Board Staff Interrogatories
2010 Electricity Distribution Rates
Hydro Hawkesbury Inc.
EB-2009-0186

As noted in Procedural Order No. 1 issued on December 18, 2009, the Board determined that it will proceed by way of written hearing and has ordered written interrogatories and responses in the cost of service application of Hydro Hawkesbury Inc. ("Hawkesbury"). The following are Board Staff's interrogatories.

1 RATE BASE

Issue 1.1 Depreciation Expense

1 Ref: Exhibit(s) Exhibit 4 Tab 7 Schedule 1

The depreciation rates used for some accounts are not those specified in the 2006 EDR Handbook.

a. Please provide a detailed justification for any deviation in depreciation rates for a specific account or asset from that approved in the 2006 EDR handbook.

b. Please provide a detailed justification for any rates for assets that were not specified in the 2006 EDR Handbook.

2 Ref: Exhibit(s) Exhibit 2 Tab 3 Schedule 3, and
Exhibit 4 Tab 7 Schedule 1

It appears that Hawkesbury is determining depreciation on the basis of declining balances, and not straight line. Please determine the depreciation expense for 2010 using the following table. Please use the depreciation rates from the 2006 EDR Handbook. If Hawkesbury is requesting a rate that is different from that in the 2006 EDR Handbook, a second table in the same format showing the determination of the 2010 Depreciation Expense should also be submitted.

		Col. 1	*Col. 2*	*Col. 3*	*Col. 4*	*Col. 5*	*Col. 6*	*Col. 7*	*Col. 8*	*Col. 9*
	Account	**2009 Gross Assets**	**Additions**	**Retirements**	**2010 Gross Assets**	**½ 2010 Additions**	**Adjusted 2010 Gross Assets**	**Depreciation Rate**	**Amortization Period**	**Depreciation Expense**
1	1805 - Land									
2	1806 - Land Rights									
3	1815 - Transformer Stations >50kV									
4	etc.									

Note: Column 5 is ½ column 2.
Column 6 is column 4 reduced by column 5.
Column 9 is based on applying the depreciation rate to column 6

Issue 1.2 Capital Expenditures

3 Ref: Exhibit(s) Exhibit 2 Tab 4 Schedule 1

On page 2 of this schedule Hawkesbury appears to be capitalizing $51,520 for MSP transfer fees from Hydro One to Hydro Ottawa. Please explain the nature of this item and provide the reason(s) why it should be included in rate base.

4 Ref: Exhibit(s) Exhibit 2 Tab 4 Schedule 1,

On pages 7 and 8, Hawkesbury explains its entering into an agreement with E-Caliber for services.

a. Please define the acronym “ASP”.
b. What alternatives to E-Caliber were examined?
c. What were the selection criteria?
d. Based on the selection criteria, why was E-Caliber selected?

Issue 1.3 Working Cash Allowance

5 Ref: Exhibit(s) Exhibit 2 Tab 5 Schedule 1 Attachment 1

This exhibit shows the calculation of the working cash allowance. Hawkesbury has lost a Large User customer. Board staff is interested in the calculation of the Power Supply Expenses for 2010.

a. Did Hawkesbury reduce the forecasted volume that underpins the cost of power to reflect the loss of the Large User customer?

b. Please state the cost of power used in this calculation.

c. Please show and explain the detailed derivation, showing volumes and unit costs, for the projected balance for Account 3350 – Power Supply Expenses for 2010.

Issue 1.4 Asset Management

6 Ref: Exhibit(s) Exhibit 2 Tab 4 Schedule 5
Exhibit 2 Tab 4 Schedule 4 Attachment 2, and
Exhibit 2 Tab 6 Schedule 1

In Exhibit 2 Tab 4 Schedule 5 Hawkesbury states that it felt that a detailed asset management plan was not required and that the costs of such a plan were not justified.

Board staff notes the level of service interruptions found in Exhibit 2 Tab 6 Schedule 1 that were caused by defective equipment, foreign interference, or tree contact. In Exhibit 2 Tab 4 Schedule 5 Hawkesbury indicates that:

2.6 Key performance indicators for critical assets are not in place,

3 In general, limited risk assessment and planning is performed, and

4.3 Strategic planning for asset management appears not to exist.

a. Please state if Hawkesbury has performed any potential failure analysis and determined a preventive failure plan as a result. If so, please describe the analysis and plan.

b. Please state and describe any proposed capital or operating projects that will address plant at risk of failure and provide their costs and year budgeted.

c. Please sate and describe any forward planning performed by Hawkesbury to better assess equipment for the effects of age and the environment in order to estimate the potential for failure.

d. Does Hawkesbury have any undocumented strategic asset management plans? If so, please describe the plans.

e. If, after having filed this application, there are now any planning documents adopted or considered, please provide them.

Issue 1.5 Service Quality Indicators

7 Ref: Exhibit(s) Exhibit 2 Tab 6 Schedule 1

Board staff is interested in the SAIDI, SAIFI and CAIDI factors.

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.

	All Service Interruptions			**Service Interruptions excluding Loss of Supply (Cause Code 2)**		
	SAIDI	**SAIFI**	**CAIDI**	**SAIDI**	**SAIFI**	**CAIDI**
2006						
2007						
2008						

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 the below-standard performance and what actions Hawkesbury took or is taking to remedy the situation. Please identify, as appropriate, operating or capital projects linked to reliability improvement.

Issue 1.6 Third Tranche CDM Spending Status

8 Ref: Exhibit(s) Exhibit 1

Board staff is interested in Hawkesbury's Conservation and Demand Management ("CDM") expenditures. On February 2, 2005, Hawkesbury received approval from the Board for its CDM plan and accompanying budget of $79.117.

a. Please confirm that the total approved CDM plan budget $79.117 has been completely expended on the components of the plan.

b. If the CDM budget has not been spent according to the plan, please indicate; what of the plan remains, the related unspent amounts, and state why the funding has not been exhausted.

2 REVENUE

Issue 2.1 Load Forecast

9 Ref: Exhibit(s) Exhibit 3 Tab 1 Schedule 1; Elenchus Report

The document titled *Weather Normalized Distribution System Load Forecast - 2010 Test Year, May 1, 2009,* is identified in the footer as a final draft document. Board staff is concerned about the selection of data sources for the model, and the forecasting model's performance.

a. Please state whether the filed document is the approved report or not. If it is not, please provide a final version of the document.

b. Please state any data cleaning, such as treatment of outliers, that was applied.

c. Hawkesbury has a closer proximity to Montréal, than Ottawa, and has been dependent upon the auto industry in the Montréal area. Why was the monthly full time employment levels for Ottawa, rather than Montréal area used, as an economic variable in the model?

a. Some studies have shown that heating degree days should not be calculated based on 18^{o}C. In the Ottawa area, 14^{o}C has been found more appropriate. Please recalibrate the model using 14^{o}C and provide the resulting forecast along with the measures of statistical performance as found in Table 3 of the Elenchus report. (If dummy variables need to be adjusted to reflect the different behaviour of the model, please adjust and explain).

b. Similarly, cooling degree days are region specific, with a balance point higher than 18^{o}C for residential loads. Please recalibrate the model for a second run reflecting only the change in cooling degree days to 23^{o}C and provide the resulting forecast along with the measures of statistical performance as found in Table 3 of the Elenchus report. (If dummy variables need to be adjusted to reflect the different behaviour of the model, please adjust and explain).

c. Please combine "d" and "e" in a third run of the model and provide the requested information.

d. Please provide the development of the percentages used to determine the class share of the 2009 and 2010 forecasts.

Issue 2.2 Customer Growth

10 Ref: Exhibit(s) Exhibit 3 Tab 1 Schedule 1; Elenchus Report

Hawkesbury has linked the customer growth in its territory to that of CMHC's forecast for the Ottawa and Kingston areas. Hawkesbury has a closer proximity to Montréal, than Ottawa, and has been dependent upon the auto industry in the Montréal area. Would housing starts for the Montréal area not be more appropriate forecast determinant?

3 OPERATING COSTS

Issue 3.1 Regulatory Expenses

11 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 3

Hawkesbury is forecasting $125,000 for this 2010 rebasing application and to amortize this expense over the next four years.

a. Staff notes that there is an increase from 2009 to 2010 of $31,656 in account 5655 – Regulatory Expenses. Does this include all of the $31,250 which is $125,000 amortized over 4 years?

b. Staff notes that Account 5630 – Outside Services increases by $26,243 from 2009 to 2010. Are there any regulatory expenses included in this amount?

c. Has Hawkesbury budgeted for the costs for future IRM applications?

d. If Hawkesbury has not budgeted for IRM, what cost should be included in operating expenses, and in which accounts should the amounts be included?

Issue 3.2 International Financial Reporting Services ("IFRS")

12 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 2

Hawkesbury states that it estimates that the one time cost for converting to IFRS is $60,000 and that they propose to amortize the cost over four years. Will Hawkesbury remove these costs and use a deferral account as stated on page 27 in the *Report of the Board Transition to International Financial Reporting Standards, EB-2009-0408, July 28, 2009*?

Issue 3.3 Low Income Energy Assistance Plan (LEAP)

13 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 4

Hawkesbury states that the amount of $2,000 is included in the 2010 forecast. CHE intends to work with an outside consultant and link with social interest groups.

a. What is the estimate for the consultant?

b. How was that estimate derived?

c. Please provide a breakdown of the amount of $2,000 into the amounts that represent existing programmes and the amounts for new programmes.

Issue 3.4 Assessment of two power transformers

14 Ref: Exhibit(s) Exhibit 4 Tab 2 Schedule 2

Hawkesbury states that two aging power transformers will be assessed using outside engineering and technical services. In the interest of maintaining an appropriate revenue requirement for future years, Board staff is interested in the costs of this and future one-time operating costs.

a. Please state the budget for the assessment of the two transformers?

b. In which account(s) are the costs budgeted?

c. Are there future one-time costs of similar magnitude that would justify leaving this entire amount in rates after 2010? Please explain.

d. If there are no future similar costs, would Hawkesbury amortize the costs of the transformer assessment amount over four years for the purposes of rate design? If not, why not?

Issue 3.5 Purchase of Services

15 Ref: Exhibit(s) Exhibit 4 Tab 6 Schedule 1 Attachment 1

Hawkesbury has provided a table of suppliers stating the amounts, the nature of the activity and whether a contract exists or not.

a. Please expand this table to include the years of 2006 to 2009 inclusive.

b. Please explain any year over year increase greater than 10%.

Issue 3.6 Harmonized Sales Tax

16 Ref: Exhibit(s) Exhibit 4, and Exhibit 2

It is possible that the PST and GST may be harmonized effective July 1, 2010. Unlike the GST, the PST is included as an OM&A expense and is also included in capital expenditures. If the GST and PST are harmonized, corporations would see a reduction in OM&A expenses and capital expenditures.

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

a. Would Hawkesbury agree to the establishment of a variance account to capture the reductions in OM&A and capital expenditures?

b. Are there other alternatives that the Board might consider to reflect the reductions in OM&A and CAPEX if this bill is enacted?

4 PILS

Issue 4.1 Tax Rates

17 Ref: Exhibit(s) Exhibit 4 Tab 8 Schedule 1

The table below was prepared by Board staff. Please state why Hawkesbury is not using the Blended Tax Rate of 16% and Ontario Capital Tax Rate of 0.150%.

	January to June 30th	July 1st to December 31st	January to June 30th	July 1st to December 31st	January to June 30th	July 1st to December 31st
Income Range	**$0 to $500,000**	**$0 to $500,000**	**$500,001 to $1,500,000**	**$500,001 to $1,500,000**	**> $1,500,000**	**> $1,500,000**
Federal rate	11.00%	11.00%	18.00%	18.00%	18.00%	18.00%
Ontario rate **	5.50%	4.50%	0.00%	4.50%	14.00%	12.00%
Income Tax Rate	16.50%	15.50%	18.00%	22.50%	32.00%	30.00%
Blended Rate	**16.00%**		**20.25%**		**31.00%**	
Capital Tax Rate	0.150%	0.000%				
Surtax	4.250%	0.000%				
Ontario Capital Tax Exemption	**$15,000,000**					

5 COST ALLOCATION

Issue 5.1 Revenue to Cost Ratios

18 Ref: Exhibit(s) Exhibit 8 Tab 2 Schedule 1 Attachment 1

Board staff is having difficulty understanding Attachment 1. On the second table on page 2 Hawkesbury has provided revenue to cost ratios. The headings are not clear and the derivation of the numbers is not explained. Board staff is interested in knowing what cost and rate components were used to develop the revenue to cost ratios.

a. Please explain the difference between the Rate Application Revenue to Cost Ratios and the Cost Allocation Revenue to Cost Ratios.

b. Please show, with explanation of the source of the numbers, the determination of the revenues by class.

c. Please comment on the inclusion or exclusion of any adjustment in “b” to reflect the Transformer Ownership Allowance.

6 RATE DESIGN

Issue 6.1 Retail Transmission Service Rates

19 Ref: Exhibit(s) Exhibit 8 Tab 3 Schedule 1 Attachment 1

The determination of the proposed Retail Transmission Rate Connection and Retail Transmission Rate Network charges appears to use historical costs. Over time these costs have changed, and now produce a historical cost that is not totally reflective of current rate levels. As such, the ratios derived on this Exhibit could lead to results that would not match total costs incurred to total revenues.

a. Please recast the total period costs for Network Service Charge and Transformation Connection Service Charge based on the current rates that Hawkesbury pays.

b. Please also recast the respective billings based on current Retail Transmission Rates – Network and Retail Transmission Rates – Connection.

c. Based on “a” and “b” please develop new proposed Retail Transmission Rates – Network and Retail Transmission Rates – Connection.

Issue 6.2 Monthly Rates and Charges

20 Ref: Exhibit(s) Exhibit 8 Tab 4 Schedule 3 Attachment 1

On page 3 are the Specific Service Charges.

a. Please identify and substantiate any charge which has changed or is new.

b. Please review the Conditions of Service and state any charges in the Conditions of Service that are not stated in the current Specific Service Charges and provide justification for the level of the charge.

c. Please provide the proposed loss adjustment factors.

7 DEFERRAL AND VARIANCE ACCOUNTS

Issue 7.1 Deferral and Variance Account Balances

21 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 2

Hawkesbury is requesting the disposition of Account 1525 – Miscellaneous Deferred Debits as of December 31, 2008 with interest to April 30, 2010, a total of $272,863.

a. Please itemize all the costs that are included in this balance.

b. Does the balance include the cost of issuing refund cheques to consumers in accordance with the government legislation in 2002?

c. Was the balance for Account 1525 disposed in Hawkesbury's 2006 EDR Regulatory Asset Decision? If it was, please provide the following:

    i The balance as of December 31, 2004,

    ii The amount disposed, and

    iii The amount moved into Account 1590 – Recovery of Regulatory Asset Balances (recovery).

22 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 2

Hawkesbury is requesting the disposition of Account 1590 – Recovery of Regulatory Asset Balances (recovery). The December 31, 2008 balance stated on this Schedule is $25,872. This balance does not match the $63,003 indicated on the audited financial statements for the same date. Please reconcile the difference.

23 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 2

Issue 7.2 Continuity Schedule Balances

24 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 2 Attachment 2

Board staff is having difficulty identifying any amounts transferred to Account 1590 in accordance with the 2006 EDR Decision. Please provide the journal entry that was made to move the amounts from the various regulatory assets accounts into Account 1590.

25 Ref: Exhibit(s) Exhibit 9 Tab 1 Schedule 2 Attachment 2

Board staff requires an explanation for the balances in Account 1586 – RSVA Connection. The balance on December 31, 2008 is a $1,446,760 credit. The balance on January 1, 2005 was a $578,533 credit. Board staff notes that the Line and Transformation Connection Service rate was reduced by 34% in 2008, however the principle balance increases from a $1,075,452 credit on December 31, 2007 to a $1,244,443 credit on December 31, 2008. Please review this and explain in detail the December 31, 2008 balance.

Issue 7.3 Deferral and Variance Account Rider Calculation

26 Ref: Exhibit(s) Exhibit 9 Tab 2 Schedule 1 Attachment 2

Hawkesbury has applied allocation factors for Accounts 1525, 1548, and 1550 which are not consistent with *EB-2008-0046 Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR Report).* Please recalculate the rate riders based on the allocation factors contained in the EDDVAR Report.

Issue 7.4 Account 1588 and the Global Adjustment

27 Ref: Exhibit(s) Exhibit 9 Tab 2 Schedule 1 Attachment 2

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 ("GA sub-account").

a. Please identify separately, the principal balance of the GA sub-account as of December 31, 2008 and the carrying charges as of April 30, 2010.

b. Please confirm that the GA sub-account principal balance proposed for disposition is based on the procedures identified by the Accounting Procedures Handbook.

c. Please provide an allocation of the December 31, 2008 balance of the GA sub-account (plus interest to April 30, 2010) based on the 2008 kWhs for non-RPP customers.

d. Please calculate the proposed rate rider to dispose of the December 31, 2008 balances plus carrying charges to April 30, 2010, for deferral and variance accounts excluding the GA sub-account.

e. Please calculate a separate rate rider for the recovery of the proposed GA balance using the allocated amounts in part 3 and the 2008 non-RPP consumption data (kWh or kW as applicable) as the billing determinant.

   i If Hawkesbury were to establish a separate rate rider to dispose of the balance of the GA sub-account, please provide Hawkesbury's views as to whether this rate rider would be applicable to MUSH ("Municipalities, Universities, Schools and Hospitals") sector customers.

If the answer to (i) is in the negative, does Hawkesbury have the capability in its billing system to exclude MUSH sector customers to which the separate rate rider for the disposition of the account 1588 subaccount Power (Global Adjustment) balance would apply?

8 SMART METERS

Issue 8.1 Smart Meter Rate Adder

28 Ref: Exhibit(s) Exhibit 9 Tab 3 Schedule 2 Attachment 1

Board staff has found some inconsistencies in the smart meter rate adder calculation.

a. Please explain the use of a short term debt rate of 1.13% rather than the current Board Approved 1.33%.

b. Please state why Hawkesbury is not using the Blended Tax Rate of 16% and Ontario Capital Tax Rate of 0.150%.

c. The depreciation rates for Tools and Equipment, and for Computer software vary from Hawkesbury's Depreciation Policy found in Exhibit 2 Tab 2 Schedule 3. Please explain the reasons for the deviation from policy.

d. Please reconcile the Total Capital Costs on page 1 with the Net Fixed Assets on page 2.

e. Please resubmit Exhibit 9 Tab 3 Schedule 2 Attachment 1 with all changes that may result from "a" to "d" above.