Board Staff Interrogatories
2008 Electricity Distribution Rates
Hydro 2000 Inc.
EB-2007-0704

SMART METERS

Hydro 2000 Inc. is not one of the thirteen licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities with respect to smart meters. In its decision on Hydro 2000 Inc.'s 2007 IRM application (EB-2007-0539), the Board confirmed its understanding that Hydro 2000 Inc. would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

1. <u>Ref: Exhibit 2 /Tab 3 /Schedule 2 /Pages 1 and 2</u>

   In its capital budgets for 2007, 2008 and 2009, Hydro 2000 Inc. has included amounts related to smart meters. Hydro 2000 Inc. has included $42,000 related to billing system conversion for 2007, $100,000 related to the installation of smart meters for 2008 and $85,000 related to smart meter installation for 2009.

   In its May 25, 2006 Decision and Order (RP-2005-0020/EB-2005-0380) on Hydro 2000 Inc.'s 2006 rates application, the Board approved, effective May 1, 2006, an amount of $0.26 per month per metered customer to be collected by Hydro 2000 Inc. through a smart meter rate adder. The Board ordered the continuation of this rate adder in its April 12, 2007 Decision and Order, EB-2007-0539 on Hydro 2000 Inc.'s 2007 IRM application.

   In an update to the subject application filed on October 10, 2007, Hydro 2000 Inc. indicated that it has removed the smart meter rate adder from the fixed charge due to the inclusion of smart meter capital in rate base for the 2008 test year.

   a) Please indicate how many smart meter installations are planned for this project in 2008 and 2009 and provide an itemized breakdown of each year's costs.

   b) With respect to the 2007 costs, please indicate whether or not other systems than the Harris Upgraded Smart Meter CIS Billing System were considered as replacement to the existing CIS Advanced System. If yes, please provide a cost/benefit comparison.

c) With respect to the 2007 costs, please indicate whether or not the entire amount of $42,000 identified as billing conversion software was to support smart meter functions. If not confirmed, please identify the portion attributed to other functions and identify those functions providing details on why these upgrades were needed.

d) Please confirm that Hydro 2000 Inc. has not included any smart meter related OM& A costs in its 2008 test year revenue requirement. If confirmed, please explain why Hydro 2000 Inc. has not included any OM&A costs in light of the inclusion of smart meter related capital costs in it's proposed rate base for 2008. If not confirmed, please prepare a comprehensive listing of all operational costs by work unit for smart meters included in the 2008 budgets. Include in this listing the work unit where the smart meter cost is accounted for in the budgets, description of activity, and amount budgeted. In particular please identify for each of the reported budget amount whether Hydro 2000 Inc. considers the cost to be a component of minimum functionality or if the amount is incidental/incremental to minimum functionality.

e) In light of its "un-named" status, please explain why Hydro 2000 Inc. has undertaken smart meter activity and included 2007 and 2008 smart meter capital costs in its proposed rate base for the 2008 test year.

OPERATION, MAINTENANCE AND ADMINISTRATION

General

2. Ref: Exhibit 4 /Tab 1 /Schedule 1

   At page 2 of the above reference, Hydro 2000 Inc. states, "The proposed OM&A cost expenditures for the 2008 test year result from a rigorous business planning and work prioritization process that reflects risk-based decision making to ensure that the most appropriate, cost effective solutions are put in place."

   Please state whether the process referenced above produced a formal business plan, and if so, please file it. If not, please provide a more detailed description of what was involved in the business planning and work prioritization process described above. Please include an explanation as to how the process reflected "risk-based decision making to ensure that the most appropriate, cost effective solutions are put in place," and a description of the analytical framework used to determine this.

3. Ref: Exhibit 4/ Tab 1/Schedule 2/ Page 1

   Please confirm whether or not Hydro 2000 Inc. has presented the budgets as reported in the above reference to its Board of Directors and whether Hydro 2000 Inc. has received final approval for these budget expenditures. If so, please provide a copy of the minutes approving the OM & A expenditures. If not, please provide information as to when Hydro 2000 Inc. will be presenting these budgets for approval by its Board.

4. Ref: Exhibit 4/ Tab 2 / Schedule 3

   At the above reference, Hydro 2000 Inc. provides variance analysis for comparing the 2006 Board approved expenses against the 2006 actual. Please prepare similar detailed variance analysis explaining the cost drivers that account for the change between:

   a) 2007 Bridge and 2006 Actual; and

   b) 2007 Bridge and 2008 Test.

Low Voltage Costs

Cell L120 of Hydro 2000 Inc.'s 2006 EDR Application Model, Sheet "7-2 ALLOCATION - LV-Wheeling" reflects an amount of $106,241 for Low Voltage charges. This Low Voltage charge was handled as a pass through charge in the 2006 EDR model. It was included into rates as a rate adder on the above referenced worksheet and accounted for as General and Administrative expense.

5. Ref: Exhibit 7/ Tab 1/ Schedule 1

   Please confirm that the amount of $121,000 identified in the above reference as LV charges in the column labelled "2008 Test Proposed Rates" is the amount proposed as the forecast for Low Voltage costs for the 2008 test year. If confirmed, please state the reasons for including it in the revenue requirement and provide detailed calculations showing the derivation of this amount. If not confirmed, please provide confirmation that no Low Voltage amounts have been included in Hydro 2000 Inc's OM&A or cost of service proposal for the 2008 test year.

External Service Costs

6. Ref: Exhibit 4 /Tab 2 /Schedule 6

   On page 1 of the above reference, Hydro 2000 Inc. lists services which it has purchased from other organizations. For each of the approaches used to award contracts e.g. hourly, tender etc, please provide a more detailed description of the specific methodology used to determine the price.

Pension Costs

7. Ref: Exhibit 4 /Tab 1 /Schedule 7

   On Page 2, Hydro 2000 Inc. indicates that the status of its pension fund is not applicable.

   a) Please explain why pension funding is not applicable to Hydro 2000 Inc., or, if it is, please provide a review of its status.

   b) Please confirm whether or not Hydro 2000 Inc. is a member of the Ontario Municipal Employees' Retirement System (OMERS).

Regulatory Costs

8. Ref: Exhibit 4/ Tab 1/ Schedule 2 and Exhibit 4 / Tab 2 / Schedules 1 and 6

   It appears from the continuity schedules in the second reference above that low voltage costs were tracked in OM&A in 2006 but were not tracked in OM&A for the 2007 bridge and 2008 test years.

   When considering the variance in OM&A costs, it appears that the OM&A (net of low voltage costs) is increasing from $193,740 (299,981-106,241) in the 2006 approved and from $218,509 in the 2006 actual to $289,744 in the 2008 test year. This represents 50% and 33% increases from the 2006 Board approved and the 2006 actual respectively.

   It appears that the bulk of this increase is primarily due to the projected increase in regulatory expenses from $6,571 in 2006 to $66,500 in the 2008 test year. A breakdown of regulatory expenses for the historic, bridge and test years (2006, 2007 and 2008) is provided at schedule 6 above.

   a) Please confirm that the 2008 amount for regulatory expenses includes one-time costs of $30,000 to Elenchus Research Associates and a one-time increase in 2008 of the annual costs paid to Deloitte from $11,033 to $30,000.

   b) If the costs are one-time costs, please explain why these one-time amounts should be recovered by way of Hydro 2000 Inc.'s annual revenue requirement in light of the fact that the 2008 revenue requirement, once approved will not be adjusted until 2011.

   c) If the costs are not one-time costs, please explain why Hydro 2000 Inc. expects to incur the level of regulatory costs reported for the 2008 test year on an annual basis going forward.

RATE BASE

Capital Budgeting

9. Ref: Exhibit 2/ Tab 2/ Schedule 1, Exhibit 2/ Tab 3/ Schedule 1, Exhibit, 3/ Tab 2/ Schedule 1/ page 7

It appears from page 10 of the first reference above, that when smart meter activity is excluded there is a decline in net assets for 2008 when compared to the 2006 historical year.

In addition, it appears from the third reference above that Hydro 2000 Inc. is projecting average annual test year load growth of approximately 0.79%.

a) Please provide details on how Hydro 2000 Inc. plans its capital expenditures for maintaining and replacing facilities.

b) Please indicate whether the utility has done any asset condition assessment or other determination regarding what facilities should be replaced in 2008.

c) As shown in the second reference above, there are very few capital projects relating to maintenance, upgrades or enhancements conducted or planned by Hydro 2000 Inc. from 2006 to 2009. Does Hydro 2000 Inc. believe that its distribution system is sufficient to meet the capacity and reliability demands of a system whose load is projected to grow at an annual rate of approximately 0.8%?

d) Please provide a revised depreciation amount for the 2008 forecast test year that reflects the removal of all smart meter capital included in 2007 and 2008. If this value is greater than the $40,000 of capital expenditures forecast by Hydro 2000 Inc. for the 2008 test year, please explain why Hydro 2000 Inc. is not replenishing its assets at the rate of its annual depreciation.

10. Ref: Exhibit 2/Tab 2/ Schedule 2

For each of the years 2002 through 2008 please provide the following listing actual dollars in years where available (and if not then using expected or planned or projected), or percentages as indicated:

($)	Historic					Bridge	Test
	2002	2003	2004	2005	2006	2007	2008
Net Income							
Approved Return on Equity (%)							
Actual Return on Equity (%)							
Retained Earnings							
Dividends to Shareholders							
Sustainment Cap Ex							
Development Cap Ex							
Operations Cap Ex							
Other Cap Ex (Specify)							
Total Cap Ex							
Depreciation							

11. Ref: Exhibit 2/ Tab 3/ Schedule 2/ Page 2

Regarding the 2008 enhancement project labelled P-0004 reported at the above reference, please provide a detailed description of the overall plan and scope of the project including details of the total number of poles that will be upgraded, and the results of any cost/benefit analysis conducted.

12. Ref: Exhibit 2/ Tab 3/ Schedule 2

Please indicate how the capital cost was determined for each capital project outlined in the reference above i.e. competitive bidding, contractor rate for hours worked, time and materials etc.

13. Ref: Exhibit 2/ Tab 2/ Schedule 5/ page 1

The table at the above reference showing variance explanations in depreciation indicates that all assets are depreciated over 25 years. Yet, it appears from the continuity tables provided at Exhibit 2/ Tab 2/ Schedule 1 that this is not the case.

Please confirm that Hydro 2000 Inc. is not using depreciation rates (for any asset class) that are different from the Board approved rates used in Hydro 2000 Inc.'s approved 2006 EDR model. If not confirmed, please identify any alternate rates and provide a depreciation study supporting the use of these rates.

Cost of Capital - Capital Structure

14. Ref: Exhibit 6/ Tab1/ Schedules 1 and 2

Hydro 2000 Inc. states that it "has a deemed capital structure of 50% debt, 50% [equity], as approved by the Ontario Energy Board in RP-2005-0020 [/ EB-2005-0380] … [and] is requesting Board approval of a phased in capital structure of 60% debt, 40% equity …"

a) Please confirm whether Hydro 2000 Inc. is proposing a 60:40 deemed debt/equity capital structure for rate-making for the 2008 rate year, or a 53.3:46.7 debt/equity transitional capital structure for 2008, in accordance with the Board's guidelines documented in Table 5 of *The Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report") issued December 20, 2006.

b) If Hydro 2000 Inc. is proposing a 60% debt and 40% equity capital structure for 2008, please explain why Hydro 2000 Inc. is not proposing to use the three year transition plan for capital structure change as documented in the Board Report.

15. Ref: Exhibit 6/ Tab1/ Schedules 1 and 2

In the tables shown at Schedule 2 above, Hydro 2000 Inc. shows the capital structure for each of 2006 Board-approved, 2006 actual, 2007 bridge and 2008 test years as follows:

	2006 Board-approved	**2006 Actual**	**2007 Bridge**	**2008 Test**
Long Term Debt	35.0%	32.5%	31.7%	29.2%
Unfunded short-term debt	0.0%	0.0%	0.0%	0.0%
Preference shares	0.0%	0.0%	0.0%	0.0%
Common equity	65.0%	67.5%	68.3%	70.8%
Total	100.0%	100.0%	100.0%	100.0%

a) Please explain why the 2006 Board approved capital structure shows a debt/equity split of 35:65, as opposed to the 50:50 deemed structure approved by the Board in Hydro 2000 Inc.'s Decision and Order RP-2005-0020/EB-2005-0380.

b) Please explain what the numbers in the tables represent for the 2006 Board-approved and 2006 actual, and explain the differences between them.

c) The tables show that Hydro 2000 Inc. is increasing its equity ratio from 65% to 70.8% and decreasing the debt ratio from 35% to 29.2%, from 2006 to the 2008 test year. Please clarify whether or not this represents Hydro 2000 Inc.'s proposed debt/equity split for the 2008 test year or its targeted actual capital structure. If it is a proposed split, please reconcile this proposal with the answer in #14 a) above.

d) Please explain why Hydro 2000 Inc. is not using a short-term debt component of 4% for the capital structure in the 2008 test year, in accordance with section 2.1.1 of the Board Report.

Cost of Capital - Short-Term Debt Rate

16. Ref: Exhibit 6/ Tab 1/ Schedule 2

In the tables shown, Hydro 2000 Inc. shows an interest rate for Unfunded Short-term Debt of 4.77% for 2006 Board approved, 2006 actual, 2007 bridge and 2008 test years. Please provide a derivation of this rate, showing the calculations, data used and the data sources.

Cost of Capital - Return on Equity

17. Ref: Exhibit 6/ Tab 1/ Schedule 1

Hydro 2000 Inc. states that it is "requesting an equity return for the 2008 test year of 8.68%".

a) Please confirm if Hydro 2000 Inc. is seeking a fixed return of 8.68%, or is proposing that, for purposes of finalizing Hydro 2000 Inc.'s revenue requirement for the 2008 rate year, the ROE be updated using January 2008 Consensus Forecasts and Bank of Canada data when these become available, as documented in Appendix A of the Board Report. If Hydro 2000 Inc. is proposing a fixed ROE of 8.68%, please provide an explanation for departing from the Board's Cost of Capital guidelines.

b) Please provide the derivation of the proposed ROE of 8.68%, showing the calculation and the source data. Please identify the sources for the data used.

Cost of Capital – Weighted Average

18. Ref: Exhibit 6/ Tab1/ Schedule 2

a) Please provide the Weighted Average Cost of Capital (WACC) for the 2008 test year that Hydro 2000 Inc. is proposing in its application, showing all data and calculations used to derive this WACC using the following table format. Please ensure that the debt/equity split used below is consistent with the response to #14 a) above:

	Ratio (%)	Rate (%)	Rate X Ratio /100 (%)
Debt			
Long-term			
Short-term			
Total Debt			
Equity			
Common Equity			
Total Equity			
Weighted Average Cost of Capital	100%		

b) Using the table format shown in a), please provide the WACC that would result from using a deemed capital structure of 53.3% debt and 46.7% equity, with the debt composed of 4% short-term debt and 49.3% long-term debt, with Hydro 2000 Inc's proposed rates for ROE and short- and long-term debt.

Cost of Capital – Impact on Net Income

19. Ref: Exhibit 6/ Tab1/ Schedules 1 and 2 and Exhibit 7/ Tab1/ Schedule 1

a) Please show explicitly how the proposed ROE of 8.68% is translated into a Utility Income Before Income Taxes of $196,418 for the 2008 test year under proposed rates.

b) Please explain why, in the revenue sufficiency/deficiency calculations at the second reference above, Income Taxes of $924 do not change as the Utility Income Before Income Taxes, for the 2008 test year, increases from $30,852 under the existing rates scheme to $196,418 under proposed rates.

2008 PILS PROXY

Loss Carry-Forward Utilization

20. For each of the years 2005 and 2006, please provide the following:

   a) Actual federal T2 tax returns and supporting schedules.

   b) Actual Ontario CT23 tax returns and supporting schedules.

   c) Financial statements that were submitted with the tax returns for each tax year to the Ministry of Finance.

   d) Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for each tax year.

Taxation of Income Related to Regulatory Asset Recovery

21. <u>Exhibit 4/ Tab 3/ Schedule 1/Page 1</u>

   a) Please explain the amounts, and the nature of the amounts, that are included in the "Regulatory adjustments" <u>addition</u> line for each of 2006, 2007 and 2008.

   b) Please explain what authority, or Board precedent, Hydro 2000 Inc. has relied on to support making this addition in the calculation of regulatory income tax PILs.

   c) In the Board's 2006 EDR Report, Chapter 7, page 61, it indicates that a tax provision is not required for recoveries of regulatory assets since the utility has benefited by the deduction for these expenses in a prior tax return. Please explain why the utility should not be subject to the Board's 2006 EDR policy.

   d) Please provide a copy of any correspondence between Hydro 2000 Inc. and the Ministry of Finance relating to the status of revenue related to Regulatory Asset Recovery, including inquiries made by Hydro 2000 Inc. or its designates and any confirmation that Hydro 2000 Inc. is liable for PILs based on this revenue.

   e) Please explain the amounts, and the nature of the amounts, that are included in the "Regulatory adjustments" <u>deduction</u> line for each of 2006, 2007 and 2008.

f) Please explain why these deductions are necessary and what authority the utility has relied on.

LOAD AND WEATHER FORECAST

22. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 1 and Exhibit 3/ Tab 2/ Schedule 6/ pages 1 and 2

In Schedule 1, page 1, Hydro 2000 Inc. states: "Weather normalization (where required) is based on normalized average use per customer ("NAC") calculated from the weather-normalized throughput of the utility from 2004." In Schedule 6, pages 1 & 2, Hydro 2000 Inc. shows weather-normalized historical consumption for the years 2004 and 2006; the corresponding values in the table for the years 2002, 2003 and 2005 are blank.

Please provide an explanation for the following:

a) Why weather normalization estimates were, as stated in Schedule 1, made for the year 2004 and evidently not for some other historical years (i.e. not for the years 2002, 2003 and 2005).

b) Whether or not the 2006 weather normalization estimation process which is not referenced in Schedule 1 but for which a 2006 value is presented in Schedule 6, was determined using a similar process to that used for 2004.

c) Whether or not the 2004 weather normalization value played a more significant or different role in estimating the 2007 and 2008 load forecast values than did the 2006 value (i.e. Schedule 1 explains the use of NAC specifically for 2004). If yes, please explain why.

d) How the trend analysis shown in the first reference above was performed apparently using only two weather-corrected observations.

e) The degree of confidence Hydro 2000 Inc. has in a load forecast based on only two weather-corrected observations.

23. Ref: Exhibit 3/Tab 2/ Schedule1/ Pages 4-6

Schedule 1, pages 4-6, identifies those customer classes that Hydro 2000 Inc. believes to be weather sensitive and those that are not. For the weather-sensitive customer classes Hydro 2000 Inc. uses the class loss factor to determine the class weather normal retail kWh for 2004; for the remaining customer classes the class loss factor is not utilized.

a) Please explain the reason for using two different forecasting approaches, that is, one based on the class loss factor and the other not based on the class loss factor.

b) Please confirm that Schedule 1, page 5 with the heading “Hydro 2000 Inc.”, is intended to be blank and contains no meaningful information. If not confirmed, please provide the missing information.

24. <u>Ref: Exhibit 3/ Tab 2/ Schedule 3/ Pages 1 and 2</u>

In Schedule 3, page 1, Hydro 2000 Inc. provides a table in which two of the headings are “Volume 8 yr forecast Hydro 2000” and “30 Yr load forecast HONI”. In the first column, values are included for the period 1999 to 2008 whereas in the second column there are no values for the period 1999 to 2006 – only values for 2007 and 2008 are included.

a) Please verify that the 1999-2006 values are actual non-weather-corrected values.

b) Please clarify the origin of what appears to be two different forecasts for the years 2007 and 2008

c) Please explain why, if the two sets of 2007 and 2008 values represent two current forecasts, it was thought necessary to develop more than one forecast.

d) Please identify which forecast was ultimately selected as the filed forecast and why this selection was made.

e) Please provide a comparison of the proposed rates with the rates that would have resulted had the forecast that was rejected been used instead. Please include a comparison of total bill impacts as well.

25. <u>Ref: Exhibit 3/ Tab2/ Schedule 6/ Pages 1 and 2</u>

In Schedule 6, Hydro 2000 Inc. provides a table in which two of the headings are “Weather Actual” and “Weather Normalized”.

Please clarify the meaning of “Weather Actual”; is this the actual load as measured or has the value been corrected in some way to account for weather conditions? If the answer to the latter is yes, please explain the difference between “weather actual” and “weather normalized”.

REVENUE OFFSETS

26. Ref: Exhibit 3/ Tab 3/ Schedule 2

a) The 2008 test year amount reported for Other Utility Operating Income is the same as for the test year 2007, which is $16,314. At the above reference, a comparison of the 2006 actual versus 2007 bridge shows a decrease of $19,336. Hydro 2000 Inc. explains the variance by stating that, "Interests on regulatory assets are not considered in the new 2008 rebasing model". Is this decrease due exclusively to interest charges on regulatory asset recoveries? If not, please provide a detailed breakdown of what constitutes this decrease.

b) Please clarify whether or not interest on regulatory assets was included in the 2006 approved total for Other Utility Operating Income (shown as $27,706 at Schedule 1 of the above reference) and that this formed part of the approved revenue offset total of $45,515.

27. Ref: Exhibit 7/ Tab 1/ Schedule 1

a) Please reconcile the distribution revenue number shown as $366,734 on page 3 under the column, "2008 Test Proposed Rates" with the Distribution Services Revenue number shown at Exhibit 3/ Tab 3/ Schedule 1 under "2008 Test" as $288,963.

b) Please explain what the number shown as $35,980, "Other Operating Revenue (Net)" represents. Please confirm whether or not this number represents the revenue offset total forecasted for 2008. If confirmed, please reconcile this number with the $32,672 total shown as Other Distribution Revenue at Exhibit 3/ Tab 1/ Schedule 2.

REVENUE REQUIREMENT

28. Ref: Exhibit 7/ Tab 1/ Schedule 1

In the above reference, the proposed revenue requirement for 2008 has been identified as $527,084. As indicated at Exhibit 9/ Tab 1/ Schedule 1, this number is net of miscellaneous revenues.

The following identifies the components of the revenue requirement for the 2006 approved and 2008 test years as per Hydro 2000 Inc.'s approved 2006 EDR model and the 2008 distribution rate application respectively. The 2008 test year return on rate base amount has been calculated by Board Staff:

	2006 Approved	**2008 Test**
OM&A	299,981	410,744
Amortization	36,818	56,569
PILs	0	39,350
Total Cost of Service	**336,799**	**506,663**
Return on Rate Base	47,537	55,571
Service Revenue Requirement	**384,336**	**562,234**
Less Revenue Offsets	45,515	32,672
Base Revenue Requirement	**338,821**	**529,562**

a) Please confirm the amounts shown above for OM&A, Amortization, PILs and Revenue Offsets for the 2008 test year. If not confirmed, please provide the correct amounts and reconcile those amounts with the information provided in Exhibit 4/ Tab 1/ Schedule 2 (for OM&A and Amortization), Exhibit 7/ Tab 1/ Schedule 3 (for PILs) and Exhibit 3/ Tab 1/ Schedule 2 (for Revenue Offsets). Note: the 2006 approved and the 2008 proposed OM&A shown above include amounts for Low Voltage of $106,241 and $121,000 respectively.

b) As noted above, Board Staff has calculated the return on rate base amount of $55,571 based on the proposed 2008 rate base of $799,349 and a WACC of 6.95% (based on a debt/equity split of 60/40 and an ROE of 8.68% as per Exhibit 6/ Tab 1/ Schedule 2). Please state whether Hydro 2000 Inc. is in agreement with this calculation. If Hydro 2000 Inc. is not in agreement, please provide the correct figure showing all supporting calculations. Please ensure that the calculations are consistent with the response to interrogatory #14 a) above regarding the proposed debt/equity split and interrogatory #18 a) regarding the proposed WACC.

c) The total base revenue requirement calculated above for the 2008 test year is $529,562. This includes the proposed 2008 Low Voltage amount of $121,000. This number is different from the requested revenue requirement of $527,084. Once the amounts for the 2008 test year in the table above are confirmed, please provide a schedule identifying and explaining in detail the factors that account for any difference that may still exist between the base revenue requirement applied for ($527,084) and the amount calculated in the above table (i.e. $529,562 or some other revised number based on the responses to a) and b) above). Please confirm the base revenue requirement that Hydro 2000 Inc. is requesting for the 2008 test year.

VARIANCE AND DEFERRAL ACCOUNTS

New Deferral Account - Future Capital Expenditures

29. Ref: Exhibit 1/ Tab1 / Schedule 5/ Page 1

Hydro 2000 Inc. is requesting a deferral account to capture capital expenditures in future years 2009 and 2010. Hydro 2000 Inc. has indicated that it will request disposition of the balance of the deferral account at the time of the next rebasing in 2011.

a) Please identify any regulatory precedent that supports the collection of capital costs in a deferral account and their disposition in future years.

b) Please provide justification for requesting this account.

c) In its capital budget at Exhibit 2/ Tab 3/ Schedules 1 and 2, Hydro 2000 Inc. does not identify any capital spending for 2010. Please describe in detail the type of capital expenditures that are proposed to be recorded in this account for 2009 and 2010. Please clarify whether or not the smart meter capital spending forecast for 2009 will be recorded in this account.

d) Please identify the journal entries that are projected for this account.

e) Hydro 2000 Inc. has identified new capital spending for the 2008 test year. Should Hydro 2000 Inc. under-forecast the 2008 capital costs, is it Hydro 2000 Inc.'s intention to record the difference in this deferral account?

f) Please confirm that the 2009 and 2010 years referred to above are calendar years.

g) Please confirm whether Hydro 2000 Inc. will record the total capital expenditures in this account or just the amounts related to the annual cost of service associated with the new assets (i.e. depreciation, return, PILs, etc.). If the latter, please provide an example identifying all the relevant calculations. If the former, please confirm that Hydro 2000 Inc. is proposing to recover the total capital expenditures outside of rate base (via a rate rider).

Regulatory Assets Disposition Post 2004 balances - General

30. Ref: Exhibit 5/ Tab 1/ Schedule 2/ Page 2

At the above reference, it appears that Hydro 2000 Inc. is stating that it no longer tracks and uses the RSVA accounts after May 1, 2006. Please confirm that Hydro 2000 Inc. is still using the RSVA accounts after May 1, 2006. If not confirmed, please list the accounts that Hydro 2000 Inc. is using to track RSVAs after May 1, 2006 and state the balances associated with the RSVAs for the year ending December 31, 2006.

31. Ref: Exhibit 5/ Tab1/ Schedule 3/ "DefVarianceAccts" Spreadsheet

In its 2006 EDR application, Hydro 2000 Inc. received final approval for recovery of its regulatory account balances to the year ending December 31, 2004.

a) Please confirm that the account balances shown in the above referenced spreadsheet reflect costs incurred during the time period January 1, 2005 to December 31, 2008. If confirmed, please explain why only accounts 1508 Other Regulatory Assets, 1550 Low Voltage Variance and 1592 PILs Deferral are showing new accruals in the post December 31, 2006 time period. It appears that the remaining accounts are forecasting only interest charges to December 31, 2008.

b) Please clarify whether the end period relating to the account balances that are requested for disposition is April 30, 2008 or December 31, 2008.

c) Please submit a revised schedule showing the calculation of revised rate riders using balances for the period ending December 31, 2006. Please ensure that the schedule fits on one page wide and that there are no ### (pound signs) instead of numbers in the printout. Please include interest charges on the year end December 31, 2006 balances to April 30, 2008.

32. Ref: Exhibit 5/ Tab1/ Schedule 2/ Pages1 and 2

At the above reference, it appears that Hydro 2000 Inc. is identifying the calculations supporting the year end December 31, 2006 account balances.

a) Please confirm that these are the balances for the year ending December 31, 2006.

b) If confirmed, the totals in the above reference do not appear to correspond to totals reported to the Board as per requirement 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31, 2006. Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule attached with the amounts requested for disposition in Exhibit 5/ Tab 1/ Schedule 3 / Spreadsheet.

c) Please explain why the carrying charges for account 1566 differ from the carrying charges for account 1565 in light of the fact that the underlying balances are the same.

33. Ref: Exhibit 5/ Tab1/ Schedule 3/ Spreadsheet

In Hydro 2000 Inc.'s 2006 EDR decision (RP-2005-0020/EB-2005-0380), the Board approved an annual recovery (to be in place for two years) of $225,388 for regulatory asset amounts. These costs reflected the remaining amounts of the year end December 31, 2004 balances, interest forecasted to April 30, 2006 and certain embedded costs charged by Hydro One Networks Inc. for the period ending April 30, 2006.

a) At cell I 55 of sheet "DefVarianceAccts", of the above spreadsheet, Hydro 2000 Inc. has identified the approved balance relating to the pre-2005 balances as $395,384. Please confirm that this is the actual recoveries relating to the pre-2005 balances reported in account 1590, Recovery of Regulatory Asset Balances and not the annual "approved balance" as per the 2006 EDR decision ($225,388).

b) Please identify the amount recovered from May 1, 2006 to December 31, 2006.

c) Please explain why Hydro 2000 Inc. is showing recoveries related to pre-2005 account balances in account 1590 during the post May 1, 2008 period.

34. Ref: Exhibit1/ Tab 3/ Schedule 2

a) Please clarify whether the "Total" columns in the pro-forma balance sheets and income statements for the 2007 bridge and 2008 test years are the year end unadjusted balances for those years. If not, please specify what the "Total" column represents.

b) Please state why the pro-forma income statements for the periods ending December 31, 2007 and December 31, 2008 have adjustments to the baseline number. Please describe the nature of these adjustments.

c) It appears that the pro-forma net income shown in the “Total” and “Pro-forma” columns for both the 2007 bridge and 2008 test years should not be the same number (as shown in the income statements) due to adjustments in income taxes. Please restate the pro-forma bridge and test year income statements to reflect these adjustments.

Regulatory Assets Disposition Post 2004 balances – Account 1508, Other Regulatory Assets

35. Ref: Exhibit 5/ Tab 1/ Schedule 1/ Page5

At the above reference, Hydro 2000 Inc. provides a description of the costs recorded in account 1508. This description however does not address in detail any new costs recorded in this account beginning on January 1, 2005.

a) Please provide a schedule showing a breakdown of the costs in account 1508 by sub-account identifying principal and interest for each year end balance for the time period January 1, 2005 to April 30, 2008.

b) Please describe the nature of the costs identified in a) above and provide detailed explanations supporting the level of the costs.

Regulatory Assets Disposition – Account 1592, PILs and Tax Variances post April 30, 2006

36. Ref: Exhibit 5/ Tab 1/ Schedule 1/ Page 6

Account 1592 PILs and Tax Variances was established to capture changes in tax legislation only, for the period starting May 1, 2006. Guidance was provided in Accounting Frequently Asked Questions (FAQ) in December 2005 and July 2007.

Following the guidance in the April 2003 FAQ, accounts 1562 Deferred PILs and1563 Contra Account Deferred PILs ceased to be a requirement for variance accounting relating to the post April 30, 2006 period.

Please clarify why account 1592 is being used to capture the variance between PILs billed and PILs payable.

Regulatory Assets Disposition – Accounts 1562 Deferred PILs and 1563 Contra Deferred PILs to April 30, 2006

37. Ref: Exhibit 5/ Tab 1/ Schedule 2/ Pages1 and 2

Please provide the following information with respect to Deferred PILs account 1562 and the Contra Deferred PILs account 1563.

a) Please identify and describe in detail the PILs method Hydro 2000 Inc. followed in calculating the balances in account 1562 (and 1563 if applicable) by reference to the Board's FAQs dated April 2003.

b) Did Hydro 2000 Inc. change PILs accounting methods at anytime from October 1, 2001 to April 30, 2006? If yes, please describe the change and explain the impacts of the change.

c) Please provide a continuity schedule that shows how the transaction amounts in the PILs account 1562 (and 1563 if applicable) were recorded in the general ledger as at each year end since the period beginning October 1, 2001. Please separate the PILs proxy or allowance in rates, amounts billed or collected, adjustments, and interest. Please explain any adjustments.

d) Please provide an analysis for each year end from October 1, 2001 through December 31, 2006. The schedule should show:

   i. The PILs proxy or allowance approved in rates
   ii. The amounts billed to or collected from customers
   iii. Adjustments calculated by the Board's methodology for true-up and deferral account entries
   iv. Any other adjustments recorded by Hydro 2000 Inc.
   v. The interest carrying charge calculations and an explanation of how the interest amounts were calculated
   vi. Excess interest claw-back, if applicable.

e) Please explain any differences between the two analyses requested in c) and d) above.

f) Where Hydro 2000 Inc. deviated from the Board's PILs and SIMPIL methodology, please provide a description of each deviation and the reasons for each.

g) Please describe the assumptions that Hydro 2000 Inc. made for the following items in calculating its account balance to be disposed:

i. Interest and penalties on unpaid or under-paid taxes
ii. Non-deductible expenses such as meals, club dues, car expenses
iii. Donations paid to registered charities or municipal owners
iv. Joint ventures, subsidiary companies, equity income
v. Costs disallowed by the Board in any proceeding
vi. Profit or losses on disposals of fixed assets for accounting purposes
vii. Capital gains or capital losses on disposals of capital assets for tax purposes
viii. Regulatory asset write-offs and recoveries for tax purposes.

h) For any of the information provided above, please identify any Board precedents on which Hydro 2000 Inc. has relied. Please provide the proceeding case docket references.

i) Please explain why the expensing or recovery of regulatory assets be included in the calculation of regulatory PILs taxes. Please identify any Board precedents that are being relied on in making this assertion. Please describe how Hydro 2000 Inc. processed these transactions in the PILs calculations to determine the balance in account 1562.

j) If a regulatory asset amount is denied collection by the Board, how should the denial be treated in the PILs tax calculations and reconciliation of the 1562 account?

k) Please describe the assumptions that Hydro 2000 Inc. made in recording transactions in account 1562 subsequent to April 30, 2006.

l) Please provide the following tax-related documents for each tax year from 2001 through 2006:

i. Federal T2 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
ii. Ontario CT 23 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
iii. Financial statements for each year that were submitted with the tax returns.
iv. Notice of Assessment received from the Ontario Ministry of Finance, Corporations Tax Branch.
v. Notice of Reassessment from the Ontario Ministry of Finance Corporations Tax Branch.
vi. Correspondence between Hydro 2000 Inc. and the Ministry of Finance concerning disputes or disagreements regarding the calculations of

PILs income tax, Large Corporation Tax and Ontario Capital Tax in any tax return for any year.

Regulatory Assets Disposition – Account 1550 Low Voltage Variance

38. Ref: Exhibit 5/ Tab 1/ Schedule 2 and Exhibit 5/ Tab 1/ Schedule 3/ Spreadsheet

Hydro 2000 Inc. has requested disposition of the variance in account 1550 relating to low voltage charges as of May 1, 2006.

a) Please list the accounting procedures and sample journal entries used to record the principal entries in account 1550.

b) Please describe the derivation of principal balances in account 4750 LV Charges (including the rate(s) used).

c) Please describe the derivation of principal balances in account 4075 LV Billed (including the method for allocating revenue to this account and the rate(s) used).

COST ALLOCATION

39. Ref: Exhibit 8 / Tab 1 / Schedule 1 / Page 2

a) Please file Hydro 2000's informational filing EB-2006-0247, Run 2, as an official part of the current application.

b) Using Sheet O1 from the informational filing, please provide a table that shows, for each customer class:

i. the Revenue Requirement (including Allocated Net Income) from Run 2.
ii. the amount of LV Wheeling cost approved for the class in 2006
iii. the sum of the two previous columns, expressed as a percentage of the total.

c) Continuing from part iii above, please show a calculation of the total 2008 revenue requirement (net of revenue offsets) X the percentages calculated in part iii. Please label this column "Imputed Class Revenue Requirement". Please confirm that the total of the amounts calculated is $527,084; alternatively, please explain any disparity between these amounts.

d) Please provide comments on trends or developments, if any, in Hydro 2000 Inc.'s service territory that might cause the results in a forward test year cost allocation study to differ substantially from the calculated values labelled "Imputed Class Revenue Requirement" in part c) above.

RATE DESIGN

40. Ref: Exhibit 9 / Tab 1 / Schedule 8

a) The table titled "Reconciliation of Rate Class Revenue to Total Revenue Requirement" in the reference shows a rate classification titled "Rate Class 5". Please confirm if "Rate Class 5" refers to the Streetlight rate class.

b) Please confirm that the GS over 50 kW class Distribution Revenue in the Informational filing is $20,295, whereas in the above reference reflecting the proposed revenue requirement is $63,593.

c) Please provide a table that shows, for each customer class:

i. From Sheet O1 Run 2 of the informational filing, the "Revenue to Expenses %"
ii. From part c) of the Interrogatory on Exhibit 8 above, the "Imputed Class Revenue Requirement"
iii. From Schedule 8, please copy the "Proposed Revenue at Proposed Rates"
iv. Calculate the ratio of column iii) to column ii), expressed as a percentage.

41. Ref: Exhibit 9 / Tab 1 / Schedule 1 / Page 2

Please provide additional explanation of Step 1, "proposed movement in revenue cost ratios". In particular, please confirm whether the movement refers to differences between column i) and column iv) in part c) of the previous interrogatory.

42. Ref: Exhibit 8 / Tab 1 / Schedule 2 / Page 3, Schedule 6 / Page 1 and Schedule 9 / Page 11

The table titled "Proposed Monthly Service Charge" in the first reference above shows $10.34 as the "Proposed Fixed Charge" for Un-metered Scattered Load (USL). The "Proposed Rate Schedule" in the second reference above shows $6.00 as "Service Charge" for USL. The table in the

"Rate Impacts" section in the third reference above shows $6.00 as "Monthly Service Charge" for USL. Please confirm which amount is correct. Also please state whether the charge is on a "per-customer" or "per-connection" basis.

43. Ref: Exhibit 9 / Tab 1 / Schedule 9 / Page 11

If the correct amount in the previous interrogatory is the lower amount, please explain why the Unmetered Scattered Load Service Charge is being increased by a small amount (approximately 3%) and the volumetric rate is being increased by a larger amount (approximately 240%). (If the correct amount is the higher amount, please disregard the question.)

44. Ref: Exhibit 9 / Tab 1 / Schedule 1 / Page 2 and Cost Allocation Informational Filing / Run 2 / Sheet O1

In the "Rate Design Overview" section in the first reference above it states that the total revenue requirement excluding miscellaneous revenues for the 2008 test year is $527,084. In the second reference above, the Revenue Requirement (i.e. Total Expenses) and Total Revenue (comprising Distribution Revenue and Miscellaneous Revenue) are shown as $278,095.

a) Please confirm that the $278,095 figure is net of the 2006 LV approved amount of $106,241.

b) If confirmed, please explain how the proposed LV amount for the 2008 test year of $121,000 was allocated to the classes.

45. Ref: Exhibit 9 / Tab 1 / Schedule 8 / Page 1, Schedule 6 / Pages 1-2 and Schedule 7 / Pages 1-4

The table titled "Reconciliation of Rate Class Revenue to Total Revenue Requirement" in the first reference shows $0.0123 as the "Proposed Volumetric Charge" for Residential. The "Proposed Rate Schedule" in the second reference shows $0.0123 as the "Distribution Volumetric Rate" for Residential. In the "Summary of Proposed Rate Schedule" section in the third reference, the "Distribution Volumetric Rate" for "2008 Proposed" is shown as $0.0124.

a) Please confirm which of the two dollar figures, i.e. $0.0123 and $0.0124 is correct.

b) Please address other rate classifications where a similar difference exists.

LOSS FACTORS

46. Ref: Exhibit 4/ Tab 2/ Schedule 9/ Pages 1 and 2

The table titled "Loss Adjustment Factor Calculation" on page 1 shows distribution loss factors (DLF) for 2002 to 2006. Row G represents the DLF in the Hydro 2000 Inc. system and row H represents the composite DLF in the combined Hydro 2000 Inc. and Hydro One (HONI) systems. Page 2 identifies the total loss factor (TLF).

a) Please explain why Hydro 2000 Inc. chose to add the DLF in row G to HONI's TLF in determining the total DLF instead of multiplying the two numbers.

b) Please explain the calculation method used to obtain the composite DLF in the Total column on page 1, i.e. 1.0661 in row H.

c) The secondary TLF (1.0610) and composite DLF (1.0661) provided on pages 1 and 2 respectively, yield a Supply Facilities Loss Factor (SFLF) value of 0.9952. Please explain why the SFLF value is significantly different from the industry norm of 1.0045.

d) Please confirm whether or not the HONI TLF of 3.40% reflects the SFLF at the distribution stations referred to at Exhibit 4/ Tab 2/ Schedule 10/ Page 1. If not confirmed, please provide the SFLF.

e) On page 1, row G indicates a steady and continuous increase in the DLF for the Hydro 2000 Inc. system from 2002 to 2006, i.e. an increase from 1.76% in 2002 to 3.94% in 2006. Please provide an explanation for this increase.

f) Since DLF and TLF have not explicitly been provided for the test year 2008, please confirm if the Total composite DLF on page 1 (1.0661) and the TLF on page 2 (1.0610) are intended to be the forecast values for the test year 2008.

g) Please explain why the DLFs shown at row H of page 1 at the above reference for the years 2002, 2003 and 2004 are different from the DLFs shown for these same years at Schedule 10-5 in Hydro 2000 Inc.'s 2006 EDR application, RP-2005-0020/EB-2005-0380.

47. Ref: Exhibit 4/ Tab 2/ Schedule 9/ Pages 1 and 2

It would generally be expected that the TLF would be larger than the DLF, even if the latter is defined to include losses in the host distributor's LV system. Please confirm that this application is for approval of a TLF that is lower than the DLF, and if so please provide a rationale for this request.

48. Ref: Exhibit 4/ Tab 2/ Schedule 9/ Utility Load Flow and Evaluation Study

Please state whether or not Hydro 2000 Inc. plans on implementing the recommendations contained in the Utility Load Flow and Evaluation Study. If confirmed, please identify where in the current application these activities/programs are reflected. If not confirmed, please explain why Hydro 2000 Inc. is not implementing the study's recommendations.

RETAIL TRANSMISSION RATES (RTR)

49. Ref: Exhibit 9/ Tab 1/ Schedules 4 and 5

The Wholesale Network Transmission Rate will decrease 28% effective November 1 2007. The Wholesale Connection Transmission Rate will decrease 18% and the Wholesale Transformation Connection Transmission Rate will increase 7% effective November 1 2007.

a) For each rate class, please provide a revised RTR – Network Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the revised RTR – Network Service Rate for each rate class should equal the amount paid for the Wholesale Network Transmission Rate.)

b) For each rate class, please provide a revised RTR – Line and Transformation Connection Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the RTR - Line and Transformation Connection Service Rate for each rate class should equal the amount paid for the Wholesale Connection Transmission Rate and the Wholesale Transformation Connection Transmission Rate.)

50. <u>Ref: Exhibit 5/ Tab1/ Schedule 3/ "DefVarianceAccts" Spreadsheet</u>

Distributors have been required to provide information on accounts1584 RSVA NW and 1586 RSVA CN to the Board as part of the quarterly RRR filings.

a) Please provide the quarterly balances for the fist three quarters of 2007 for accounts 1584 RSVA NW and 1586 RSVA CN and reconcile any variations with the quarterly balances reported as part of the Board's RRR filings.

b) Please explain how your balances in accounts 1584 RSVA NW and 1586 RSVA CN have trended or fluctuated since January 1 2005.