

**Board Staff Interrogatories**  
**2008 Electricity Distribution Rates**  
**Halton Hills Hydro Inc.**  
**EB-2007-0696**

**OPERATION, MAINTENANCE AND ADMINISTRATION**  
**General**

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

Please prepare a reconciliation comparing the 2006 Actual values to the 2006 audited financial statements.

2. Ref: Exhibit 4/ Tab 2/ Schedule 6/ Page 1

Halton Hills provides a comparison of total incentive amounts for Management from 2006 to 2008. Please provide details on Halton Hill's incentive guidelines, including how Management performance is measured and how the incentive level is determined.

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

Please provide a detailed description of the assumptions underlying the allocation of Halton Hills' corporate costs to its business units, if applicable. Please include relevant documentation of the overall methodology and policy. If not applicable, please explain why.

**Purchased services**

4. Refs: Exhibit 4/ Tab 2 / Schedule 5 and Exhibit 4/ Tab 2 / Schedule 3/ Page 1

On pages 1 and 2, Halton Hills lists the services which it has purchased from other organizations. For each of the approaches used to award contracts e.g. tendering approach, cost approach, etc, please provide a more detailed description of the specific methodology used to determine the price.

**Shared Services**

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

Halton Hills provides a summary of shared services. Please provide, in addition to this information, the total expense by service.

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

Halton Hills provides a summary of the allocators used for corporate cost allocation under a Service Agreement that is updated on yearly basis for the provision of any services performed for an affiliate. Please provide the rationale for the use of each of these allocators and how they would be used to calculate the total annual expense by service.

**Pension Costs**

7. Ref: Exhibit 4/ Tab 2/ Schedule 6/ Page 1

Halton Hills provides the status of its pension funding. Please provide summary data on the age distribution of the workforce and a forecast of retirements by employee category from 2007 to 2008.

**Low Voltage Charge**

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

The following table was prepared by Board staff to compare the application's 2006 Board Approved OM&A to the final 2006 EDR model for Halton Hills. Please review and explain the difference column, or revise the above referenced schedule for your application. Please note that the amount for Administrative and General Expenses has been adjusted by \$613,744 to reallocate the Low Voltage charge. 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 and offset as a General and Administrative expense (or more intentionally as revenue offset). This amount therefore should not be included in the OM&A subtotal for comparative purposes. Please note that rounding differences may occur, but are immaterial to this question.

2006 Board Approved OM&A			
(\$)			
	Per Application	Per Board Staff	Difference
Operation	495,401	495,098	303
Maintenance	562,172	560,579	1,593
Billing & Collecting	873,784	835,191	38,593
Administrative and General Expenses	2,594,596	1,888,615	705,981
Insurance Expense	0	32,680	-32,680
Bad Debts	0	38,593	-38,593
Advertising Expenses	0	1,557	-1,557
Taxes other than income taxes	71,132	71,132	0
Subtotal	4,597,085	3,923,445	673,640
Low Voltage	0	613,744	-613,744
Community Relations (CDM)	88,690	88,690	0
Total OM&A Expenses	4,685,775	4,625,879	59,896
Amortization Expenses	1,846,338	1,846,338	0
Total Distribution Expenses	6,532,113	6,472,217	59,896

9. Ref: 2006 EDR Application Model, Sheet "7-2 ALLOCATION - LV-Wheeling"

In Halton Hills' 2006 EDR Application Model, Sheet "7-2 ALLOCATION - LV-Wheeling", Cell L120 has included the amount of \$613,744 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 (or more intentionally as a revenue offset). Please confirm whether or not Halton Hills has included a budget amount in the 2008 Cost of Service or OM & A budget for low voltage. If yes please state reasons for including and identify the amounts included, including detailed calculation. If not, please declare confirmation that no amounts have been included in Cost of Service or OM&A for Low Voltage.

**Loss factors**

10. Refs: Exhibit 1/ Tab 2/ Schedule 1/ Page 6 and Exhibit 4/ Tab 2/ Schedule 8/ Page 1

- a) Please confirm that the loss factors filed in Schedule 10-5 of EDR 2006 application (RP-2005-0020/EB-2005-0374) were 1.0207, 1.0365 and 1.0371 respectively for 2002, 2003 and 2004.
- b) Please confirm that loss factors for 2004, 2005 and 2006 are as indicated in the Application, i.e. respectively 1.0509, 1.0637 and 1.0357.
- c) Noting that the 2004 loss factor in the latter is 1.0509, as distinct from 1.0371 in the former, please indicate which data is correct. If the larger figure in the latter is correct, please explain what information became

- available in the period after filing the EDR 2006 application to rationalize the revision.
- d) Please provide a brief explanation of why the loss factor in 2005 (and in 2004 if the revised figure is correct) appears to be substantially above the average over the longer period 2002-2006.
  - e) Please provide a rationale for proposing that the 2008 loss factor be an average of the loss factors for 2004-2006 rather than some lower factor such as a replication of the 2007 loss factor of 1.0368 or the actual 2006 loss factor of 1.0357.

**2008 PILs PROXY**

11. General

For fiscal and tax year 2006, please provide the following:

- a) Actual federal T2 tax return and supporting schedules;
- b) Actual Ontario CT23 tax return and supporting schedules;
- c) Financial statements that were submitted with the tax returns for each tax year to the Ministry of Finance; and
- 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.

12. Ref: Exhibit 4/ Tab 3/ Schedule 1, Page 1

*Income before PILs/Taxes*

- a) Please provide the exhibit references for the source of the income before PILs/ taxes of \$1,895,292 for 2006; \$2,763,680 for 2007; and \$1,581,790 for 2008.  
If there is no exhibit reference, please provide a summary showing the calculations of each amount.  
Why will Halton Hills earn much more income before PILs/ taxes in 2007 than in 2008?
- b) Please provide the current year forecast or estimate of income tax/ PILs instalments to be paid to the Ministry of Finance for the 2007 tax year.

*Table entitled "Income Taxes", Additions, for 2006, 2007 and 2008*

- c) Please explain why non-deductible meals and entertainment expense should true up to the ratepayer. If these expenses are non-deductible for tax purposes, why should the shareholder not absorb the costs and the tax consequences?
- d) Please provide a summary table of the various amounts included in "Reserves from financial statements" and explain why each item should be added back in the calculation of regulatory net income.
- e) Please explain why interest expense has been added back in 2007 and 2008 but not in 2006.
- f) Please explain why interest expense is added back in the calculation of regulatory income tax / PILs.

*Table entitled "Income Taxes", Deductions, for 2006, 2007 and 2008:*

- g) Please provide a summary of the various amounts included in "Reserves from financial statements" and explain why each item should be deducted in the calculation of regulatory net income.
- h) Please provide the exhibit reference for the calculation of the "Cumulative eligible capital deduction" for 2007 and 2008. If there is no exhibit, please provide the required calculations to support the deduction amounts. Please explain what the eligible capital is and how it arose.

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

Please explain why the excess interest calculated on schedule Exhibit 4/Tab 3/Schedule 2/Page1 has not been carried forward to Exhibit 4/Tab 3/Schedule 1/Page 2. Would it change the calculation of income taxes in Test Year 2008 if the amount were carried forward? If yes, please provide a revised calculation.

14. Ref:Appendix B/E 1 Exhibit 4/Tab 3/Schedule 2/Page1

- a) Please explain why interest expense shown on this schedule does not agree with interest expense shown in Appendix B/E1/T3/S2/P4 for 2007 and on E1/T3/S2/P10 for 2008.
- b) Capital Cost Allowance (CCA) Deduction:
  - i. Appendix D/ E4/T3/S3/P3: Please explain why Class 47 was not used for additions to the distribution system.
  - ii. For 2006, 2007 and 2008 please provide the exhibit reference, or provide a summary if the evidence is missing, to support the additions amounts in E4/T3/S3/P3-5: \$3,270,475 on page 3; \$5,447,216 on page 4; and \$4,831,010 on page 5.
  - iii. Please identify the applicable years for pages 3, 4 and 5.
  - iv. Please agree the amounts shown above in (ii) to the capital budget sections: 2006 - E2/T3/S1/P1; 2007 - E2/T3/S1/P2-4; 2008 - E2/T3/S1/P5-7; and show how the additions in the tax calculations were derived.
- c) Please provide an exhibit reference for construction work in progress. If no exhibit has been submitted, please provide a schedule showing the opening CWIP balance, plus capital expenditures for the year, minus transfers to finished plant, and the closing balance in CWIP for each of 2006, 2007 and 2008. Please disclose any interest improvement separately from the principal balances of CWIP. Please show how the amounts transferred to finished plant are the same amounts shown in the CCA calculations for each year.

**RATE BASE**  
**Capital Budget**

15. Ref: Exhibit 2/Tab 3/ Schedule 1/ Page 5

Please verify the total amount of the Projects is \$5,831,010 rather than \$9,552,420 as shown. Alternatively, indicate how that amount is determined.

16. Ref: Exhibit 2/ Tab 3/ Schedule 2/ Page 6

For the Project described as “Expansion refunds”, and referred to as Ref A please:

- a) provide the detailed reference for the Need;
- b) provide the economic evaluation model mentioned under “Scope”;
- c) provide details of to whom and why refunds are due;
- d) provide the detailed calculation leading to the amount of \$750,000; and
- e) Indicate if this project could be deferred, and what would be the consequences of doing so.

17. Ref: Exhibit 2/ Tab 3/ Schedule 1/ Page 6, and Exhibit 2/ Tab 3/ Schedule 2/ Page 5

For the Project titled “Winston Churchill- 5SDRD to Steeles”, ref B

- a) Please provide the economic assessment which determined that the Load Transfer customers would be more economically serviced by Halton Hills Hydro, rather than by permanent transfer to Brampton Hydro.
- b) Please provide the details of the load growth i.e. initial and future number of customers, growth and their load requirement.
- b) Please indicate if this project could be deferred, and what would be the consequences of doing so.

18. Ref: Exhibit 2/ Tab 3/ Schedule 1/ Page 6

The explanation for the 2008 Test year developments at Cross substation (Project Ref C) is indicated on Exhibit 2/Tab 3/Schedule 2/page 6 as “new switchgear installation requirement”.

- a) Please indicate if this new switchgear is a replacement or is for the purpose of supplying new customers, and
  - i. If the installation is to replace old facilities, please provide details and results of the assessment process which led to replacement; or
  - ii. If the installation is for new customers, please indicate number of customers, the load capability of the facilities and the expected load.

- b) Please indicate if this project could be deferred, and what would be the consequences of doing so.

19. Ref: Exhibit 2/ Tab 3/ Schedule 2/ Page 6.

The explanation for the 2008 Test year developments at River substation (Project Ref D on Exh2/T3/S1/p6) is indicated as “D-AS400 (new computer network operating system)”.

- a) Please confirm that the Ref D-AS400 should in fact be Ref E and that there should be a ref D for the River Substation Transformer project.
- b) Please provide the project details description for the River Substation new transformer.
- c) Please indicate if the River Substation “new transformer” is a replacement of an old one, or is for the purpose of supplying new customers, and
  - i. If the installation is to replace old facilities, please provide details and results of the assessment process which led to replacement; or
  - ii. If the installation is to service new customers, please indicate number of customers, the load capability of the facilities and the expected load.
- d) Please indicate if this project could be deferred, and what would be the consequences of doing so.

20. Ref: Exhibit 2/ Tab 3/ Schedule 1/ Page 6

Please provide:

- a) a detailed description of the project referenced as project D (AS400);
- b) a detailed explanation of the need for and scope of the project;
- c) An economic justification for the project; and
- d) Please indicate if this project could be deferred, and what would be the consequences of doing so.

21. Ref: Exhibit 2/ Tab 3/ Schedule 1/ Page 6

Please provide:

- a) a description of the details for the project referenced as project E (Building Upgrade);
- b) the economic justification for the project; and
- c) Please indicate if this project could be deferred, and what would be the consequences of doing so.

22. Ref: Exhibit 2/ Tab 3/ Schedule 1/ Page 7

For the “Construction in Progress” – Hornby & Trafalgar Rd. area project, please provide:

- a) a description of the projected growth in this subdivision and the load requirement; and
- b) Please indicate if this project could be deferred, and what would be the consequences of doing so.

23. Ref: Appendix C referring to Exh2, Tab 2, Schedules 1 pages 1 through 27:

The Continuity statements do not appear to include interest during construction and all overheads. Please provide revised tables or indicate why these should not be required.

- a) Please provide the summary and continuity statements for Gross Assets by function (i.e. sustaining capital, development capital) for the Historical Actual, Bridge and Test years.
- b) Please confirm that Halton Hills Hydro has no projects that require an application for Leave to Construct under section 92.

## RETURN ON RATE BASE

24. Refs: Exhibit 6/ Tab1/ Schedule1 and Exhibit 6/ Tab 1/ Schedule 4 – return on Equity

Halton Hills Hydro states that it is “requesting an 8.93% return on equity for 2008 rates”. Summary data are shown in the table “Return on Equity Calculation” at the top of page 3 of Exhibit 6/ Tab 1/ Schedule 4.

- a) Please confirm if Halton Hills Hydro is seeking a fixed return of 8.93%, or is proposing that, for purposes of setting Halton Hills Hydro’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, in accordance with the methodology documented in Appendix A of the *Board Report on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation Mechanism for Ontario’s electricity distributors*, issued December 20, 2006 (the “Board Report”). If Halton Hills Hydro is proposing a fixed ROE of 8.93%, please provide an explanation for departing from the Board’s Cost of Capital guidelines.
- b) Please provide the derivation of the proposed ROE of 8.93%, showing the calculation and the source data, including the identification of all data sources used.

25. Refs: Exhibit 6/ Tab1/ Schedule 2 and Exhibit 6/ Tab1/ Schedule 3 – Capital Structure and Cost of Debt

In Exhibit 6/ Tab1/ Schedule 2, Halton Hills Hydro includes Deposits in its capital structure for each of the 2006 historical, 2007 bridge and 2008 forward test years, with a value of \$500,000 for each year. However, under Cost of Debt shown in Exhibit6/Tab1/Schedule3, Halton Hills Hydro shows \$371,888 for TD Bank Deposits under Long-term debt and \$250,000 under Deposits categorized as Short-term Debt for each of 2006 actual and 2007 bridge years, and \$250,000 as Deposits under Short-Term Debt for the 2008 test year.

- a) Please provide further explanation on each of “TD Bank Deposits” and “Deposits” as shown in Exhibit 6/Tab 1/Schedule 3. Are these related to security deposits or to Contributed Capital/Contributions in Aid of Construction?
- b) Please reconcile the short-term debt shown under Capital Structure (Exhibit6 /Tab1/Schedule2) and Cost of Debt (Exhibit 6/Tab 1/ Schedule 3). Provide updates to these schedules if necessary.

26. Refs: Exhibit 6/Tab 1/Schedule 2 and Exhibit 6/Tab1/Schedule 3 – Cost of Short Term Debt

On these two schedules the Cost Rate (%) shown for “Deposits” and “TD Bank Deposits” are listed as “Prime – 2%”.

Please identify the exact actual or forecasted rate used in these schedules and for calculating the weighted average Cost of Capital. Please identify all calculations, data used and the sources of the data.

27. Ref: Exhibit 6/Tab1/Schedule 2 – Equity Capitalization

Halton Hills Hydro shows equity capitalization as follows:

Year	2006 Board-approved	2007 bridge year	2008 test year
Common equity capitalization			
\$	16,161,063	21,297,057	22,201,336
% of total capitalization	49.30	56.13	48.21

Please provide an explanation of the increase in equity capitalization from 2006 to 2007 and 2008.

28. Ref: Exhibit 6/Tab1/Schedule 2 – Capital Structure and Weighted Average Cost of Capital

Please expand the tables in Exhibit 6/Tab1/Schedule 2 showing Halton Hill Hydro’s capital structure to additionally provide 2006 actuals, in the format shown for the 2006 Board approved, 2007 bridge and 2008 test years. In these tables, please also show the weighted average cost of capital, and its derivation as the weighted average of the ROE and long- and short-term debt rates, as applicable, for each year.

## FORECAST

29. Refs: Exhibit 3/ Tab 2/ Schedule 1/ Page 1 and Exhibit 3/ Tab 2/ Schedule 2/ Page 1

In Schedule 1, page 1, the Applicant explains that it is providing *normalized* historical and forecast throughput data and, where required, *weather-normalized* throughput data for 2004. In Schedule 2, page 1, the Applicant states that it has not used “weather sensitive load in the calculation of the Load Forecast” though in the table immediately following this statement, “Normalized Consumption” data is provided.

In Schedule 1, page 1, the Applicant explains that weather-normalized throughput was generated by Hydro One for the Applicant. However, the Applicant explains that, upon review, it concluded that the Hydro One-produced weather-normalized data provided “skewed results that did not present a realistic forward scenario. For this reason we developed our Load Forecast based on actual consumption data.”

Please explain:

- a) What does the Applicant mean by “normalized” data as distinct from “weather-normalized” data?
- b) If “normalized” data have not been the result of a weather-conversion process, what were the “base” data that existed prior to the normalization process?
- c) What was the process used to convert the base data to normalized data?
- d) What were the conversion values (for each year) used to convert from base data to normalized data, and what was the source(s) of these conversion values?
- e) Why did the Applicant only, apparently, produce weather-normalized data for 2004 and not for every historical year upon which the Applicant would have relied to develop a forecast?
- f) What does the Applicant mean by “skewed results”; is the term skewed being used in the statistical sense or in some other sense?
- g) The characteristics of the results produced by Hydro One that caused the Applicant to disregard these results.
- h) Since it is normal load forecasting practice to base the forecast on weather-corrected data, if the Applicant found the Hydro One results quite unacceptable, why did the Applicant not develop its own weather-corrected historical data?
- i) What degree of confidence the Applicant has in its load forecast for a “weather-corrected” year (as the year 2008 and any future year can only be regarded) if the forecast is based on *non*-weather-corrected data?
- j) What tests did the Applicant conduct to verify the reasonableness of its forecast?

30. Ref: Exhibit3/ Tab 2/ Schedule2/ Page1

In the table in Schedule 2, page 1, the Applicant provides for each customer class and for each of the years 2004, 2005 and 2006, the Normalized Consumption and Number of customers. In a number of cases, the same data is shown (or can be calculated using the data provided) for two or more years; specifically:

- The Normalized Consumption per Customer for Residential customers for each of the years 2004, 2005 and 2006 is precisely the same (i.e. 12,035 – units not stated but assumed to be kWh);
- The Normalized Consumption for General Service 1,000-4,999 kW Customers for each of the years 2004, 2005 and 2006 is precisely the same (i.e. 123,666,357 – assumed to be kWh);
- The Normalized Consumption for Un-metered Scattered Load for each of the years 2005 and 2006 is precisely the same value (i.e. 979,705 – assumed to be kWh); and
- The Normalized Consumption for Street Lighting for each of the years 2005 and 2006 is precisely the same value (i.e. 2,636,269 – assumed to be kWh).

- a) How does the Applicant explain these precise values occurring in multiple years?
- b) Please re-file the table if it is determined to contain any inaccuracies.
- c) Please file the table (original or corrected) but now populated with *non*-Normalized Consumption data.

31. Ref: Exhibit 3/ Tab 2/ Schedule 2/ Pages1 & 2

In pages 1 and 2, different consumption values are shown for the year 2006; i.e. “Normalized” consumption, “Historical Board Approved” consumption and “Historical Actual” consumption. In page 2, year 2007 (Bridge) and year 2008 (Forecast) values are shown together with only one year’s historical data – year 2006.

Please explain:

- a) To the extent not already explained in these Board Staff interrogatories, the relationship among the three 2006 values;
- b) Which year’s/years’ data were used as the basis *immediately* preceding the determination of the Bridge and Forecast values; i.e. did the Normalized consumption for the years 2004, 5 and 6 (per page 1), the Historical Actual consumption for 2006 (per page 2), or some other data provide the data points through which the trend line was extrapolated to arrive at the 2007 and 2008 values?

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

Board staff interrogatories  
Halton Hills Hydro Inc  
EB 2007-0696

Schedule 2, page 3, contains the heading "Halton Hills Hydro Inc." but is otherwise blank.

Please provide the missing page of data.

## **COST ALLOCATION AND RATE DESIGN**

33. Refs: Exhibit 7 Tab 1 Schedule 1 and Exhibit 10 Tab 1 Schedule 8  
a) Please reconcile the calculation of the revenue requirement in Exhibit 7, at approximately \$10.5 million, with the distribution revenue in Exhibit 10, at approximately \$11.2 million.
34. Ref: Exhibit 3/ Tab 1/ Schedule 2 –  
a) Please explain why “Other Distribution Revenue” decreases in the Test Year relative to previous years.  
b) Please show how “Other Distribution Revenue” is included in the reconciliation of planned revenue and the revenue requirement in the previous Interrogatory.

### *Summary of Operating Revenue Table*

- c) For 2006 Board Approved no numbers are shown for Other Distribution Revenue. Please confirm that this is because no number is intended to be in this column for that item. However, if this is an oversight, please provide the appropriate amount.
- d) Please explain the \$97,720 variance from 2006 Board Approved versus 2006 Actual for Late Payment Charges.
35. Ref: Cost Allocation Informational Filing EB -2007-0001  
a) Does Run 1 or Run 2 of the Informational Filing more closely represent the customer classification in the Application? Please file it as an official part of the record in this Application.  
b) Please provide a table that shows  
i. the proposed customer classes,  
ii. the class revenue requirements in the informational filing, expressed as a percentage of the total revenue requirement,  
iii. the proposed 2008 revenue requirement from distribution rates (ie total revenue requirement, net of revenue from specific service charges) X the percentages calculated in column ii,  
iv. the proposed revenue at proposed rates per Exhibit 10 Tab 1 Schedule 8.  
c) Please provide a table that shows  
i. the revenue to cost ratios from the preferred version of the informational filing,  
ii. the ratio of column d to column c in the preceding part of this interrogatory.
36. Ref: Exhibit 10/ Tab 1/ Schedule 8  
a) Please provide a table that shows, for each class:

- i. a calculation of the revenue that is proposed from applying the proposed fixed charge X the forecast number of customers,
  - ii. a calculation of the revenue that is proposed from applying the proposed volumetric charge times the forecast volume,
  - iii. sum of column i and column ii, verifying that it is the same as the final column in Schedule 8,
  - iv. column i expressed as a percentage of column iii.
- b) Please provide, in the same table or a separate table, for each class:
  - v. a calculation of the revenue that is proposed from applying the existing approved fixed charge times the forecast number of customers,
  - vi. a calculation of the revenue that is proposed from applying the existing approved volumetric charge times the forecast volume,
  - vii. sum of column v and column vi,
  - viii. column v expressed as a percentage of column vii.
- c) Please compare columns iv and viii, and provide an explanation of any large shifts or any consistent pattern that is apparent in the comparison.

## REVENUE REQUIREMENT

37. Ref: Exhibit 7 Tab 1 Schedule 1 Page 1

- a) The calculation of 2008 Test Year Distribution Revenue for use in the calculation of revenue sufficiency or deficiency is the product of the 2008 forecasted billing determinants applied to the applicant's current rates. On Exhibit 7 Tab 1 Schedule 1 Page 1 the 2008 Test Year Distribution Revenue is reported as \$9,672,375. The application reference Exhibit 3 Tab 1 Schedule 2 identifies this value as the 2007 Bridge value. Please confirm the number as presented as correct or provide a corrected amended schedule.
- b) The value used in the 2008 Test Year Other Operating Revenue (net) on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$960,000. The application reference Exhibit 3 Tab 1 Schedule 2 identifies this value as the 2007 Bridge value. Please confirm the number as presented as correct or provide a corrected amended schedule.
- c) The value used in the 2008 Test Year Operation & Maintenance on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$5,093,000. No application cross reference is provided for this value.
  - i. Please identify any supporting cross reference schedule in the application where this value is calculated and provide justification for the amount.. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm the number as presented as correct. If value presented is incorrect please provide a corrected amended schedule.
- d) The value used in the 2008 Test Year Depreciation on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$2,190,723. No application reference is provided for this value.
  - i. Please identify any supporting schedule in the application where this value is calculated and justified. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm the number as presented as correct. If the value presented is incorrect please provide a corrected amended schedule.
- e) The value used in the 2008 Test Year Property and Capital Taxes on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$195,000. No application cross reference is provided for this value.
  - i. Please identify any supporting cross reference schedule in the application where this value is calculated and justified. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm the number as presented as correct. If the value presented is incorrect please provide a corrected amended schedule.

- f) The value used in the 2008 Test Year Interest on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$1,266,740. No application cross reference is provided for this value.
  - i. Please identify any supporting cross reference schedule in the application where this value is calculated and justified. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm the number as presented as correct. If the value presented is incorrect please provide a corrected amended schedule.
- g) The value used in the 2008 Test Year Income Taxes on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$836,500. No application cross reference is provided for this value.
  - i. Please identify any supporting cross reference schedule in the application where this value is calculated and justified. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm the number as presented as correct. If the value presented is incorrect please provide a corrected amended schedule.
- h) The value used in the 2008 Test Year Utility Proposed Rate Base on Exhibit 7 Tab 1 Schedule 1 Page 1 is reported as \$37,954,174. No application cross reference is provided for this value. Rate Base is the product of two components, average net fixed assets and working capital allowance. The calculation of average net fixed assets for OEB regulatory purposes is normally the method as prescribed in the 2006 EDR Rate Handbook. The calculation of working capital allowance for OEB regulatory purposes is normally the method as prescribed in the 2006 EDR Rate Handbook. Working capital allowance is the product of two components; working capital and working capital allowance percentage (not exceeding maximum value of 15%).
  - i. Please identify any supporting cross reference schedule in the application where the value of average net fixed assets is calculated. If no supporting schedule exists, please prepare a supporting schedule as required.
  - ii. Please confirm that the methodology used for the calculation of average net fixed assets is in compliance with the 2006 EDR Rates handbook. If an alternative methodology was applied please identify complete details of the calculation, justification supporting use of alternate methodology (including references to specific regulatory cases accepting the proposed methodology), and a detailed comparison and reconciliation to the product resulting from the application of the 2006 EDR Rate Handbook methodology.

- iii. Please confirm the number as presented as correct. If the value presented is incorrect please provide corrected amended schedule(s).
  - iv. Please identify any supporting cross reference schedules in the application where the value of working capital allowance is calculated. If no supporting schedule exists, please prepare a supporting schedule as required.
  - v. Please confirm that the methodology used for the calculation of working capital is in compliance with the 2006 EDR Rates Handbook. If an alternative methodology was applied please identify complete details of the calculation, justification supporting use of alternate methodology (including references to specific regulatory cases accepting the proposed methodology), and a detailed comparison and reconciliation to the product resulting from application of the 2006 EDR Rate Handbook methodology.
  - vi. Please confirm the number as presented as correct. If the value presented is incorrect please provide corrected amended schedule(s).
- i) Board Staff have prepared the following table which shows the calculation of Halton Hills Revenue Requirement from Distribution Rates and Revenue Requirement from Rate Riders from the 2006 EDR. Revenue Requirement from Distribution Rates can be confirmed by applying the 2006 EDR distribution billing determinants times the Board approved May 1, 2006 distributions rates. Please note that some differences will occur due to rounding.

**Revenue Requirement - 2006 OEB Approved**

<b>2006 EDR Model</b>				<b>2006 OEB Approved</b>	
	<i>Worksheet</i>	<i>Cell</i>			
Net Fixed Assets	3-1 RATE BASE	F12		\$ 24,244,338	A
Working Capital Allowance Base			\$35,309,680	B	
Working Capital Allowance	3-1 RATE BASE	F16	15%	\$ 5,296,452	D
Rate Base	3-1 RATE BASE	F21		<u>\$ 29,540,790</u>	E
Interest			3.13%	\$ 923,150	
Return on Equity			4.50%	<u>\$ 1,329,336</u>	
	5-1 SERVICE REVENUE REQUIREMENT	F15	7.63%	<u>\$ 2,252,486</u>	G
OM&A			\$ 3,923,445	H	
Amortization			\$ 1,846,338	I	
Low Voltage			\$ 613,744	J	
Incremental CDM	5-1 SERVICE REVENUE REQUIREMENT	F17	<u>\$ 88,690</u>	K	\$ 6,472,217 L
PILs	5-1 SERVICE REVENUE REQUIREMENT	F21		\$ 938,649	M
Transformer Allowance	6-3 Trfmr Ownership (Input)	R120		\$ 165,383	N
Revenue Offsets					
Specific Service Charges			-\$ 319,620	O	
Late Payment Charges			-\$ 125,845	P	
Other Distribution Income			-\$ 192,783	Q	
Other Income and Deductions	5-5 BASE REVENUE REQUIREMENT	F25	<u>-\$ 336,332</u>	R	-\$ 974,580 S
Smart Meters				\$ 136,800	T
<b>Revenue Requirement from Distribution Rates</b>				<u><b>\$ 8,990,955</b></u>	U
Regulatory Assets	Reg Asset Model 2, Rate Riders Calculation	C53		\$ 1,663,845	V
LRAM & SSM				\$ -	W
<b>Revenue Requirement from Rate Riders</b>				<u><b>\$ 1,663,845</b></u>	X
Revenue Requirement from Distribution Rates				N/A	
2008 Forecast Billing Determinants Time Current Rates				N/A	
<b>Revenue Sufficiency/Deficiency</b>				<u><b>N/A</b></u>	

- i. Please confirm that Halton Hills agrees with the values in the table above. If Halton Hills does not agree please prepare an amended schedule with supporting details.
- ii. Please use the following format from the table below as a guide for preparing a similar schedule for Halton Hills 2008 application. Please note that the values entered are for example purposes only and may or may not be correct for this application.

**Revenue Requirement - Applicants 2008 Test Year**

Application Reference		Applicants 2008 Test Year	
Net Fixed Assets		\$ 30,000,691	AA
Working Capital Allowance Base	\$ 43,128,000	BB	
Working Capital Allowance	15%	\$ 6,469,200	DD
Rate Base		\$ 36,469,891	EE
Interest	3.274%	\$ 1,194,024	
Return on Equity	4.177%	\$ 1,523,347	
	7.451%	\$ 2,717,372	GG
OM&A	\$ 5,288,000	HH	
Amortization	\$ 2,190,723	II	
Low Voltage	\$ -	JJ	
Incremental CDM	\$ -	KK	\$ 7,478,723 LL
PILs			\$ 836,500 MM
Transformer Allowance			\$ - NN
Revenue Offsets			
Specific Service Charges	-\$ 375,000	OO	
Late Payment Charges	-\$ 226,000	PP	
Other Distribution Income	-\$ 502,000	QQ	
Other Income and Deductions	\$ -	RR	-\$ 1,103,000 SS
Smart Meters		\$ -	TT
<b>Revenue Requirement from Distribution Rates</b>		<b>\$ 9,929,595</b>	<b>UU</b>
Regulatory Assets		\$ -	VV
LRAM & SSM		\$ 42,304	WW
<b>Revenue Requirement from Rate Riders</b>		<b>\$ 42,304</b>	<b>XX</b>
Revenue Requirement from Distribution Rates		\$ 9,929,595	
2008 Forecast Billing Determinants Time Current Rates		\$ 9,951,365	
<b>Revenue Sufficiency/Deficiency</b>		<b>-\$ 21,770</b>	

- iii. Using the prepared schedule from i. above please compare and contrast the 2008 Test Year application values to the OEB Approved 2006 values in the Board staff table. Please identify any application references that may exist in the subject application where 2006 values have been compared to 2006 actual results (i.e. OM&A expenses). If no comparison schedule exists in the application please prepare complete supporting schedules in the format required by the minimum filing guidelines.
- iv. Please compare the prepared schedule from ii above to Halton Hills Revenue Sufficiency or Deficiency values as calculated on Exhibit 7 Tab 1 Schedule 1 Page 1. If Revenue Sufficiency or Deficiency values are different please prepare a reconciliation to explain differences.

## REVENUE OFFSETS

38. Ref: Exhibit 3/ Tab 3/ Schedule 1

For 2006 Board Approved no numbers are shown for:

Retail Services Revenues  
Service Transaction Requests (STR) Revenues  
Rent from Electric Property  
Miscellaneous Service Revenues  
Provision for Rate Refunds Interest

Please confirm that it is because no numbers are intended to be in this column for these items and explain why no amounts were included. If this is an oversight, please provide the appropriate amounts.

- a) It is shown that the Rent from Electric property decreases significantly in 2008 Test to \$80,000 from the 2006 Actual level of \$140,157. Please provide an explanation of this change.
- b) For 2007 Bridge and 2008 Test, no numbers are shown for Other Distribution Revenue – Other Electric Revenues, please confirm that it is because no number is intended to be in the two columns for that item and provide an explanation. If this is an oversight, please provide the appropriate amounts.
- c) Please explain the drop in Miscellaneous Service Revenue in 2008 Test to \$60,000 from the 2006 Actual level of \$199,593. Please provide an explanation of this decrease.

**CDM**

39. Ref: Exhibit 9/Tab1/Schedules1-5

In the Board's "Filing Requirements for Transmission and Distribution Applications" issued on November 14, 2006, it outlines on page 39 the information that is required when filing an application for LRAM or SSM. Please provide the following:

- a) kW or kWh impacts net of free riders for each program and each rate class;
- b) Verification of participation levels; and
- c) Duration of the programs in years and months.

40. Ref: Exhibit 9/Tab1/Schedules1-5

Please identify any residential, commercial, or industrial program(s) where load impacts were not calculated using the measure-specific values in the Board's TRC Guide. For any program that did not use the measure-specific values in the TRC Guide, please provide the supporting documentation on how these load impacts were calculated.

41. Ref: Exhibit 9/Tab1/Schedule 3

The evidence states that "in accordance with the Board's Decision in EB-2007-0096, Halton Hills Hydro Inc. has not reduced the calculated load reduction for free ridership." Please explain why Halton Hills Hydro Inc. finds it appropriate not to adjust LRAM amounts for free riders, given that the Board confirmed its position in the Decision and Order, issued September 11, 2007, in EB-2007-0096, that free riders must be included in the calculation of the LRAM.

42. Ref: Exhibit 9/Tab1/Schedule 2

Halton Hills Hydro Inc. has stated that "the SSM amount included for recovery in this rate application is calculated by grossing up the after tax amount of \$21,453 by the marginal tax rate of 36.12% to calculate a pre-tax amount for recovery of \$33,583. This is consistent with the Board's Decision in EB-2007-0096.

- a) Please explain why Halton Hills finds it appropriate to gross-up the SSM amount for taxes, given that the Board confirmed its position in the Decision and Order, issued September 11, 2007, in EB-2007-0096, that it was not appropriate to do so.
- b) Please confirm whether SSM amounts have been adjusted for free riders.

- c) Please provide the calculations and inputs and assumptions that were used to determine the SSM and LRAM amounts.

43. Ref: Exhibit 9/Tab 1/Schedule 2

Halton Hills Hydro Inc. has stated that “certain CDM programs were jointly sponsored with other regulated distributors and in these cases Halton Hills Hydro Inc. apportioned the savings in accordance with the TRC Guide and the Board’s EB-2005-0523 Decision.”

- a) Please confirm which programs were jointly sponsored with other regulated distributors.
- b) Please confirm that there has not been any double counting of TRC benefits in any program that was jointly sponsored.
- c) Please confirm what percentage of the electricity savings Halton Hills is claiming.
- d) Please confirm whether and how Halton Hills Hydro Inc. has met the test of centrality established by the Board in RP-2005-0020/EB-2005-0523, and set out in the Board’s TRC Guide.

44. Ref: Exhibit 9/Tab1/Schedules 2 & 4

On Schedule 1 it states that Halton Hills Hydro Inc. is proposing a one year recovery period effective until April 30, 2009. However, on Schedule 4 it states that the recovery period would be effective May 1, 2008 for a period of three years ending April 30, 2011.

- a) Please verify whether the proposed recovery period is one year or three years.

45. Ref: Exhibit 9/Tab1/Schedule 4

Halton Hills Hydro Inc. states that “In accordance with the Guidelines for applying for SSM incentive, Halton Hills Hydro is only making application for customer focused initiatives that reduce the demand for electricity.” However, SSM amounts are provided for a “Capacitor Installation” program and “Equipment Replacement” program, which appear to be utility-side programs.

- a) Please clarify the nature of the Capacitor Installation” and “Equipment Replacement” programs.

- b) Please confirm that Halton Hills Hydro Inc. is not claiming SSM amounts for utility-side programs.

## **SMART METERS**

Halton Hills Hydro 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 Halton Hills Hydro Inc.'s 2007 IRM application (EB-2007-0536), the Board confirmed its understanding that Halton Hills Hydro Inc. would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

46. Ref: Exhibit 1 /Tab 1 /Schedule 6 /Page 1: DRAFT ISSUES LIST

Under "Draft Issues List", Halton Hills Hydro Inc. states: "In the rate application, Halton Hills Hydro Inc. has not included any costs related to Smart Metering. In decision EB-2007-0536 dated April 12, 2007, Halton Hills Hydro Inc. applied for \$1.18 to embark on its Smart Metering Plan filed with the Ontario Energy Board December 15, 2006. However, the Ontario Energy Board only approved \$0.26 due to Regulation 153/07. At the present time, it is unclear how Smart Metering costs will be recovered and therefore we request to be included in any provincial mandate of Smart Metering Costs recovery."

Please:

- a) Confirm if any costs have been incurred by Halton Hills Hydro Inc. with respect to Smart Metering until the date of the filing of this application; if so, please provide:
  - i. An itemized cost breakdown; and
  - ii. Associated number of smart meter installations.
- b) Confirm if Halton Hills Hydro Inc. is applying for Smart Metering cost recovery for Bridge Year 2007 and Test Year 2008; if so, please provide:
  - i. The reasons for the inclusion of Smart Metering costs in this application, although Halton Hills Hydro 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;
  - ii. An itemized cost breakdown; and
  - iii. Associated number of smart meter installations for Bridge Year 2007 and Test Year 2008.
- c) Confirm if, in Test Year 2008, Halton Hills Hydro Inc. is going to maintain its current rate adder which was approved by the Board in the April 12, 2007 Decision and Order (EB-2007-0536). If not,:
  - i. What is the Smart Meter Rate Adder Halton Hills is intending to implement in Test Year 2008?
  - ii. Please provide justification for the amount of this Smart Meter Rate Adder.

## **DEFERRAL ACCOUNTS**

47. Ref: Exhibit1/Tab3/Schedule 2/Page1

Included in your hard copy filing are your 2007 and 2008 pro-forma income statement and balance sheet. Only 2007 pro-forma balance is included in your electronic filing. Please update your electronic filing to include your 2007 and 2008 pro-forma income statement and balance sheet.

48. Ref: Exhibit 5/Tab1/Schedule 2/Page 1

Please provide a brief description, describing the component entries, of all outstanding deferral and variance accounts outlined on Exhibit 5, Tab 1, Schedule 2, Page 1.

49. Ref: Exhibit 5/Tab1/Schedule 2/Page 1

- (a) Are you currently using account 1590?
- (b) If not, why?
- (c) If so, have you transferred previous Board-approved amounts for regulatory asset recovery to 1590?
- (d) Please update Exhibit 5, Tab 1, Schedule 2, Page1 and Exhibit 5, Tab 1, Schedule 3, Page1 to reflect the appropriate transfers and include account 1590.
- (e) If transfers of Board-approved amounts for regulatory asset recovery to 1590 have occurred, why is Halton Hills applying for disposition of accounts 1570 and 1571?

50. Ref: Exhibit 5/Tab1/Schedule 2/Page1

Halton Hills is applying for disposition of regulatory variance accounts as per schedule Exhibit 5/Tab1/Schedule 2. These totals do not correspond to totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31st, 2006 plus interest accrued on those balances to April 30th 2008. Please provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition.

51. Ref: Exhibit1/Tab2/Schedule 3/Page1

What are the interest rates being used to calculate carrying charges for each regulatory deferral and variance account for the period from January 1, 2005 to present?

52. Ref: Exhibit 5/Tab1/Schedule 2/Page1

Please indicate what PILs method the Applicant followed in calculating the balances in account 1562 (and 1563 if applicable) by reference to the Board's FAQs dated April 2003.

53. Ref: Exhibit 5/Tab1/Schedule 2/Page1

Did the Applicant change PILs accounting methods at anytime from October 1, 2001 to April 30, 2006? If yes, please explain the impacts of the change.

54. Ref: Exhibit 5/Tab1/Schedule 2/Pages1&2

- a) 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.
- b) Please provide an analysis for each year end from October 1, 2001 through December 31, 2006. The schedule should show:
  - The PILs proxy or allowance approved in rates;
  - The amounts billed to or collected from customers;
  - Adjustments calculated by the Board's methodology for true-up and deferral account entries;
  - Any other adjustments recorded by the Applicant;
  - The interest carrying charge calculations and an explanation of how the interest amounts were calculated;
  - Excess interest claw-back, if applicable.
- c) Please explain any differences between the two analyses requested above.
- d) Where the Applicant deviated from the Board's PILs and SIMPIL methodology, please provide a description of each deviation and the reasons for each.
- e) What assumptions did the Applicant make for the following items in calculating its account balance to be disposed :
  - Interest and penalties on unpaid or under-paid taxes;
  - Non-deductible expenses like: meals, club dues, car expenses;
  - Donations paid to registered charities or municipal owners;
  - Joint ventures, subsidiary companies, equity income;
  - Costs disallowed by the Board in any proceeding;
  - Profit or losses on disposals of fixed assets for accounting purposes;
  - Capital gains or capital losses on disposals of capital assets for tax purposes;
  - Regulatory asset write-offs and recoveries for tax purposes.

- f) Are there Board precedents on which the Applicant has relied? Please provide the proceeding case docket references.
- g) Should the expensing or recovery of regulatory assets be included in the calculation of regulatory PILs taxes? What Board precedents are being relied on in making this assertion? Please describe how the Applicant processed these transactions in the PILs calculations to determine the balance in account 1562.
- h) 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?
- i) What assumptions has the Applicant made in recording transactions in 1562 subsequent to April 30, 2006?
- j) Please provide the following tax-related documents for each tax year from 2001 through 2006:
  - Federal T2 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
  - Ontario CT 23 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
  - Financial statements for each year that were submitted with the tax returns.
  - Notice of Assessment received from the Ontario Ministry of Finance, Corporations Tax Branch.
  - Notice of Reassessment from the Ontario Ministry of Finance Corporations Tax Branch.
  - Correspondence between the Applicant 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.

## **RETAIL TRANSMISSION RATES (RTR)**

### **General**

55. The Wholesale Network Transmission Rate will decrease 28% effective November 1 2007.  
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 equals the amount paid for the Wholesale Transmission Rate.)
56. The Wholesale Connection Transmission Rate will decrease 18% and the Wholesale Transformation Connection Transmission Rate will increase 7% effective November 1 2007.  
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.)

### **Deferral and Variance Accounts 1584 & 1586**

57. Utilities have been required to provide information on Account 1584 RSVA NW and 1586 RSVA CN to the Board as part of the quarterly RRR filings.
- a) Please provide the quarterly balances for the first 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 Record Keeping and Reporting Requirements.
  - b) Please explain how your balances in Accounts 1584 RSVA NW and 1586 RSVA CN have trended or fluctuated since January 1 2005.