



Energizing Our Community

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January 11, 2010

Ms. Kirsten Walli, Board Secretary  
Ontario Energy Board  
P.O. Box 2319, 27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**Re: Orillia Power Distribution Corporation - Board File No: EB-2009-0273  
2010 Electricity Distribution Rate Application**

Please find attached the response to the Vulnerable Energy Consumers Coalition supplementary interrogatories in the above-noted proceeding.

Respectfully,

John F. Mattinson P. Eng.  
President & Secretary  
Orillia Power Distribution Corporation



**Question #24**

**Reference:** VECC #2 b)

- a) Please indicate the change in the Test Year revenue requirement if the cost estimates reflected 2% as an estimate for inflation, rather than the 3% to 3.5% currently embedded in the cost estimates.

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**OPDC RESPONSE:**

As noted in our original response to question 2b) 'With respect to inflation impacts, OPDC has had annual wage increases in the 3% to 3.5% range over recent years. For the purpose of preparing the five-year capital plan, we utilize this percentage increase as a basis for inflation figure in our calculations'.

While the five year plan is referenced in this question, only the 2010 period is relevant to answering the question. OPDC has made the following simplifying assumptions. OPDC assumes that the capital expenditures for 2010 of \$1,714,000 are reduced by a factor of 1.02 / 1.035 which is approximately \$25,000. OPDC also assumes that this reduction solely affects capital expenditures that would be depreciated over 25 years thus reducing depreciation expense by \$1,000. Given those assumptions, total rate base for 2010 would be reduced by \$24,000 (\$25,000 - \$1,000) and average rate base by \$12,000.

Assuming the same effective tax rates, debt equity ratios (60/40) and deemed debt and equity returns as in the application, the **change in the Test Year revenue requirement is a reduction by \$2,200** to \$7,656,000 from \$7,658,200.

**Question#25**

**Reference:** VECC #2 d)

- a) Please provide the total number of subtransmission poles in OPDC's service area and briefly explain how the annual level of replacement is consistent with the total number of poles and the average replacement cycle of 25-30 years.

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**OPDC RESPONSE:**

OPDC has 690 subtransmission poles within its service area. Looking out over a five year time horizon and with reference to our five year capital plan, the average annual level of pole replacement is approximately 21 poles. Based on this volume of annual pole replacement, OPDC is actually achieving an average asset life of just under 33 years for a subtransmission pole, which is slightly better than the historical pattern of 25 to 30 years for these assets.

There are a couple of factors that have positively impacted this number. First, over the past several years, OPDC has focused on strengthening 'the backbone' of our 44kV subtransmission lines. As a result, upgrades in this category were more significant in the past five years than we expect they will be in the next five years. Second, OPDC has moved almost exclusively to the use of Western red cedar for pole replacements. Extensive monitoring and experience has proven that Western red cedar poles provide the highest level of durability and cost effectiveness in the weather and environmental conditions for the service area.

As a point of clarification, we note that our response to question 2d) in the original interrogatory, which references Exhibit 1, Appendix 1-H, indicated the number of subtransmission pole replacements to be 10 to 12 poles per year. We wish to clarify that this figure only included the number of pole replacements included on the line titled 'Subtransmission Pole Replacement' in the Appendix. As noted in Exhibit 2, Tab 4, Schedule 1 - these annual costs are not project specific but represent change out of individual poles as required. In addition to the individual pole change outs noted above, there are numerous subtransmission pole replacements that are part of specific upgrade projects that are listed within the Appendix, in addition to the replacement of poles resulting from City-driven projects, customer requirements and developer activities.

**Question #26**

**Reference:** VECC #2 e)

- a) Please provide the total number of overhead distribution poles in OPDC's service area and briefly explain how the annual level of replacement is consistent with the total number of poles and the average replacement cycle of 25-30 years.

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**OPDC RESPONSE:**

OPDC has 4060 overhead distribution poles within its service area. Looking out over a five year time horizon and with reference to our five year capital plan, the average annual level of pole replacement is approximately 92 poles. Based on this volume of annual pole replacement, OPDC's average asset life would be calculated in excess of 40 years for overhead distribution poles. Clearly this is an improvement over the historical pattern of 25 to 30 years for these assets and will ultimately result in cost savings to OPDC's customers over the long term. As a balancing factor, OPDC is confident that we are not harvesting the assets and deferring pole replacements that will result in major replacements and catch up in future periods. We know this as a result of our extensive pole testing program that entailed testing of each pole over a three year cycle and identified the appropriate interval for follow up testing on all poles.

As a point of clarification, we note that our response to question 2e) in the original interrogatory, which references Exhibit 1, Appendix 1-H, indicated the number of distribution pole replacements to be 33 to 42 poles per year. We wish to clarify that this figure only included the number of pole replacements included on the line titled 'Distribution Pole Replacement' in the Appendix. As noted in Exhibit 2, Tab 4, Schedule 1 - these annual costs are not project specific but represent change out of individual poles as required. In addition to the individual pole change outs noted above, there are numerous distribution pole replacements that are part of specific upgrade projects that are listed within the Appendix, in addition to the replacement of poles resulting from City-driven projects, customer requirements and developer activities.

**Question #27**

**Reference:** VECC #2 j)

- a) Please provide details with respect to the estimated vehicle replacement costs, e.g., number of bids solicited, exact bids or quotes obtained, robustness of estimates, etc.

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**OPDC RESPONSE:**

Within the organization's long-term capital plan, there are three planned vehicle replacements; two ¾ ton 4X4 pickup trucks in 2010 and one double bucket, 70-foot aerial truck in 2014. At the time when the long-term capital plan was prepared, we had not secured actual quotes based on the detailed specification of the required vehicles, but utilize values based on industry knowledge and estimated actual costs. The values that are utilized for estimating these future purchases are based on the best information we have available at the time of budget preparation. For the two vehicles expected to be purchased in 2010, OPDC based the expected price on a vehicle with similar features that was purchased in 2009 by Orillia Power Generation Corporation. Given that this comparator vehicle was a very recent purchase and there are similar features on the vehicles, we are confident that the estimate used for budgeting purposes is reliable.

At the time we formally begin the actual purchasing process for these vehicles, OPDC will follow its Expenditure Control Policy which requires that three written quotes are obtained before issuing a purchase order, based on the specifications of the vehicle required.

**Question #28**

**Reference:** VECC #5 a) and b)

- a) Given that OPDC's evidence is that (i) it uses a zero-based budgeting exercise to determine annual capital spending and that (ii) usually construction activity is relatively high in the spring and summer, please explain why capital spending appears to be heavily skewed towards the last half of the year for both 2008 and 2009.

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**OPDC RESPONSE:**

There are a number of factors that contribute to OPDC's capital spending being skewed towards the last half of the year in 2008 and 2009.

1. In both years, OPDC made sizeable investments in the vehicle category. In 2008, a new 15-ton radial boom derrick with flatbed was purchased for \$427,000, with delivery in the last half of the year. In 2009, OPDC took delivery of a single bucket, material handling truck at a cost of 260,000. This vehicle was also delivered in the second half of the year. The next planned purchase of a heavy vehicle, such as those purchased in 2008 and 2009 is not until 2014 as noted in the response to question #27 above.
2. OPDC has a very extensive and proactive forestry management program that is an organizational priority in the first quarter of each year. The cost of the work carried out in this regard is included in operations and maintenance expenditures.
3. In both years, OPDC had a higher than normal volume of work related to third party and City-driven projects. Typically, these types of jobs / projects can occur at different times of the year. However, in 2008 and 2009 the majority of these projects required attention in the first half of the year, thereby deferring our work on capital projects to the latter half of the year.
4. Finally, given that many of the capital projects tend to run several months from inception to completion and given that invoices from vendors and sub-contractors are normally received after project completion, the recognition of the expenditure often lags behind the work being carried out on the project. For example, a project may start in April and be completed in July. OPDC may receive the vendor invoice in August, with payment made in September.

**Question #29**

**Reference:** VECC #17 a) and b)

- a) Given the referenced responses, is it possible that the shareholder could demand repayment of the loan and also refuse to allow OPDC to enter into a third party debt obligation? If so, does this amount to the shareholder being able to require OPDC to enter into a new, long-term debt obligation with the shareholder at the shareholder's sole discretion? Please explain fully.

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**OPDC RESPONSE:**

The promissory note still has a period of twenty years before it is due for repayment. The terms of the note allow the City to call 20% of the note each year so over a span of five years, the entire note could be called. OPDC is required to seek City approval for any 3<sup>rd</sup> party debt issued in priority to the City's interest. Therefore, in theory, the City could call the note over time and force OPDC to refinance with City debt. Having said that, there are certain mitigating factors that would need to be considered which could weigh heavily against this scenario occurring.

This forced refinancing would have to be in the best interests of OPDC for it to be acceptable to the OPDC board of directors. The OPDC Board's fiduciary duty is not to the City of Orillia but to OPDC. Our Board is a group of professionals that take their due diligence obligations seriously. In order to exercise that due diligence, OPDC's Board would need to be confident that any source of refinancing was in the best interests of the LDC. This may or may not be the case with a forced refinancing by the City.

Ontario Regulation 438/97 of the municipal act allows LDC debt issued at the time of the incorporation transfer by-law to be refinanced by a municipality. There is however, a time restriction on any new debt investments of ten years. If the City implemented this forced refinancing strategy over the next five years, they would in fact be shortening the remaining life of the note by five years over what currently exists. This may or may not fit in with their long term investing strategy.

**Question #30**

**Reference:** VECC #10 d)

- a) What portion of Orillia's total sales in 2008 were associated with industrial loads?

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**OPDC RESPONSE:**

OPDC does not have an industrial class and can only provide a rough estimate; this estimate would be 13% to 15% of total sales in 2008 associated with industrial loads. In 2009, two of our industrial customers representing 9% of the estimated industrial load closed down operations.



**Question #31**

**Reference:** VECC #10 i) and OEB Staff 16 a)

- a) Please provide a copy of the OPA report on Orillia's CDM savings over the 2006-2008 period. If not included in the report, please provide a schedule that sets out for each CDM program details regarding the number of participants and assumptions regarding free riders and unit savings. Also, please indicate the source of the unit savings assumptions.
- b) What customer classes contributed to the 5.2 GWh in CDM savings? Please break the 5.2 GWh down by customer class.

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**OPDC RESPONSE:**

**Response to (a):**

OPDC has provided the excel version of the OPA report on Orillia's CDM savings over the 2006-2008 period. The report provides the methodology used to allocate savings to each LDC, a summary of annual savings by program year, annual savings by program year and by initiative, and the measures regarding free riders and unit savings by program year and by initiative.

**Response to (b):**

<b>Annual CDM Savings in 2008 by Program Year (mWh)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
Residential	1,118	2,481	1,497	5,096
General Service Less Than 50 kW			92	92
General Service Greater Than or Equal to 50 kW		48	50	98
<b>Total annual CDM savings in 2008 (mWh)</b>	<b>1,118</b>	<b>2,529</b>	<b>1,639</b>	<b>5,286</b>

**Question #32**

**Reference:** VECC #11 b)

- a) Please provide a schedule that sets out for the years 2007 to 2010 the annual capital (gross and net of contributions) spending on new connections and the annual capital (gross and net of contributions) spending on upgrades.

**OPDC RESPONSE:**

Please see schedule below.

DISTRIBUTION SYSTEM	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	PROJECTION	BUDGET
SERVICES __ GL # 1855 / 1995-03	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10
SERVICES __ GL # 1855							
O/H Services NEW	1,300	1,200	1,000	2,500	1,000	3,000	<b>3,000</b>
O/H Services REPLACEMENT	7,100	7,100	4,000	3,000	3,900	6,000	<b>6,000</b>
New U/G Services	18,900	17,700	17,000	22,800	26,700	20,000	<b>21,000</b>
Economic evaluation_payment	71,000		29,200			82,500	<b>30,000</b>
Other capital expenditures							
	<b>98,300</b>	<b>26,000</b>	<b>51,200</b>	<b>28,300</b>	<b>31,600</b>	<b>111,500</b>	<b>60,000</b>

**Question #33**

**Reference:** VECC #11 k)

- a) Please provide the actual average monthly generation for those months that the generator has now been in operation.

**OPDC RESPONSE:**

**Response to (a):**

OPDC has one GS > 50 kW customer that has load displacement generation. We will not be able to monitor generation status for this customer until a phone line has been installed. In an effort to provide the information requested in this interrogatory, we contacted the customer and we were provided with the following information:

- The cogeneration unit was not run on a regular basis in 2009 apart from the test period in July 2009. The test period lasted a few weeks at 4 to 5 hours per day. The unit has just over 100 hours of operation at this point.
- Waiting for installation of a phone line which will allow the unit to run automatically has delayed operation of the unit. Orillia Power will be able to monitor the unit once phone lines are in place.
- When the phone line is ready, the unit is ready to go and the expected run time is 10 hours per day (7:30am to 5:30pm) 5 days per week.
- Anticipate the end of January 2010 for unit to be ready to run.

We were previously advised by the customer that they expected to be on-line and producing power on July 2/09. The nameplate capacity is 1.06 mW. The customer advised us that typically sites will be run 16 hours per day, 5 days per week. OPDC forecast was adjusted based on this information for 6 months of 2009 and 12 months of 2010.

Based on this latest information, the following table provides a revised Adjustment to Billed Energy Forecast for Load Displacement Generation in Exhibit 3, Tab 1, Schedule 3, and Table 3-15:

Load Displacement Customer	Load Forecast	Revised
Capacity in mW	1.06	1.06
Hours per year running	4,160	2,400
2009 Load Displacement (gWh)	2.2	0.0
2010 Load Displacement (gWh)	4.4	2.5

**Question #34**

**Reference:** VECC #11 m)

- a) Please confirm that the 1.5% reflects the cumulative CDM savings over 2006-2008 and, as a result, will generally be already included in the 2008 usage reported. As result, why is it appropriate to assume these savings will result in a 1.5% reduction in usage between 2008 and 2009?

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**OPDC RESPONSE:**

OPDC confirms that the 1.5% reflects the cumulative CDM savings over 2006-2008. In the OPDC load forecast model the 2008 weather normal purchased amount which is used as a base to determine the 2010 forecast is 344.8 (GWh). However, the actual 2008 purchased amount is 337.3 (GWh). This is a difference between the 2008 weather normal and actual amount of 2.2%.

Since the weather normal amount is determined based on the prediction model that reflects 13 years of historical data in the regression analysis, it is OPDC' view that the actual CDM savings results have not been reflected in the 2008 weather normal amount. This means it is appropriate to make the adjustment of 1.5% to the 2008 weather normal amount for CDM savings to produce the 2010 forecast.

### **Question #35**

**Reference:** VECC #18 b)  
Exhibit 6/Tab 1/Schedule 1, page 3

- a) Based on the responses to the second round of interrogatories from all parties please prepare a schedule that sets out all the adjustments/revisions that Orillia has acknowledged as being required to the currently requested 2010 revenue requirement and the impact of each.
- b) Please update the Revenue Deficiency calculation to incorporate the effect of the Board's EB-2009-0084 Report – Cost of Capital for Ontario's Regulated Utilities.

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### **OPDC RESPONSE:**

#### **Response to (a):**

Please see response to question 2 of the Board Staff supplementary interrogatories.

#### **Response to (b):**

OPDC was not comfortable it could accurately determine in a timely fashion the deemed long term and short term debt rates that the Energy Board would determine and so has assumed the debt rates did not change for purposes of answering this question. **OPDC understands and accepts that these parameters will likely be revised by the OEB for 2010 rates based on January 2010 market interest rate information available and will adjust it's application revenue requirement accordingly when the deemed rates are determined by the Board.**

The following rates were used in order to update the Revenue Deficiency calculation to incorporate the effect of the Board's EB-2009-0084 Report – Cost of Capital for Ontario's Regulated Utilities that follows this table.

<b>DEEMED CAPITAL STRUCTURE - EFFECTIVE RATES</b>	
Long-Term Debt - Effective Rate	7.62%
Short-Term Debt - Effective Rate	1.33%
Total Debt - Weighted Effective Rate	7.20%
Equity - Effective Rate	9.75%
<b>Weighted Regulated Rate of Return</b>	<b>8.22%</b>

**Table 6-1: REVENUE DEFICIENCY MODIFIED FOR COST OF CAPITAL REPORT**

Description	2010 Test Revenues at Existing Rates	2010 Test Revenues at Proposed Rates
<b>REVENUES</b>		
Distribution Revenues - existing rates	\$6,161,700	6,161,700
Other Operating and Interest Revenue	541,300	541,300
Revenue Deficiency - After Taxes Assuming Existing Rates Maintained	-	815,600
Revenue Deficiency - Increase required to pay additional taxes	-	361,800
<b>Total Revenues</b>	<b>6,703,000</b>	<b>7,880,400</b>
<b>DISTRIBUTION COSTS</b>		
Operations & Maintenance, Administrative & General, Billing & Collections	4,346,000	4,346,000
Depreciation & Amortization	1,449,000	1,449,000
Deemed Interest	896,200	896,200
<b>Total Costs and Expenses</b>	<b>6,691,200</b>	<b>6,691,200</b>
<b>UTILITY EARNINGS AFTER PILS</b>		
Utility Earnings Before PILS	11,800	1,189,200
Payments in lieu of income taxes (PILS)	18,400	380,200
<b>Utility Net Earnings</b>	<b>(6,600)</b>	<b>809,000</b>
<b>REVENUE DEFICIENCY ASSUMING EXISTING RATES MAINTAINED</b>		
Utility Net Earnings - Proposed Rates	809,000	-
Utility Net Earnings - Assuming Existing Rates Maintained	(6,600)	-
<b>Revenue Deficiency After Tax - Assuming Existing Rates Maintained</b>	<b>815,600</b>	-
<b>Revenue Deficiency Before Tax - Assuming Existing Rates Maintained</b>	-	<b>1,177,400</b>

**Question #36**

**Reference:** Exhibit 8/Tab 5/Schedule 3, page 1

- a) Based on the updated revenue deficiency from Question #35 b) is any rate mitigation required for the 2010 proposed rates?

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**OPDC RESPONSE:**

OPDC does not believe that rate mitigation is required under the rates scenario presented above in Question 35 (b).