several projects listed for 2009 and 2010 are phased larger projects with initial phases completed in 2008."

a. Please confirm that the Applicant is using the terms Gross Fixed Assets, Annual Capital Expenditures, Total Gross Capital and Total Gross Investment interchangeably, or provide a detailed explanation of the differences in meaning.
b. Please reconcile the two tables above for all the years shown and, in particular, for 2009 and 2010.
c. Please state the 2009 and 2010 Capital Expenditure values that the Applicant proposes to add to its Rate Base as part of this application.
d. Please describe the $19.083 million Non-Standard Additions and list all of these additions that meet or exceed the Applicant's $240,000 threshold value, together with their book value (or purchase value), at time of addition.
e. Please reconcile the items comprising the $19.083 million with those, totalling $8.183 million that were transferred at book value.
f. Please clarify if the items comprising the $19.083 million additions and those comprising the $8.183 million transfer were substantially the same items or if one is a sub-set of the other, and, if not, differentiate between the two groups of items.
g. If some or all the items comprising the $19.083 million additions were added to the rate base, please verify if they were added at net book value or fair market value, or if another valuation was used.

6. Discretionary and Non-discretionary Capital Expenditures

Refs: Exhibit 2 / 2 / 3 / pp 1-2
On page 1, the Applicant differentiates between its discretionary and non-discretionary capital spending. On page 2, it shows a graph of the two categories where non-discretionary spending is shown to drop from approximately $18 million in 2006 to approximately $10 million in 2010; similarly, discretionary spending is shown to increase from approximately $4 million in 2006 to approximately $16 million in 2010.

a. Please confirm that for 2010, approximately 63% of the proposed capital spending is discretionary and 37% is non-discretionary.
b. Please list separately for 2009 and 2010: (i) all discretionary capital items that meet or exceed the Applicant's $240,000 threshold level and (ii) all non-discretionary capital items that meet or exceed the Applicant's $240,000 threshold level.

7. Conditions of Service

Refs: Exhibit 2 / 2 / 3 / pp1-5 and Exhibit 2 / 5 / 1 / pp1-39
In the pre-filed evidence the Applicant refers to its Conditions of Service.

a. Please identify any rates and charges that are included in the Applicant's Conditions of Service and provide an explanation for the nature of the costs being recovered.
b. Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2008 and the revenue forecasted for the 2009 bridge and 2010 test years.
c. Please explain whether, in the Applicant's view, these rates and charges should be included on the Applicant's tariff sheet.

8. Capital Investment Process

Refs: Exhibit 2 / 3 / 1 / pp 1-11
On page 1, the Applicant refers to the KPMG Report on asset management and notes that for the next five years the Applicant will continue to use its existing Capital Investment Process (CIP) after which, it intends to transition to the more formal approach advocated in the report. On page 5, the Applicant notes that "Veridian was considered by KPMG to be operating its AM [Asset Management] process at its expected level of maturity…"

a. Please summarize the reasons for apparently delaying the implementation of the more formal asset management approach.
b. Please elaborate on the "expected" level of maturity identified in the Report and, more specifically, state the *degree* of maturity the Applicant's system was judged to demonstrate.
c. Please summarize the Applicant's strategy to adopt the KPMG asset management plan.

9. Smart Meter Investments and Investments During the Incentive Term

Refs: Exhibit 2 / 5 / 6 / pp 1-4
After discussing smart meter investments, on page 3 and 4 the Applicant addresses "Investments during the Incentive Term" during which it discusses significant capital projects including a new $16 million transformer station. The juxtaposition of smart meter and transformer station investments is confusing.

a. Please provide the rationale for combining these two investment categories.
b. Please explain the "incentive period" being referenced in the discussion on the new transformer station, etc.

c. Please confirm that any non-smart meter investments within the Applicant's planning horizon and identified in this schedule, are included in the Applicant's long-term investments which are summarized, for the 2010 to 2012 period, in Exhibit 2 / 2 / 3 / p5 / Table 1.

10. Accumulated Amortization

Refs: Exhibit 2 / 6 / 14 / p1
In Table 1, the Applicant shows the accumulated amortization for the 2006 to 2010 period.

Please confirm that the Applicant has followed the Board's guidance regarding the half-year depreciation rule in all aspects of the preparation of this application, or, if not, please provide an explanation for not doing so.

11. Working Capital

Refs: Exhibit 2 / 10 / 2 / Attachment 1, Exhibit 3 / 4 / 3 /p1, Exhibit 3 / 4 / 5 / p1 and Exhibit 10 / 1 / 1 / Attachments 3-4
In Attachment 1, page 3, the Applicant shows the calculation of the cost of power and notes that the total energy purchased is 2,596,333,483 kWh.

In Exhibit 3 / 4 / 3 /p1 and Exhibit 3 / 4 / 5 / p1 for the Main and Gravenhurst tariff zones respectively, the Applicant states the total wholesale kWh deliveries in 2010 are 2,516,710,137 kWh and 99,133,900 kWh which, Board staff notes, sums to 2,615,844,037 kWh.

In Exhibit 10 / 1 / 1 / Attachment 3, page 33 and Attachment 4, page 33, for the Main and Gravenhurst tariff zones respectively, the Applicant shows the electricity commodity to be 2,495,436,595 kWh and 98,680,535 kWh which, Board staff notes, sums to 2,594,117,130 kWh.

a. Please reconcile the 2,596,333,483 kWh, 2,615,844,037 kWh and 2,594,117,130 kWh values.
b. Please confirm the value on which the Applicant is relying.

12. Service Quality

Refs: Exhibit 2 / 12 / 1 and 2
Schedule 1, page 1, provides a summary of the Applicant's service quality statistics for 2006 to 2008 for "Including failure of supply" and for 2007 and 2008 for "Excluding failure of supply". In Schedule 2, page 2, the Applicant provides the 2009 to 2013 annual targets for service quality; on page 3, it notes that there is "an apparent increase in severe weather events and more weather exposure on the system…"; and on page 4, provides a plot of SAIDI and SAIFI from January 2005 to April 2009 by quarter.

a. Please confirm that the service quality statistics are consistent with the Applicant's RRR filings.
b. Where the information is available, please expand the SAIDI, SAIFI and CAIDI elements of the table in Schedule 1, page 2, for the years 2003 to 2009 year to date.
c. Please confirm that the data in the table in Schedule 2, page 2, includes failure of supply.
d. Please file a copy of the Applicant's plan that it is pursuing to bring about the targeted improvement values shown in Schedule 2, page 2.
e. Please describe the additional contingency measures that the Applicant put in place when it recognized the apparent increase in severe weather events and more weather exposure on the system.
f. For each of the graphs in Schedule 2, page 4, please calculate the straight line trend (in the form: Hours = Intercept + Value multiplied by Time) and plot the line on the respective graph.

Exhibit 3: Loads, Customers – Throughput Revenue

13. Distribution Revenue

Refs: Exhibit 3 / 1 / 1 / p1, Exhibit 3 /2 /1 /p1 and Exhibit 3 /2 /1 / Attachments 1-2
The Applicant appears to variously quote the same item as Base Distribution Revenue and Distribution Revenue but the values reported are not quite the same. Specifically:

Exhibit Reference	Veridian_Main	Veridian_Gravenhurst
Exhibit 3 /2 /1 /p1	$45,089,996	$2,854,936
Exhibit 3 /2 / 1 / Attachment 1-2	$45,083,915	$2,853,198

In Exhibit 3 / 1 / 1 / p1, the Applicant states the Base Revenue Requirement for the utility to be $47,915,320.

a. Please confirm that Base Distribution Revenue and Distribution Revenue represent the same item, or explain the difference.
b. If the same item, please identify which amount the Applicant is relying on in its application.
c. Noting that the (Base) Distribution Revenue for the utility is, according to the table above, either $47,944,932 or $47,937,113 (i.e. $ 21,793 or $29,612 more than the Base Revenue Requirement), please consider if an adjustment in the requested rates can be made to close the gap and, if so, identify the change in proposed rates.

14. Load Forecast – Allocation of Forecasted kWh to Classes

Refs: Exhibit 3 / 4 / 2 / p2 and Exhibit 3 / 7 / 3 / p9
The Applicant explains that the forecasted kWhs for 2009 and 2010 are allocated to certain customer classes "based on their share of the 2008 wholesale kWh total exclusive of distribution losses".

Please provide a more detailed explanation including a step-by-step calculation that *utilizes distribution losses* for one example class.

15. Load Forecast – Intermediate and Large Use Customer Classes

Refs: Exhibit 3 / 4 / 3 / p2 and Exhibit 3 / 7 / 3 / p8 and pp12-14
In Exhibit 3 / 4 / 3 / p2 / Table 1, the Applicant shows the kWh and kW consumption for two four-month periods.

In Exhibit 3 / 7 / 3 / p8, the Applicant develops a wholesale load forecast by utilizing an employment forecast that is a reflection of the load change expected across all customer classes; that is, the expected economic strengths and weaknesses of individual classes are combined into a single economic forecast. In Exhibit 3 / 7 / 3 / pp12-14, for the Intermediate and Large Use customer classes, the Applicant uses a separate economic forecast for these two classes which suggests their expected economic impact is being counted twice .

a. With respect to Exhibit 3 / 4 / 3 / p2 / Table 1, please: (i) clarify if the table refers to purchased or billed (retail) quantities; (ii) clarify if the values shown are the totals for the referenced four-month periods or a monthly average; and (iii) update the table by including a third four-month period: i.e. July 2009 to October 2009.
b. Please confirm that the employment forecast used in Exhibit 3 / 7 / 3 / p8 already includes the downturn expected in the Intermediate and Large Use customer classes and hence their expected downturn is spread over *all* the classes.
c. Please calculate the 2009 and 2010 forecasts for the Intermediate and Large Use customer classes utilizing the average expected changes in load as calculated by the Applicant and displayed in Exhibit 3 / 7 / 3 / pp8-9 / Table 7.

16. Load Forecast – NAC values and Gravenhurst's Residential Seasonal Customers

Refs: Exhibit 3 / 7 / 1 / p1, Exhibit 3 / 7 / 2 / p1, Exhibit 3 / 7 / 3 / p3 and p21

The Applicant calculates and displays various Normalized Average Consumption (NAC) tables in these exhibits. It also explains its rationale for using the NAC values in the determination of the load forecast for Gravenhurst's Residential Seasonal customers. In Exhibit 3 / 7 / 3 / p20, when referring to Gravenhurst's Residential Seasonal customers, the Applicant notes: "Our understanding is that the class throughput calculated for this process is on a "purchased" or wholesale basis, rather than a retail or metered basis."

a. Please confirm that while NAC values are calculated and displayed for various customer classes, the NAC value is only actually *used* in calculating the load for Gravenhurst's Residential Seasonal customers, or explain.
b. Please explain how the weather-normalized average consumption was determined for Gravenhurst's Residential Seasonal customers for the years 2005 to 2008 when, it would appear, 2004 was the only year for which weather-normalization calculations were performed by Hydro One.
c. Please explain how, in Exhibit 3 / 7 / 3 / p20, the Applicant is uncertain if its own data is wholesale or retail, and clarify if that uncertainty exists regarding any other data used in the application.

17. Load Forecast – Manual Adjustments

Refs: Exhibit 3 / 7 / 2 / p6 and p18
In Tables 4 and 17, the Applicant provides a comparison of the actual and predicted kWh deliveries for the Main and Gravenhurst tariff zones respectively.

a. Please clarify if any manual adjustments were made in developing the predicted values; i.e. if any value(s) developed by the model was/were subsequently modified by the Applicant in light of their forecasting expertise and experience.
b. If any manual adjustments were made, please (i) provide details and (ii) calculate the 2009 and 2010 kWh load forecasts without including any manual adjustments in the forecasting model.

18. Load Forecast – Loss Factors

Refs: Exhibit 3 / 7 / 3 / pp 1-25
On pages 9 and 15 for Veridian_Main and on pages 19 and 23 for Veridian_Gravenhurst, the Applicant shows the 2010 wholesale and billed kWh for the respective zones.

Please calculate the two implied loss factors and compare these with the matching loss factors requested for approval in the application.

19. Customer Connections

Refs: Exhibit 3 / 6 / 1 / p1 and Exhibit 3 / 6 / 2 / p1
For each of the tariff zones, the Applicant provides its customer count forecast by customer class for 2009 and 2010.

Please provide in the same format as currently filed (i.e. Tables 6 and 7), the 2009 year-to-date customer connections and state the applicable 2009 period.

20. Distribution Revenue – Other Incomes and Deductions

Refs: Exhibit 3 / 8 / 1 / p1, Exhibit 3 / 4 / 2 / p1 and Exhibit 3 / 8 / 3 / p4
The Applicant provides the 2006 to 2010 values for "Other Income and Deductions".

Please provide further details of the expected decrease in this revenue offset that decreases from a 2008 value of $2.2 million to a 2010 value of $0.9 million.

Exhibit 4: Operating Costs

21. Economic Assumptions for Increases to OM&A

Ref: Exhibit 1 / 2 / 1 / pp1-19, Exhibit 1 / 2 / 2 / pp1-3, Exhibit 4 / 2 / 1 / pp1-7, Exhibit 4 / 4 / 4 / pp1-16 and Exhibit 4 / 5 / 3 / pp1-2
The Applicant makes a number of references to its inflation assumptions.

Please identify the inflation rate(s) used for the 2010 OM&A forecast and the source documents for the inflation assumptions.

22. Additional Resources – Drivers

Refs: Exhibit 4 / 2 / 1 / p3
On page 3, the Applicant shows "Additional resources will be required for:" and provides a list of the activities driving the increases.

Please provide a table for 2008, 2009 and 2010 that shows the FTEs (both the base numbers and annual increases) for each of the categories and sub-categories identified by the Applicant in the above reference, i.e.:

- IFRS
- Regulatory compliance and reporting
- Smart Grid

- Green Energy Act
- Low Income Energy Assistance
- Proposed code changes to customer service requirements
- Standards and changes in billing frequency
- Asset Management
- Distribution equipment maintenance
- Vegetation management programs
- PCB compliance

23. OM&A costs per Customer and FTEE

Refs: Exhibit 4 / 2 / 1 / Attachment 5 / p1
In the table referenced as Appendix 2-J, the Applicant shows:

- The OM&A Cost per Customer as increasing from $177 in 2008 to $198 in 2010, and
- The Customer/FTEE as decreasing from 594 in 2008 to 480 in 2010.

a. Please confirm that the above data indicates the OM&A cost per customer is increasing at approximately 5.9% per year in the 2008-10 period, and that the number of customers supported by each FTEE is decreasing by approximately 9.6% per year in the 2008-10 period.
b. Please comment on the change in performance level suggested by these data.

24. Transition to Bi-Monthly Billing

Refs: Exhibit 4 / 4 / 4 / p12
The Applicant discusses the transition from quarterly to bi-monthly billing.

Please clarify if, by “bi-monthly”, the Applicant is referring to billing that occurs once every two months or twice per month.

25. Employee Headcount, Compensation and Benefits

Refs: Exhibit 4 / 4 / 1 / p1 and Exhibit 4 / 5 / 1 / p1
In Exhibit 4 / 4 / 1 / p1 / Table 1, the Applicant shows, for the years 2006 to 2010, the Total OM&A expenses. In Exhibit 4 / 5 / 1 / p1 / Table 1, the Applicant shows, for the years 2006 to 2010, the total compensation per employee group and the average compensation per employee across all employee groups.

a. Please confirm the cost summary extracted from the two referenced tables:

	2006 Actual	2008 Actual	2010 Projected
Total OM&A	$19.413M	$19.589M	$22.399M
Total Compensation	$14.414M	$17.088M	$21.331M

Total OM&A less Total Compensation	$4.999M	$2.501M	$1.068M

and that the equivalent annual increases are approximately:

	2006 Actual – 2008 Actual	**2008 Actual – 2010 Projected**
Total OM&A	0.5% p.a.	7.2% p.a.
Total Compensation	9.3% p.a.	12.4% p.a.
Total OM&A less Total Compensation	-25.0% p.a.	-28.6% p.a.

b. Please explain the expenses that were cut to bring about the 25%-29% annual reductions in “Total OM&A less Total Compensation”.
c. Please reproduce Exhibit 4 / 5 / 1 / p1 / Table 1, to show the compensation *per employee* for each employee group rather than total compensation for each employee group.

26. Number of Employees

Refs: Exhibit 4 / 5 / 2 / p1
In Table 1, the Applicant shows, for the years 2006 to 2010, the number of employees by employee group and in total for all groups combined.

a. Please confirm the increase in total headcount from 2006 to 2008 is approximately 6.6% per year and from 2008 to 2010 is approximately 13.1% per year.
b. Please explain the key changes in the Applicant’s operations that have driven these changes.
c. Please comment if, to the best of the Applicant’s knowledge, the changes in the Applicant’s operations are unique to the Applicant or are being experienced by peer utilities.
d. With reference to Board staff interrogatory No. 6 where the observation was made that, based on the Applicant’s pre-filed evidence for 2010, approximately 63% of the proposed capital spending is discretionary and 37% is non-discretionary, please provide a breakdown of the 2008-2009 and 2009-2010 employee increases by employee class that are discretionary vs. non-discretionary and provide the supporting rationale for same.
e. Again with reference to Board staff interrogatory No.6 please state the number of additional employees the Applicant would require in each of 2009 and 2010 if the Applicant were only to acquire the capital items that it has already identified as non-discretionary and not acquire those capital items it has already identified as discretionary, and provide the supporting rationale.

27. 2009 Bridge and 2010 Test Year Employee Additions

Refs: Exhibit 4 / 5 / 8 / p1
In Table 1, the Applicant shows a detailed breakdown of the employee additions by position.

Please summarize the data by the grouping the positions into Operations, Maintenance or Administration.

28. Incentive Compensation

Refs: Exhibit 4 / 5 / 9 / p1
The Applicant provides incentive compensation data in Table1. The data in the table appears to be, for each year, the total incentive compensation paid to all employees in that employee group divided by the number of employees in the group.

a. Please confirm Board staff's interpretation, or explain.
b. If Board staff's interpretation is incorrect, please recalculate the table with the values calculated using the dollars-per-FTE interpretation noted above.

29. Shared Services

Refs: Exhibit 4 / 6 / 3 / p1
The Applicant notes that in the 2007 corporate realignment, 84 employees were transferred to itself.

Please provide details and state how many of the 84 employees were allocated to the Operations, Maintenance or Administration categories respectively.

30. Purchase of Non-Affiliate Services

Refs: Exhibit 4 / 7 / 1 / pp 1-3
In Tables 1 to 5, the Applicant shows for the respective year and for each non-affiliate company, the "Forecasted Annual Total OM&A Purchase of Services exceeding $240k".

a. Please clarify if the "Annual Dollar Amount" shown for each company in the table is (i) the annual total for only those services that individually exceed $240k or (ii) the annual total for *all* services of *any* value from the respective company where at least one purchase exceeds $240k.
b. Please provide a table in a similar format for 2010 that shows the top six non-affiliate companies by total dollar purchases in the year whether or not any of the purchases exceed $240k.

31. Tax Calculations

Ref: Exhibit 4 / 9 / 2 / pp1-2
Effective July 1, 2010, the Ontario Small Business Income Rate will drop for companies that have income greater than $1.5 million from 14% to 12% (i.e. the 2010 effective Ontario Small Business Income Rate will be 13%), the surtax and the Capital Tax will be eliminated. The 2010 effective annual Capital Tax rate can be expressed as 0.075%. Also, effective July 1, 2010, the combined federal and Ontario Corporate Income Tax Rate for companies that have income greater than $1.5 million will drop from 32% to 30% (i.e. the 2010 effective annual tax rate will be 31%).

a. Please explain whether the Applicant has included these changes in tax rate in its PILs calculations and how it has interpreted the capital tax and income tax changes that will become effective on July 1, 2010 with respect to proration in 2010.
~~b.~~ Please show the calculations and explain how the Applicant selected the tax rates used in the application.
c. If the Applicant has not already included the July 1, 2010 tax rate changes, please repeat the PILs tax proxy allowance calculations including these changes and submit them in reply to this interrogatory.

32. Harmonized Sales Tax

Ref: Exhibit 4 / 9 / 2 / pp1-2
It is expected that the PST and GST will be harmonized effective July 1, 2010.

In the event that PST and GST are harmonized effective July 1, 2010:

a. Would the Applicant agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?
b. Are there other alternatives the Applicant would suggest that the Board might consider to reflect the reductions in OM&A and capital expenditures if this bill is enacted?

33. Low Income Energy Assistance Program Costs

Refs: Exhibit 4 / 4 / 4 / p11
In this exhibit, the Applicant makes reference to both $30k and $55k Low Income Energy Assistance Program (LEAP) donations.

a. Please clarify the amount included in the application for LEAP activities.
b. Please clarify whether these are existing or new programs.

34. Conservation and Demand Management Program

Refs: Exhibit 2
In this exhibit, the Applicant makes numerous references to its Conservation and Demand Management (CDM) program.

Please provide a summary of the Applicant's CDM initiatives and compare the reduction expected by the Applicant against the CDM assumptions included in the IESO 18-Month outlook.

Exhibit 5: Cost of Capital and Rate of Return

35. Change Promissory Notes to Variable Rates

Refs: Exhibit 5 / 2 / 1 / p1
The Applicant explains that it is contemplating, for the long-term promissory notes totalling $43.6 million it holds with the four separate municipal shareholders, changing the interest rate on the notes from 7.6% to a variable rate. It explains that this would better balance ratepayer and shareholder concerns.

Please elaborate on the proposed change including how the change would better balance ratepayer and shareholder concerns.

36. Rationale for New $21 Million Debt

Refs: Exhibit 5 / 2 / 1 / p2
On page 2, the Applicant explains that as well as the existing $43.6 million municipal debt, it requires an additional $21 million of long-term debt to finance capital projects. The explanation in the pre-filed evidence is provided in the future tense; i.e. "the additional debt will be provided by parent company, Veridian Corporation."

a. Please confirm that the Applicant does not yet hold the referenced $21 million debt
b. Please provide full details of the $21 million debt including when the additional debt is expected to be acquired.
c. Please explain why this amount of additional debt is being acquired.
d. Please explain how capital projects were financed during the past few years.
e. Given that the Applicant's plan shows historical and future capital expenditures remaining steady at about $20 million per year, please explain why it is necessary to acquire the additional debt at this time when it apparently was not required in the recent past.

37. Value of a Specific Promissory Note

Refs: Exhibit 5 / 2 / 1 / p2 and Exhibit 5 / 2 / 2 / Attachment 3

The Applicant explains that, in addition to its other debts, it holds a $21.322 million long-term debt payable to its parent, Veridian Corporation, at the rate of 5.56%, issued in 2007 and directs the reader to Attachment 3 for further details. Attachment 3 is entitled “Term Promissory Note”, has been signed by both the Chair and President-and-CEO, is dated 1st June, 2007, and bears an interest rate of 5.56% p.a. However, the Principal Amount is shown as $30 million.

Please provide a full explanation for the discrepancy.

Exhibit 6: Calculation of Revenue Deficiency or Surplus

38. Apportionment of 2010 Base Revenue Requirement

Refs: Exhibit 6 / 2 / 2 / p2
On page 2, the Applicant states: “Veridian proposes that the 2010 Base Revenue Requirement be apportioned to the two rate zones in the same proportion as the 2006 Approved Base Revenue Requirement for the rate zones.”

a. Please explain the process that the Applicant used to establish the 2006 apportionment of Base Revenue Requirement for the two rate zones.
b. Please identify any changes that may have occurred since the 2006 apportionment and, in light of those changes, assess the risk of error that may now exist in assuming the 2006 apportionment is applicable to the current 2010 test year application.

Exhibit 7: Cost Allocation

39. Updates to the Cost Allocation Models for 2010

Refs: Exhibit 7 / 2 / 1 / pp1-3
On page 1, when referencing the 2010 test year the Applicant states: “Given the information available, the proposed methodology had to be developed without detailed rate zone asset and cost information or allocators for non-rate zone specific components of revenue requirement such as Regulated Return and PILs.” On page 3, Table 1, as part of the changes to the VM-2010 model, the Applicant states: “adjusted for 3, 4 and 5 above.” However, it is unclear what adjustment is being made since the model being referred is only the 4th model.

a. Please identify the magnitude of the errors that may exist in view of the absence of the detailed information referenced.
b. Please restate Table 1 as necessary to remove confusion.

40. 2010 Proposed Revenue-to-Cost Ratios

Refs: Exhibit 7 / 3 / 1 / pp1-4
On page 1, Table 1, the Applicant shows the revenue-to-cost ratios for the Main tariff zone. The Applicant then states: “Adjustments required to reach a 100% revenue to cost ratio for all customers is not being recommended at this time as this would result in some customers experiencing rate shock.” On Page 4, Table 3, similar information is presented for the Gravenhurst tariff zone.

a. Please provide in quantitative terms, the Applicant’s definition of “rate shock”.
b. Please recalculate both Table 1 and Table 3 so that each class is moved as close to the 100% target as soon as possible but without experiencing rate shock.

41. Cost Allocation

Refs: Exhibit 7 / 3 / 1 / Attachment 1 / p1
In Appendix 2-P, for the Main tariff zone, the Applicant shows the proposed revenue-to-cost ratios for Residential and GS<50kW classes to be 98.55% and 114.78% respectively.

Assuming no changes were made to any of the other classes, please calculate the resulting GS<50kW class ratio if the Residential class ratio were moved to 100%

<u>Exhibit 8: Rate Design</u>

42. Fixed and Variable Service Charges

Refs: Exhibit 8 / 2 / 1 / p1 and Exhibit 8 / 2 / 2 / p1
In the above exhibits for the Main and Gravenhurst tariff zones respectively, the Applicant displays the proposed fixed and variable percentages.

By referencing the pre-filed exhibit, please confirm the load forecasts used in the calculations.

43. Network and Connection Charges

Refs: Exhibit 8 / 4 / 3 / p1 and Attachment 1, pp1-2

In the exhibit, the Applicant provides network and connection charges, together with variances, for the January 2007 to May 2009 period and suggests the May 2009 increase to retail rates will correct the under recovery trend.

a. Please provide an expansion of both the Network and Connection tables showing the anticipated changes until the end of 2010.
b. Please provide a graph covering the January 2007 to December 2010 period showing the cumulative monthly under/over recovery for the total of the network and connection charges for the Main tariff zone.

44. Low Voltage Charges Averaged over a 4-Year Period

Refs: Exhibit 8 / 5 / 2 / p2
The Applicant states: "As Veridian is forecasting LV charges that are appropriate not only for the Test Year of 2010 but for the subsequent 3-year IRM period, a forecast based strictly on the approved rates including the rate rider would understate the LV charges past April 2011 and result in a significant under recovery for the subsequent period before Veridian's next Cost of Service rebasing." The Applicant notes that this expected under-recovery is its rationale for averaging the Low Voltage (LV) charges over the entire 4-year period of May 2010 to April 2014.

a. Please provide a table for the May 2010 to April 2014 period showing the anticipated cumulative under/over recovery of the Applicant's LV charges if the proposed change in methodology were not included.
b. Please calculate the LV charges that would apply in each of the four years if the LV charges were not averaged as proposed.

45. Allocation of LV Charges to Rate Classes

Refs: Exhibit 8 / 5 / 5 / pp1-4
On page 1, the Applicant states that it has employed the same methodology for allocating the forecast LV charges as it used in the 2006 EDR Model. Tables 1 and 4 for the Main and Gravenhurst tariff zones respectively, show the Test Year Revenues for Transmission – Connection. In the same tables, the superscripts used do not appear to be defined.

a. Please discuss the alternate methodologies that were considered for the allocation of LV charges, explain their relative strengths and weaknesses, and rationalize the selection made.
b. Please show the calculations for the Test Year Revenues for Transmission – Connection as displayed in Tables 1 and 4.
c. Please define the superscripts used in Tables 1 and 4.

46. Loss Factors – Veridian_Main

Refs: Exhibit 8 / 6 / 2 / pp1-2 and Exhibit 8 / 6 / 4 / p1
In Exhibit 8 / 6 / 2 / p1, the Applicant proposes a Distribution Loss Factor (DLF), a Supply Facility Loss Factor (SFLF) and a Total Loss Factor (TLF) of 2.995%, 1.54% and 4.581% respectively. In Exhibit 8 / 6 / 4 / p1, the Applicant shows the 3-year average for the loss factors to be the same as those just quoted.

However, also in Exhibit 8 / 6 / 2 / p1, the Applicant states: "As of May 1, 2009 loss factors applied at 6 of the 31 IESO delivery points have increased from 3.4% to 4.4%. The SFLF proposed for the test year uses these new factors for those delivery points."

a. Please confirm that the loss factors that the Applicant is applying for in 2010 are 2.995%, 1.54% and 4.581% as noted.
b. Please explain how the higher loss factors at 6 of the 31 IESO delivery points and effective May 1, 2009, are also part of the Applicant's 2010 proposal which is numerically the average of the three *historical* years 2006, 2007 and 2008.

47. Loss Factors – Gravenhurst

Refs: Exhibit 8 / 6 / 3 / pp1-2 and Exhibit 8 / 6 / 4 / p2
In Exhibit 8 / 6 / 3 / p1, the Applicant proposes a Distribution Loss Factor (DLF), a Supply Facility Loss Factor (SFLF) and a Total Loss Factor (TLF) of 6.504%, 3.4% and 10.125% respectively. In Exhibit 8 / 6 / 4 / p2, the Applicant shows the 3-year average for the loss factors to be the same as those just quoted. In Exhibit 8 / 6 / 3 / p1, the Applicant states that its three currently-approved loss factors are 8.354%, 0.045% and 8.884% and that these factors were calculated as part of the 2006 EDR application which used a different methodology.

a. In order to differentiate between loss factor changes that were the result of a different methodology versus a change in base data, please determine what the 2006 approved loss factors would have been if the current methodology had been used.
b. If the newly-calculated 2006 DLF and/or SFLF are different from the historical values in Exhibit 8 / 6 / 4 / p2, please explain fully the physical changes that occurred in the Applicant's distribution system during the past few years.

48. Gravenhurst Hydro Action Plan

Refs: Exhibit 1 / 1 / 14 / p1 and Attachment A, and Exhibit 8 / 6 / 3 / p2
In the above references, the Applicant describes the background to the 2006 action plan it was required to file with the Board. In Attachment A, it files a copy of the action plan and on page 3 of the plan after describing the study it intended to perform states: "Based on the above study, the first loss reduction targeted operating and capital provisions will appear in Veridian's 2008 budget."

a. Please file a copy of the completed study.
b. Please identify the referenced capital provisions that were included in the Applicant's 2008 budget and any subsequent capital provisions included in the current application (including the upgrade to the First Street Substation in Gravenhurst) for 2009 and 2010.

49. Revenue Reconciliation

Refs: Exhibit 8 / 7 / 4 / pp1-2
The Applicant shows, for the Main and Gravenhurst tariff zones in turn, the calculation of the Fixed Charge, the Variable Charge and the Gross Revenue which, in the case of the last mentioned, would seem to be the total of the first two charges.

a. Please verify that the Gross Revenue is the total of the Fixed Charge and the Variable Charge, or explain.
b. If a) is answered in the affirmative, please confirm that, for the Main Residential class, the sum of the revenues from the two charges (i.e. $13,229,674 and $15,023,650) is $28,253,324 and not $28,803,926 as shown in the table.
c. Please recalculate the Main and Gravenhurst tables as necessary and show any follow-on changes needed in the application.

Exhibit 9: Deferral and Variance Accounts

50. Regulatory Audit Bulletin – Account 1588

Ref: Exhibit 9 / 2 / 2 / p3
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 the Applicant plans on making any changes to its filing with respect to Account 1588

51. Allocation of Common Accounts

Refs: Exhibit 9 / 2 / 1 / p1
The Applicant states that for common accounts, the balances have been allocated on the basis of each zone's forecasted test year customer count.

Please explain the selection of this rationale and describe any alternate approaches that were considered and rejected – and why.

52. PCB Compliance Costs

Refs: Exhibit 9 / 2 / 2 / pp5-6
The Applicant explains how it intends to record its 2009 PCB compliance costs in account 1572, Extraordinary Event Costs and seek Z-factor disposition at a later date. It also explains that it has estimated its 2010 to 2013 PCB compliance costs and has amortized these costs in the application over the 2010 to 2013 period.

Please explain the rationale for handling the two sets of costs in the ways described.

53. Account 2425 – Deferred Credits

Refs: Exhibit 9 / 3 / 2 / pp1-3
The Applicant explains how, apparently for the Gravenhurst zone, the credit balance in account 2425 was brought about by Bill 210 making the then-interim rates final at a level that was higher than required in the long term. On page 3, the Applicant states: "Because the December 31st, 2008 balance of $387,465 was recovered pursuant to a final rate order, Veridian proposes to reclassify the balance as distribution revenues from prior periods."

a. Please confirm that the credit balance is applicable to the Gravenhurst tariff zone only.
b. Please explain the mechanism that the Applicant is proposing whereby its customers would receive the benefit of the over-recovery to which they had contributed; specifically, over what period would the rate adder/rider apply. Please give full details.
c. Please explain why it is apparently not being proposed to include this over-recovery with the other deferral and variance accounts shown in Table 2 in Exhibit 9 / 3 / 1 / page 3 when to do so would have the impact of further mitigating the proposed rate increase.

54. Proposed General Rate Riders

Refs: Exhibit 9 / 3 / 4 / p5
Tables 5 and 6 show the proposed general rate riders for the Main and Gravenhurst zones respectively.

For each zone, please provide a reconciliation of the proposed rate riders with the balances being disposed.

55. Methodology and Calculation for Disposition of Smart Meter Costs

Refs: Exhibit 9 / 2 / 1 / p2 and Exhibit 9 / 4 / 4 / Attachment 1 / pp1-7
In Exhibit 9 / 2 / 1 / p2 / Table 2, the Applicant shows its Smart Meter Variance Account Balances as of December 31, 2008 to be:

- 1555-Smart Meter Capital Variance $9,214,519
- 1556- Smart Meter OM&A Variance $1,286,562

In the attachment, the Applicant shows the calculation of the $0.54 monthly rate rider and begins that calculation on page 1 with the 2009 entry:

- Smart Meter Related Fixed Assets Net Book Value – Dec 31: $6,644,822

Please compare and reconcile the values for accounts 1555 and 1556 in Exhibit 9 / 2 / 1 / p2 with the values in Exhibit 9 / 4 / 4 / Attachment 1 / pp1-2 and, in particular, identify where in the calculation of the rate rider the values from accounts 1555 and 1556 are represented.

56. Stranded Costs

Refs: Exhibit 9 / 4 / 3 / p1
The Applicant discusses stranded costs relating to the mechanical meters.

a. Please itemize and quantify the benefits and costs (e.g. reduced meter costs) associated with the deployment of smart meters included in this application.
b. Please clarify if the Applicant has complied with all requirements of the OEB's "G-2008-0002 Guideline: Smart Meter Funding and Cost Recovery" including the interpretation of minimal functionality, the smart meter procurement process, etc. as listed on page 2 of the Guideline.

57. PILs Accounts

Refs: Exhibit 9 / 3 / 1 / pp1-4

The Board has commenced a proceeding (EB-2008-0381) to review PILs. The Board has indicated that the results of this proceeding will inform its policies on the disposition of balances in the PILs accounts 1562, 1563 and 1592.

Please state why has the Applicant has applied to dispose of the balance in PILs account 1592 before the Board reaches its decision on the matters in case EB-2008-0381.

58. Allocation of Account 1590

Refs: Exhibit 9 / 3 / 3 / p1
According to the “Report of the Board on Electricity Distributors’ Deferral and Variance Account Review Initiative (EDDVAR)” (EB-2008-0046), disposition of account 1590 is to be allocated to rate classes in proportion to the recovery share as established when rate riders were implemented. The Applicant has used kWh.

Please recalculate the rate rider using the default allocation factor as per the Board report EB-2008-0046.