



THE BOARD OF DIRECTORS

Chair, GAIL REGAN
President, Cara Holdings Ltd.

President, PATRICIA ADAMS
MAX ALLEN
Producer, IDEAS, CBC Radio
GEORGE CONNELL
President Emeritus, University of Toronto
ANDREW COYNE
Journalist
IAN GRAY
President, St. Lawrence Starch Co

Secretary/Treasurer, ANNETTA TURNER
DAVID NOWLAN
Professor Emeritus, Economics, University of Toronto
CLIFFORD ORWIN
Professor of Political Science, University of Toronto
ANDREW ROMAN
Barrister & Solicitor, Miller Thomson
MARGARET WENTE
Columnist, Globe and Mail

December 11, 2009

BY EMAIL AND COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2009-0271
Oakville Hydro Electricity Distribution Inc. – 2010 Cost of Service Application

Pursuant to Procedural Order No. 3, issued by the Board on November 30, 2009, Energy Probe Research Foundation (Energy Probe) reviewed the evidence in this proceeding, including interrogatory responses, to determine the time needed for its settlement conference preparation.

It has become apparent to Energy Probe that in order for it to contribute positively to a productive settlement conference, it will require some clarification of a small number of the answers filed by the Applicant in response to interrogatories. Energy Probe has therefore prepared a set of questions designed to elicit responses that will assist in clarification of the record.

Energy Probe requests the Board direct the Applicant to file its answers to all the attached clarification questions by December 23, 2009, allowing intervenors adequate time to prepare for the settlement conference.

Please add Mr. Peter Faye, counsel to Energy Probe, to the list of intervenors and include him on your distribution list. He will file a Confidentiality Declaration. His particulars are as follows:

Peter T. Faye
Barrister and Solicitor
42 Eastwood Crescent
Markham ON L3P 5Z7
Tel: (905) 294-2013
Email: pfaye@rogers.com

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

Phone: (416) 964-9223 Fax: (416) 964-8239 E-mail: EnergyProbe@nextcity.com Internet: www.EnergyProbe.org

Should you require additional information, please do not hesitate to contact me.

Yours truly,

A handwritten signature in black ink, appearing to read "David S. MacIntosh", with a long horizontal line extending to the right.

David S. MacIntosh
Case Manager

cc: Cristina Birceanu, Oakville Hydro Electricity Distribution Inc. (By email)
James Sidlofsky, Borden Ladner Gervais LLP (By email)
Peter Faye, Counsel to Energy Probe (By email)
Randy Aiken, Aiken & Associates (By email)
Intervenors of Record (By email)

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 Oakville
Hydro Electricity Distribution Inc. for an order approving
just and reasonable rates and other charges for electricity
distribution to be effective May 1, 2010.

**CLARIFICATION QUESTIONS OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

December 11, 2009

**OAKVILLE HYDRO ELECTRICITY DISTRIBUTION INC.
2010 RATES REBASING CASE
EB-2009-0271**

**ENERGY PROBE RESEARCH FOUNDATION
CLARIFICATION QUESTIONS**

Clarification Question # 1

Ref: Energy Probe Interrogatory # 3

- a) **The interrogatory requested the resulting reduction in costs associated with the 2 new executive positions related to the efficiency gains that were expected from these additions. No cost reduction figures were provided. Please provide an estimate of the cost reductions as originally requested.**

- b) **When does Oakville Hydro expect the Mercer compensation study to be completed? Will Oakville Hydro file this report with the Board and intervenors when it is completed? If not, why not/**

Clarification Question # 2

Ref: Energy Probe Interrogatory # 4

- a) **Oakville Hydro did not fully answer the question posed in part (a). How does Oakville Hydro deal with the replacement of a vehicle where the vehicle being replaced is sold? Please provide what account(s) are impacted by the sale of the fully depreciated asset.**

- b) **Oakville Hydro indicates that it does not close projects on the system and transfer the assets to the fixed asset ledger for depreciation until the end of the year. Please explain how Oakville Hydro calculates depreciation for the year for these assets that are not transferred to the fixed asset ledger until the end of the year? For example, does Oakville Hydro take one day's depreciation expense on these assets, or does it assume 6 months depreciation, or a full year of depreciation?**

Clarification Question # 3

Ref: Energy Probe Interrogatory # 5

- a) **Why does Oakville Hydro not take into consideration the split between RPP and non-RPP volumes when calculating the cost of power?**

- b) What proportion of the 2010 kWh forecast is associated with non-RPP customers? If this figure consistent with the information provided at Table 5 of Exhibit 9, Tab 2, Schedule 1? If not, why not?
- c) Does the forecast provided in Table 5 of Exhibit 9, Tab 2, Schedule 1 of non-RPP kWh's take into account the additional customers that moved to non-RPP status as of November 1, 2009? If not, does Oakville Hydro have an estimate of the incremental annual non-RPP kWh's associated with these customers? If so, what is the estimate?

Clarification Question # 4

Ref: Energy Probe Interrogatory # 6 & # 7

- a) The response provided in part (a) of the interrogatory does not replicate Table 16 in its entirety. Please confirm that the figures shown in the response to part (a) of the interrogatory response for the 2009 forecast is equivalent to the first column of numbers provided in Table 16 of Exhibit 2, Tab 4, Schedule 3 and that this is the amount that would be closed to rate base. If this cannot be confirmed, please provide a complete Table 16 based on the figures provided in response to the interrogatory for the 2009 forecast of capital expenditures of \$17,429,469.
- b) Please explain why Oakville Hydro will be spending \$500,000 on new distribution meters in each of 2009 and 2010 (that do not include smart meters) at the same time it is installing smart meters. Why will some customers be receiving new distribution meters that are not smart meters?
- c) The 2009 forecast of capital expenditures is about \$1.5 million lower than that included in the pre-filed evidence. How much of this reduction is due to deferrals to 2010 and how much will not be spent in either 2009 or 2010?
- d) Is Oakville Hydro proposing that this revised 2009 forecast be used in determining the 2010 rates? If not, why not?

Clarification Question # 5

Ref: Energy Probe Interrogatory # 9

Oakville Hydro indicates that it is not able to provide responses to this interrogatory because it does not have historical consumption data over the period January 1998 to December 2001 for customers B, C, D and E. In light of this please provide the following:

- a) Please provide the regression statistics and Gwh forecasts that result from the selected version 5 of the regression equation using historical data starting in January 2008 and extending it to the latest actual data available in 2009.
- b) Rerun the regression equation in (a) above as requested in Energy Probe Interrogatory # 9 and provide the information requested in all parts of the interrogatory.

Clarification Question # 6

Ref: Board Staff Interrogatory # 10 a

In the response to Board Staff Interrogatory #10, part (a), Oakville Hydro is requesting that the its load forecast be updated with Ontario's Real GDP of -3.5% for 2009 and 2.0% for 2010 when final rates are determined.

- a) Please provide the impact on the revenue requirement of this request.
- b) Please provide the impact, by rate class, of this request.
- c) Please explain why the coefficients on population and the large user have changed. Has Oakville Hydro increased the number of months for which historical data is available in 2009 as compared to the prefiled version 5?
- d) Please provide the regression statistics for the new version 5 used in the forecast provided in the response to Board Staff.
- e) If the t-statistics for the population variable is less than 1.5, please re-estimate the new version 5 excluding this variable, and provide the regression statistics and the forecast Gwh's associated with the new GDP forecast.
- f) Please rerun the equation estimated in (e) above and shorten the period to use data beginning in January 2009 and remove the volumes associated with customers A, B, C, D and E and provide the information requested in Energy Probe Interrogatory # 9.

Clarification Question # 7

Ref: Energy Probe Interrogatory # 10

- a) Please explain the September year-to-date net revenues for accounts 4375 and 4380 of approximately \$290,000 shown in part (c) of the response, as compared to the net forecast of \$65,000 for 2009.
- b) In part (d) of the response, Oakville Hydro indicates that it does not forecast gains or losses on vehicles being replaced. In the response to Energy Probe Interrogatory # 4, part (a) Oakville Hydro indicated that it records vehicles based on the pooling methodology.
 - (i) Please explain the impact on net book value if Oakville Hydro replaces a vehicle and disposes of it before it is fully depreciated.
 - (ii) How many vehicles is Oakville Hydro forecasting to replace in 2010?
 - (iii) for each of the last three historical years, and year to date 2009, how many vehicles has Oakville Hydro replaced and what were the total net proceeds associated with the scrap value/sale of these vehicles?
- c) Is any of the \$101,700 in September year to date revenues described in part (e) of the response related to car accidents or other one-time events? If yes please quantify and describe why these are one-time events.
- d) Please explain the \$4,000 difference between the 2010 figure of \$558,182 shown in part (h) of the response related to Account 4405 and the figure of \$554,152 shown in Exhibit 3, Tab 3, Schedule 1.
- e) Oakville Hydro originally indicated that it had loans receivable from its affiliates (Exhibit 3, Tab 3, Schedule 1, page 6). In the response provided to parts (i) and (j) Oakville Hydro now indicates that these balances are not loans, but rather appear to be outstanding balances owed. Please explain why Oakville Hydro does not apply the monthly late payment charge of 1.50% that it applies to outstanding balances owned by its customers.
- f) Part (l) of the response indicates that Oakville Hydro intends to only have one further apprentice in the control room. Please indicate how many apprentices Oakville Hydro will have in 2010 that are eligible for the apprenticeship training tax credit based on the new guidelines that extend the tax credit to the first 48 months of the apprenticeship program.

Clarification Question # 8

Ref: Energy Probe Interrogatory # 12

In the response to part (a) Oakville Hydro indicates that there is a 1.5 to 2 year cycle in the metal recycling process and that actual proceeds for 2008 were \$84,760 and that a drop is expected for 2009.

- a) What are the year-to-date proceeds on the sale of materials for 2009?**
- b) Given the 2 year cycle identified by Oakville Hydro please explain the further drop forecast for 2010 for proceeds from the sale of materials.**

Clarification Question # 9

Ref: Energy Probe Interrogatory # 15

The response to part (a) of the interrogatory appears to provide the annual costs associated with both the existing positions and for the replacements. Energy Probe wishes to clarify what these figures represent, on an aggregate basis. Costs associated with individual positions are not required.

- a) Is the current cost associated with the positions to be replaced of \$462,055 the amount included in the 2010 revenue requirement associated with the positions that will be replaced or is it the 2010 cost assuming those positions remain filled by the current individuals in them for all of 2010?**
- b) Is the cost associated with the replacements of \$403,608 the annual cost, or the amount included in the 2010 revenue requirement associated with the replacements?**
- c) For clarity, what is the incremental cost included in the 2010 revenue requirement associated with the replacement workers as compared to the cost that would be included in the 2010 revenue requirement if the existing workers remained in their current positions for all of 2010 and there were no replacement related costs.**

Clarification Question # 10

Ref: Energy Probe Interrogatory # 16

- a) The response in part (c) indicates that the annual cost of the accounts receivable insurance is approximately \$40,000. What is the annual premium forecast included in the 2010 revenue requirement associated with this insurance?
- b) The response provided in part (d) does not provide any explanation of the increase in the bad debt forecast for 2010 as compared to 2009 and the 2008 actual figure, excluding the \$250,000 associated with one large customer. Please provide the most recent year-to-date bad debt expense for 2009 and the corresponding figure for 2008, excluding the customer noted in the response.

Clarification Question # 11

Ref: Energy Probe Interrogatory # 17

- a) The response to part (c) indicates that third party comprehensive compensation surveys are done on a periodic basis. Please indicate how often Oakville Hydro undertakes such a survey (e.g. every year, every second year).
- b) Please explain the higher management training costs in 2010 as compared to the historical figures provided in the response to part (d).
- c) The response in part (e) shows a variance of \$30,025 in 2010, but the difference between the 2009 and 2010 figures is only \$20,025. Please reconcile.

Clarification Question # 12

Ref: Energy Probe Interrogatory # 19

- a) Assuming no oral component to the cost of service proceeding, what additional consultant and legal costs does Oakville Hydro expect to incur related to costs not included in the figures provided related to such things as interrogatory responses, argument-in-chief, reply argument and draft rate orders?

- b) Why is there no reduction in the \$40,000 OEB cost for the review of the cost of service application if there is no oral component?
- c) The response provided in part (j) does not provide any basis for the \$40,000 estimate. Does Oakville Hydro have any information on the actual cost related to the cost of service applications by any other distributors that filed such cost of service applications for 2008 and 2009 where there was no oral component? If so, please provide the details.

Clarification Question # 13

Ref: Energy Probe Interrogatory # 20

- a) The response to part (a) of the interrogatory indicates that the Board has stated that “In the distributor’s next cost of service rate application immediately after the IFRS transition period, the balance in this sub-account should be included for review and disposition.” Please confirm that the IFRS transition period will not be completed until 2011 at the earliest.
- b) Has Oakville Hydro compared its forecasted cost related to transition to IFRS of \$1,000,000 to that of any other electricity distributor? If not, why not? If yes, please provide a comparison of the estimated costs for the transition to IFRS.

Clarification Question # 14

**Ref: Energy Probe Interrogatory # 16 & # 24 &
SEC Interrogatory # 23 b**

Please recalculate the operating cost recovery from affiliates if the Executive & Finance allocation is based on distribution revenues and not total revenues for Oakville Hydro.

Clarification Question # 15

**Ref: Energy Probe Interrogatory #24 &
SEC Interrogatory # 23 e &
Exhibit 4, Tab 2, Schedule 8, Table 5**

- a) **Please reconcile the 2010 Test Year costs shown in Table 5 of Exhibit 4, Tab 2, Schedule 8, as amended to reflect the response to Energy Probe Interrogatory # 24a and the percentages shown in Table 6 of Exhibit 4, Tab 2, Schedule 8 with the dollar figures provided in Table 6 in Response to SEC Interrogatory # 23 e. For example, using billing and administration costs for 2010 of \$2,428,384 and the 54.99% shown in Table 6 provides an Oakville Hydro allocation of \$1,335,368 as compared to the figure of \$1,386,384 shown in response to SEC.**
- b) **Please add a column to the response to SEC for Table 6 that shows the total for the 5 affiliates for each of the line items. If these totals are different that the corresponding line item figures for 2010 shown in Table 5 of Exhibit 4, Tab 2, Schedule 8, please provide an explanation for the difference.**
- c) **Please add a row to the response to SEC for Table 6 that shows the total for each of the affiliates. Please reconcile the difference between the total amount shown allocated to Oakville Hydro and the total amount of OM&A costs included in the revenue requirement of \$12,571,361 shown in Exhibit 6, Tab 1, Schedule 2.**

Clarification Question # 16

Ref: Energy Probe Interrogatory # 26

- a) **Please explain why Oakville Hydro is not eligible for the small business tax rate on the first \$500,000 of taxable income.**
- b) **Please provide the response to part (d) of the interrogatory, assuming that Oakville Hydro is eligible for the small business tax rate as follows. Tax on the first \$500,000 is at 5.0% and the claw back on the taxable income between \$500,000 and \$1.5 million is 2.125%. Please assume that the alternative is 13% on the first \$500,000. Please confirm that the difference between these two calculations is a tax reduction of \$18,750. If this cannot be confirmed, please provide all calculations and assumptions used that result in a different figure.**

- c) The response to part (e) of the interrogatory indicates that the reduction to the revenue requirement as a result of including the SR&ED claim would be \$107,698. In the pre-filed evidence at page 3 of Exhibit 4, Tab 3, Schedule 1, lines 24-25, Oakville Hydro claims the net refund for this claim is immaterial. Please provide Oakville Hydro's definition of "immaterial".
- d) In the response to part (g) of the interrogatory, please explain why Oakville Hydro used \$5,000 as the tax credit received for one apprentice when the maximum amount has been increased to \$10,000?
- e) Please confirm that based on the \$10,000 tax credit and a tax rate of 31%, the net reduction in taxes is \$6,900 per apprentice. If this cannot be confirmed, please provide Oakville's estimate, including calculations.
- f) Does the calculation of the \$3,400 figure shown in the response to part (g) of the interrogatory include the impact of the gross up to estimated the impact on the gross revenue requirement? If not, what would be the impact on the \$3,400 for the gross up? Please show the calculation.
- g) Please confirm that Oakville Hydro will have four apprentices that are eligible for the apprenticeship training tax credit in 2010 (see response to Energy Probe Interrogatory # 29). If this cannot be confirmed, please indicate how many apprentice positions will be eligible.
- h) Has Oakville Hydro included the \$2,000 federal training tax credit available for the first 24 months of such positions in its tax calculations? If not, why not? Please provide the number of positions eligible for this credit in 2010.
- i) With respect to the response provided to part (h), please provide the number of positions that were eligible for the co-operative education tax credit in 2008. How many such positions are eligible for this tax credit in 2009?

Clarification Question # 17

Ref: Energy Probe Interrogatory # 27 & # 28

In the response to part (a) of both interrogatories, Oakville Hydro indicates that a portion of the computer software expenditures should be put into CCA Class 12.

- a) Please indicate which CCA class the \$149,500 that has been reallocated to Class 12 has been removed from. Based on this reallocation, what is the impact on the CCA claim for 2010? Please show the calculations for 2009 and 2010 to arrive at this amount.
- b) Please indicate which CCA class the \$125,000 that has been reallocated to Class 12 has been removed from. Based on this reallocation, what is the impact on the CCA claim for 2010? Please show the calculations to arrive at this amount.

Clarification Question # 18

**Ref: Energy Probe Interrogatory # 31 &
Board Staff Interrogatory # 11**

- a) It is not clear from the answers provided that Oakville Hydro agrees that any revenues in excess of that forecast would be included in account 1572. In particular, the Oakville Hydro response to Board Staff states:

“If the replacement load is obtained at the location of the customer in question, Oakville Hydro will record in account 1572 the revenue received for additional volumes sold at these locations that is above the volumes assumed in the approved load forecast and seek approval to dispose of this revenue at an appropriate future date.”

It is not clear to Energy Probe whether the revenue associated with additional volumes is only for 2010 or whether any revenues associated with additional volumes in 2010, 2011, 2012 and 2013, of whatever period may exist before Oakville Hydro rebases with another cost of service application would be included in account 1572. Please clarify.

- b) In the response to part (e) of the interrogatory, please provide a response based on the new loads or higher use for existing customers (such as a higher residential average use per customer) being in addition to or incremental to the new loads included in the forecast for 2010. In other words, if there are unforecasted increases in revenues in excess of the materiality threshold of \$170,000 in any of 2010, 2011, 2012 or 2013, should these increases be treated as a Z-factor and the revenues returned to ratepayers through a Z factor in 2014 when Oakville Hydro rebases? If not, why not?

Clarification Question # 19

Ref: Energy Probe Interrogatory # 39

In interrogatory responses to Energy Probe interrogatories (Exhibit H, Tab 3, Schedule 12, 21 & 22) as part of its distribution rate case for 2010 and 2011 (EB-2009-0096) Hydro One indicates that a process will be developed to estimate the savings in OM&A and capital expenditure costs after July 1, 2010, that result from the PST/GST harmonization and that such estimated savings will be reflected in the deferral Account 1592.

- a) Does Oakville Hydro agree that the establishment of such a process is appropriate given the unknown amounts and uncertainty surrounding the impact on costs related to harmonization at this time?**
- b) Does Oakville Hydro have any suggestions as to the most accurate way to estimate the savings in OM&A and capital expenditure costs after July 1, 2010 that result from the PST/GST harmonization? If yes, please provide details.**

Clarification Question # 20

Ref: SEC Interrogatory # 6

Please explain why there are different figures provided in the response to SEC interrogatory # 6 as compared to the pre-filed evidence for each of the following:

- a) 2007, 2008 and 2009 distribution and other operating revenue (net) does not match the information provided in Table 1 of Exhibit 3, Tab 1, Schedule 2.**
- b) 2009 OM&A does not match the information provided in Appendix 2-G of Exhibit 4, Tab 2, Schedule 5.**
- c) 2007 depreciation does not match the information provided in Appendix 2-N of Exhibit 4, Tab 2, Schedule 10.**
- d) 2009 property & capital taxes do not match the information provided in Table 19 of Exhibit 4, Tab 3, Schedule 3.**

- e) 2008 and 2009 rate base does not match the information provided in Table 1 of Exhibit 2, Tab 1, Schedule 1.

Clarification Question # 21

**Ref: SEC Interrogatory # 3 &
SEC Interrogatory # 8**

- a) Please reconcile the statement in SEC interrogatory # 3 that Oakville Hydro has been consistent in its practice of full year amortization in the year of acquisition with the statement in SEC interrogatory # 8 that Oakville Hydro did not record amortization in 2008 on the assets totaling \$6,151,455 shifted from CWIP to rate base at the end of 2008.
- b) Please confirm that the annual amortization on these assets is \$247,189.
- c) Is Oakville Hydro forecasting the transfer of any assets from CWIP to rate base at the end of 2009? If so, what is the value of these assets being transferred? Is Oakville Hydro recording amortization in 2009 for these assets? If yes, please quantify. If not, please explain why not.
- d) Is Oakville Hydro forecasting the transfer of any assets from CWIP to rate base at the end of 2010? If so, what is the value of these assets being transferred? Is Oakville Hydro recording amortization in 2010 for these assets? If yes, please quantify. If not, please explain why not.

Clarification Question # 22

**Ref: VECC Interrogatory # 1 c &
Energy Probe Interrogatory # 6**

Please reconcile the answer provided to VECC interrogatory #1 part (c) that Oakville Hydro believes it is on track to spend the approved 2009 capital budget with the forecast expenditures of \$17.429 million shown in the response to Energy Probe interrogatory # 6 that is \$1.5 million lower than the pre-filed evidence.

Clarification Question # 23

Ref: SEC Interrogatory # 3

Oakville Hydro indicates that it calculates a full year of amortization in the year of acquisition. Please recalculate the depreciation for the 2010 test year based on the half year rule and:

- a) Provide a schedule that shows the use of the half year rule for 2010 and provide the impact on the 2010 depreciation expense.**
- b) What is the impact on the 2010 rate base of using the half year rule? Please provide a schedule showing the calculation of the rate base assuming the half year rule for depreciation.**
- c) Please provide a schedule similar to that shown in Exhibit 6, Table 1, that shows the impact on the 2010 revenue requirement,**