



CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.
1500 Bishop Street, P.O. Box 1060, Cambridge, ON N1R 5X6

January 13, 2010

Mr. David MacIntosh
Energy Probe Research Foundation
225 Brunswick Avenue
Toronto, ON M5S 2M6

Re: Cambridge and North Dumfries Hydro Inc.
Response to Energy Probe Research Foundation Supplemental Interrogatories
2010 Electricity Distribution Rates, Board File EB-2009-0260.

Dear Mr. MacIntosh:

In accordance with Procedural Order No. 2 received from the Ontario Energy Board on December 14, 2009, please find attached Cambridge and North Dumfries Hydro Inc.'s responses to Energy Probe Research Foundation Supplemental Interrogatories in the above proceedings.

Sincerely,

CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

A handwritten signature in black ink, appearing to read "J. Grotheer", with a horizontal line extending to the right.

John W. Grotheer
President and CEO

c.c. All Intervenors
Board Secretary, Ontario Energy Board

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
Cambridge and North Dumfries Hydro Inc. for an order
approving just and reasonable rates and other charges for
electricity distribution to be effective May 1, 2010.

**CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.
RESPONSE TO
SECOND ROUND
INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

December 18, 2009

CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

**2010 RATES REBASING CASE
EB-2009-0260**

**ENERGY PROBE RESEARCH FOUNDATION
SECOND ROUND INTERROGATORIES**

Interrogatory # 51

Ref: Energy Probe Interrogatory # 3 b)

The response provided indicates that Board of Director approval has not been received for the 2010 test year operations and capital budgets included in the rate application.

- a) When is it expected that Board of Director approval will be sought and obtained for the operations and capital budgets included in the rate application?**
- b) Has the Board of Directors approved any operating and/or capital budgets for 2010, other than that included in the rate application? If yes, provide details and a full comparison of the Board of Directors approved budgets to that used in the rate application.**

Response

- a) The Boards of Directors receive updates on the rate application but will not be approving the operations and capital amounts included in the rate application.

b)

	Original Rate Application	Board of Directors Approved 2010 Budgets
Other Operating Revenue (Net)	\$ 1,613,010	\$ 1,562,000
O M & A	\$ 10,658,608	\$ 10,788,000
Depreciation & Amortization	\$ 6,490,738	\$ 6,604,000
Capital Tax	\$ 79,591	\$ 80,400
Gross Capital Expenditures	\$ 10,672,000	\$ 12,147,000 ⁽¹⁾
Net Capital Expenditures	\$ 9,405,000	\$ 10,688,000 ⁽¹⁾

- ⁽¹⁾ Totals do not include Capital re: CIS Conversion.
(See OEB Staff Interrogatory 44 (b))

Interrogatory # 52

Ref: Energy Probe Interrogatory # 7 b)

The response indicates that the CIS project will now not go live until 2010. Please provide the estimated impact on rate base and revenue requirement of this change. Please show all calculations, such as the expenditures not being in the opening rate base figures for 2010, the reduction in depreciation and the reduction in CCA deductions.

Response

See OEB Staff Interrogatory #44.

Interrogatory # 53

Ref: Energy Probe Interrogatory # 9

- a) Is the year-to-date capital expenditures shown in the response to part (a) inclusive of contributions and grants? Please show the year-to-figures with and without contributions and grants.**
- b) The response to part (c) does not appear to cover all of the projects shown in Addendum – Table 22. Please indicate whether all of the projects not shown in the response will be completed and in-service by the end of 2009. If not, please provide a list of all projects forecast for 2009 that will not be in service by the end of the year.**
- c) Please provide evidence in support of the revised 2009 forecast of \$13,007,000. Is this the gross capital additions, or the net capital additions, net of contributions and grants? Please provide the current forecast for contributions and grants in 2009.**

Response

- a) Gross \$ 9,007,377
Net \$ 6,968,164
- b) The original response only included the items that were above the materiality threshold or were discussed elsewhere in other Interrogatories.

The projects that will not be in service in 2009 are as follows:

- Environmental Assessment – 2 locations
 - Relocation
 - Beaverdale/Queen/Hespeler Roundabout
 - Eagle Street
 - Pinebush Road
 - New CIS (See OEB Staff Interrogatory #44)
 - Hazard Hamlet Safety Unit
 - New Engines – Tension Machines
 - Neutral Buster
 - Oil Sprayer
- c) The updated forecast for capital expenditures for 2009 is:
- | | |
|-------|---------------|
| Gross | \$ 11,507,000 |
| Net | \$ 9,307,000 |

See Interrogatory #54 (c) for detail.

Interrogatory # 54

Ref: Energy Probe Interrogatory # 10

- a) **Please explain the increase in capital additions now forecast for 2009 relative to the amount forecast.**
- b) **Has Cambridge and North Dumfries Hydro received Board of Director approval to exceed the budget approved by the Board? If not, why not?**
- c) **Please provide a revised Table 22 and Addendum – Table 22 showing these revised forecast figures.**
- d) **Are any of the additional capital expenditures in 2009 the result of bringing forward expenditures from 2010? Please explain and quantify.**

Response

- a) The gross capital expenditures increases are the impact of higher servicing costs for both residential and industrial projects.
- b) The Board of Directors receive financial updates at each Board meeting. The final capital spending will be approved as part of the year end financial statements.
- c) Addendum – Table 22 – 2009 Bridge Capital Projects Analysis Revised

	Year End Estimates
Land & Buildings	\$ 74,000
Rebuilds	4,830,000
Reliability/Power Factor	187,000
New Lines	1,160,000
Relocations	755,000
New Servicing	3,143,000
Metering	127,000
Computer - Hardware	149,000
- Software	194,000
Fleet	729,000
Office Equipment	14,000
Tools	<u>145,000</u>
	Gross \$ 11,507,000
Contributed Capital	<u>(2,200,000)</u>
Net	<u>\$ 9,307,000</u>

d) No projects have been brought forward from 2010.

Interrogatory # 55

Ref: Energy Probe Interrogatory # 22

Please provide the 2006 through 2008 actual revenues in account 4215 Other Utility Operating Income.

Response

Account 4215 is not utilized by Cambridge and North Dumfries Hydro Inc. The reference in the prior answer related to the amounts recorded in 4080, not 4215 (SSS Administrative Fees).

	<u>2006</u>	<u>2007</u>	<u>2008</u>
4080 – SSS Administrative Fees	\$ 116,149	\$ 118,915	\$ 124,267

The totals for 4080 for 2009 and 2010 are included in the other operating revenue as shown in Exhibit 1, page 40.

Interrogatory # 56

Ref: Energy Probe Interrogatory # 23

- a) Both columns in the response are labeled YTD September 2009. Please indicate which of the columns is 2009 and which is 2008.**
- b) Please add account 4215 to the table.**

Response

- a) See OEB Staff Interrogatory #50.
- b) Not applicable – see #55..

Interrogatory # 57

Ref: Energy Probe Interrogatory # 29

- a) What is the expected impact on meter reading expenses once the transition to smart meters is accomplished?**
- b) Please explain why the \$110,000 in software costs is an operating expense rather than a capitalized cost.**

Response

- a) The impact on costs associated with meter reading once the transition to smart meters is accomplished is difficult to project. Currently it is anticipated that an equivalent amount will be spent to gather the electronic data, field staff for solving communication issues and new requirements to manage the data flow to the MMDR.

A new increased cost will be the charges from the IESO for the operation of the MMDR.

- b) The software costs related to annual maintenance fees that are operating costs.

Interrogatory # 58

Ref: Energy Probe Interrogatory # 36 b)

Please explain why the cost per director is significantly higher for Cambridge and North Dumfries Hydro than it is for its affiliates.

Response

The cost per director is significantly higher for Cambridge and North Dumfries Hydro Inc. based on workload, the complexity of the organization, significantly higher revenue and operating costs, significantly higher capital assets and the regulatory issues.

Interrogatory # 59

Ref: Energy Probe Interrogatory # 38 a)

Please explain why \$6,000 is added to 2010 income for an apprenticeship tax credit for 2007.

Response

The \$6,000 was added to 2010 income for apprenticeship tax credit in error. The revised amount is presented in the response to Energy Probe Interrogatories # 40 (a).

Interrogatory # 60

Ref: Energy Probe Interrogatory # 39

The 4.25% surtax applies to taxable income in excess of \$500,000 and less than \$1.5 million. Please provide any documents that Cambridge and North Dumfries Hydro has that indicates that the surtax is applicable to taxable income in excess of \$1.5 million.

Response

Cambridge and North Dumfries Hydro Inc. does not have any documentation that indicates the surtax is applicable to taxable income in excess of \$1.5M. Based on this, Cambridge and North Dumfries Hydro Inc. is presenting the following updated tax calculation for the first \$1.5M of taxable income based on the changes proposed in the 2009 Ontario Budget.

Ontario Tax Payable in 2010 for the first \$1.5M of Taxable Income		
	Based on Current Tax Rates	Based on Tax Rates Proposed in the 2009
Ontario taxable income - 2010	1,500,000	1,500,000
General corporate tax rate	14.0%	13.0%
Income tax payable before credits	210,000	195,000.0
Less Ontario Small Business Deduction		
\$500,000 x 5.5% - (A)	(27,500)	
\$500,000 x 5% - (A)		(25,000)
Add Surtax clawback:		
Taxable income	1,500,000	1,500,000
Less small business threshold	(500,000)	(500,000)
Surtax base	1,000,000	1,000,000
Surtax rate - 4.25% (B)	42,500	
Half year surtax rate - 2.125% (B)		21,250
Surtax: lessor of (A) or (B)	27,500	21,250
Ontario income tax before specified credits	210,000	191,250
Tax saving in 2010 on the first \$1.5M of taxable income based on the changes proposed in the 2009 Ontario Budget		(18,750)

Interrogatory # 61

Ref: Energy Probe Interrogatory # 40

- a) It is not clear how Cambridge and North Dumfries Hydro has calculated the ATTC of \$10,500. In particular, it appears that the calculation shown assumes eligible wages for each of the 3 eligible positions of only \$10,000 in 2010. The allowed ATTC is 35% of the eligible wages, up to a maximum credit of \$10,000 per employee. Please explain why the ATTC available in 2010 for the 3 eligible positions is not \$30,000.
- b) Has Cambridge and North Dumfries Hydro included the \$2,000 federal training tax credit available for the first 24 months for such positions in its tax calculations? If not, why not? Please provide the number of positions eligible for this credit in 2010.

Response

- a) In calculating the ATTC for 2010, Cambridge and North Dumfries Hydro Inc. used \$10,000 as the maximum eligible wages per employee rather than as the maximum credit of \$10,000 per employee. Based on the expected wages for each of the three apprentices and the allowed ATTC of 35% of eligible wages up to the maximum credit of \$10,000 per employee, Cambridge and North Dumfries Hydro Inc. will be updating its tax calculation to include the revised ATTC amount of \$30,000 for 2010.

- b) Cambridge and North Dumfries Hydro Inc. did not include in its tax calculation the \$2,000 of federal training tax credit available for each apprentice for the first 24 months as it was not aware of this recent government tax incentive. Based on the criteria, only one position will be eligible for the tax credit in 2010. Cambridge and North Dumfries Hydro Inc. will be updating its tax calculation to include the \$2,000 tax credit.

Interrogatory # 62

Ref: Energy Probe Interrogatory # 48 b)

Please explain why the figures shown in the table for 2006 through 2008 in the response to part (b) of the interrogatory do not match the figures for the corresponding years in Table 17 of Exhibit 8.

Response

The figures shown in the table for 2006 through 2008 in the response to #48 (b) are the amounts used in the load forecast model to calculate the loss factor for load forecasting. The average loss factor based on the 2006 to 2008 data shown in Table 17, of the exhibit is presented below.

Loss Factors					
		2006 Actual	2007 Actual	2008 Actual	3 Year Average
Losses in Distributor's System					
A ₁	"Wholesale" kWh delivered to distributor (higher value)	1,599,360,019	1,609,193,923	1,557,523,229	1,588,692,390
A ₂	"Wholesale" kWh delivered to distributor (lower value)	1,598,900,598	1,608,729,338	1,557,103,707	1,588,244,548
B	Portion of "Wholesale" kWh delivered to distributor for Large Use Customer(s)	255,604,860	256,098,580	237,131,759	249,611,733
C	Net "Wholesale" kWh delivered to distributor (A ₂) - (B)	1,343,295,738	1,352,630,758	1,319,971,948	1,338,632,815
D	"Retail" kWh delivered by distributor	1,560,336,154	1,566,151,501	1,518,194,487	1,548,227,381
E	Portion of "Retail" kWh delivered by distributor for Large Use Customer(s)	251,748,994	252,235,493	233,555,117	245,846,534
F	Net "Retail" kWh delivered by distributor (D) - (E)	1,308,587,160	1,313,916,008	1,284,639,370	1,302,380,846
G	Loss Factor in distributor's system [(C) / (F)]	2.65%	2.95%	2.75%	2.78%
Losses Upstream of Distributor's System					
H	Supply Facility Loss Factor	1.00029	1.00029	1.00027	1.00026
Total Losses					
I	Total Loss Factor [(G) x (H)]	2.65%	2.95%	2.75%	2.78%

Interrogatory # 63

Ref: VECC Interrogatory # 14 c)

- Please provide the data used, the regression statistics and the forecast of the explanatory variables used to generate the equation and the resulting forecasts for the model shown in the response to part (c) of VECC Interrogatory # 14 in a live Excel spreadsheet.
- Please re-estimate the equation and forecasts based on removing the spring fall flag variable.

Response

- The data used, the regression statistics and the forecast of the explanatory variables used to generate the equation and the resulting forecasts for the model shown in the response to part (c) of VECC is included in the excel spreadsheet attached to the response.

- b) The re-estimated equation and forecast based on the spring fall flag variable removed are presented below

Regression Statistics	
Multiple R	97.8%
R Square	95.7%
Adjusted R Square	95.5%
F - Test	468.68
T- Stat by Coefficient	
Intercept	(6.92)
Heating Degree Days	14.99
Cooling Degree Days	5.97
Ontario Real GDP Monthly %	4.21
Number of Days in Month	7.56
Population	2.02
Number of Peak Hours	9.75
CDM Flag	(6.95)
Purchase Forecast	
2009 (W N)	1,468,720,408
2010 (W N)	1,429,158,972

Interrogatory # 64

Ref: VECC Interrogatory # 14 f)

Forecasts produced by major Canadian banks after the fall update to the Ontario Economic Outlook and Fiscal Review of October 22, 2009 reflect stronger growth forecast for GDP in 2010 than the 2.0%. In particular these forecasts are:

- * 2.7% from TD Bank Financial Group
(<http://www.td.com/economics/qef/prov1109.pdf>),
- * 2.3% from BMO Capital Markets
(<http://www.bmonesbittburns.com/economics/forecast/prov/ProvincialOutlook.pdf>),
- * 2.1% from CIBC
(http://research.cibcwm.com/economic_public/download/prov_fcst_20nov09.pdf),
- * 2.7% from Scotiabank Group
(http://www.scotiacapital.com/English/bns_econ/forecast.pdf) and,
- * 2.4% from RBC

<http://www.rbc.com/economics/market/pdf/provfest.pdf>).

Please provide an updated forecast for 2010 using the equation in VECC 14c using GDP growth of 2.44% in 2010 (the average of the five more recent forecasts shown above).

Response

The updated purchased forecast for 2010 using the equation in VECC 14 (c) and using GDP growth of 2.44% in 2010 is 1,429,770,416 kWh which compares to a value of 1,429,225,393 kWh in VECC 14 (c).

Interrogatory # 65

Ref: Board Staff Interrogatory # 4 & VECC Interrogatory # 29 b)

- a) Please explain how the increase in the amortization expense of \$35,000 associated with the increased cost in the ERP Software Replacement results in an increase in the revenue requirement of \$49,380. Please show all calculations.**
- b) Does the increase of \$49,380 reflect the additional CCA deduction available in 2010?**

Response

- a) The calculation outlining the increase in the revenue requirement of \$49,380 as a result of the increase in the ERP software amortization expense of \$35,000 is present below. Please note that there is a small difference of \$177.

**Cambridge and North Dumfries Hydro Inc.
Revenue Deficiency Determination**

Description	
Revenue	
Revenue Deficiency	
Distribution Revenue	
Other Operating Revenue (Net)	
Smart Meter Deferral Account Adjustment	
Total Revenue	
Costs and Expenses	
Administrative & General, Billing & Collecting	0
Operation & Maintenance	0
Depreciation & Amortization	35,000
Property Taxes	0
Capital Taxes	(13)
Deemed Interest	(519)
Total Costs and Expenses	34,468
Less OCT Included Above	
Total Costs and Expenses Net of OCT	34,468
Utility Income Before Income Taxes	(34,468)
Income Taxes:	
Corporate Income Taxes	165
Total Income Taxes	165
Utility Net Income	(34,633)
Capital Tax Expense Calculation:	
Total Rate Base	(17,500)
Exemption	0
Deemed Taxable Capital	(17,500)
Ontario Capital Tax	(13)
Income Tax Expense Calculation:	
Accounting Income	(34,468)
Tax Adjustments to Accounting Income	35,000
Taxable Income	532
Income Tax Expense	165
	31%
Actual Return on Rate Base:	
Rate Base	(17,500)
Interest Expense	(519)
Net Income	(34,633)
Total Actual Return on Rate Base	(35,152)
Actual Return on Rate Base	3.90%
Required Return on Rate Base:	
Rate Base	(17,500)
Return Rates:	
Return on Debt (Weighted)	4.94%
Return on Equity	9.75%
Deemed Interest Expense	(519)
Return On Equity	(683)
Total Return	(1,202)
Expected Return on Rate Base	6.87%
Revenue Deficiency After Tax	33,950
Revenue Deficiency Before Tax	49,203

Tax Exhibit	
Deemed Utility Income	(34,633)
Tax Adjustments to Accounting Income	35,000
Taxable Income prior to adjusting revenue to PILs	367
Tax Rate	31.00%
Total PILs before gross up	114
Grossed up PILs	165

- b) The increase of \$49,380 does not reflect the additional CCA deduction available in 2010. Cambridge and North Dumfries Hydro Inc. did not include the increase in capital cost of \$350,000 for the ERP system as capital addition for 2010. As a result, no additional CCA is included in 2010. The updated 2010 capital addition to reflect the \$350,000 increase for the ERP system and the additional CCA deduction is presented in the response to OEB supplemental interrogatories # 55, part (b).

Interrogatory # 66

Ref: Board Staff Interrogatory # 5

- a) **Given that the new CIS system is now expected to go into service in 2010, is the \$200,000 expenditure scheduled for 2010 for upgrade costs still scheduled to occur in 2010?**
- b) **The response to part (b) of the Staff interrogatory lists a number of things that “could” be included in the upgrade costs. Are any of these upgrades necessary in 2010?**

Response

- a) See Ontario Energy Board Staff Interrogatory #44.
- b) See Ontario Energy Board Staff Interrogatory #44.

Interrogatory # 67

Ref: Board Staff Interrogatory # 23

- a) **Did Cambridge and North Dumfries Hydro seek guidance from legal counsel on responding to interrogatories?**
- b) **What is the expected legal cost associated with the settlement conference scheduled for January, 2010?**

Response

- a) Yes.

- b) The estimated legal costs associated with the settlement conference scheduled for January 2010 is \$18,000.

Interrogatory # 68

Ref: Board Staff Interrogatory # 24 b)

- a) **Please indicate why the change to the half year rule for amortization was made in 2009, rather than in 2010?**
- b) **Please explain why the Board should allow for the accounting change in 2009 when the distributor was under incentive regulation.**

Response

- a) The change was made in an attempt to provide ease for comparison between 2009 and 2010.
- b) The issue noted in your interrogatory was not contemplated when making the decision to make the change. We are prepared to delay making the change until 2010, if necessary, based on the incentive regulation requirements.