

**IN THE MATTER OF the Ontario Energy Board Act
1998, S.O. 1998, c. 15, (Schedule B);**

**AND IN THE MATTER OF an Application by Halton
Hills Hydro Inc. for an Order or Orders approving or
fixing just and reasonable rates and other charges for
the distribution of electricity commencing May 1, 2008.**

**INTERROGATORIES
OF THE
SCHOOL ENERGY COALITION**

1. Ref: Exhibit 1/Tab2/ Schedule 1/ pg. 1

The evidence states that the “financial information supporting the 2008 test year for this Application will be Halton Hills Hydro Inc.’s fiscal year beginning January 1, 2008 and ending May 1, 2008.”

- (a) How does Halton Hills intend on collecting its revenue requirement for 2008? Does it propose that the revenue deficiency of \$1,549,973, be recovered from May 1, 2008 to December 31, 2008?

2. Ref: Exhibit 1/Tab 2/Schedule 1/pg. 2: Customer Impact

- a. Please confirm that, given the assumed consumption as stated, the rate calculations in the following table are correct:

	Residential @ 1,000 KWhr/month		Small School (GS<50) @ 16,000 KWhr/month		Large School (GS>50) @ 380 KW avg monthly demand	
	2007	2008	2007	2008	2007	2008
<u>Monthly</u>						
Fixed service charge	\$ 11.35	\$ 12.88	\$ 24.74	\$ 28.13	\$ 93.67	\$ 80.77
Total Volumetric*	15.7	15.2	220.8	219.2	1941.876	1783.948
Total Fixed plus volumetric	27.05	28.08	245.54	247.33	2035.546	1864.718
<u>Annual</u>						
Fixed service charge	\$ 136.2	\$ 154.56	\$ 296.88	\$ 337.56	\$ 1124.04	\$ 969.24
Total Volumetric*	188.4	182.4	2,649.6	2,630.4	23,302.51	21,407.38
Total Fixed plus volumetric	324.6	336.96	2,946.48	2,967.96	24,426.55	22,376.62

* Excluding Retail Transmission-Network Service Rate, Retail Transmission-Line and Transformer Connection Service Rate, Wholesale Market Service Rate, Rural Rate Protection Charge and Standard supply Service-Administration charge.

- b. Please provide the number of schools in HHHI's service territory in each of the GS<50 and GS>50 rate classes.

3. Capital Expenditures

Ref: Exhibit 2/Tab 3

- a. Please explain the tables found at Exhibit 2/Tab 3/Schedule 1, pages 1, 2, and 5. Specifically, what is meant by the term "Projects in Service"? Does this mean the projects were placed in service during that year, or that they are now in service? What is meant by the term "Projects in Service" in the table for 2008 (in particular, we note that "Land Acquisition" is listed under "Projects in Service" but the Service year is listed as "Future")?
- b. Please provide more detailed business cases for the projects listed in Exhibit 2/Tab3/Schedule 2. The project descriptions for 2007 and 2008, in particular, provide virtually no useful information about the reasonableness, need, or cost/benefit analysis of the projects.
- c. Ref: Exhibit 2/Tab 3/Schedule 2- Winston Churchill- 5SDRD to Steeles; please explain the cost-sharing arrangement with Hydro One Brampton for this project, including the rationale for the arrangement.
- d. The "Metering Upgrade" project is listed under 2007 capital expenditures but has no start date and no anticipated in service date. Please confirm that no expenditures for this project have been included in forecast 2008 rate base.
- e. Please confirm that no projects will be added to rate base before they are commercially in service.
- f. Rate base additions for 2007: total 2007 in-year gross addition as per Appendix C, pg. 28, amount to \$5,426,216; total 2007 in-year gross addition as per Ex2/T3/S1/pg2 (excluding CIP of \$200,000) amounts to \$4,641,711. The difference is \$785,000. Please explain.
- g. [ref Exhibit 1/ Tab 3/ Schedule 4]: Regarding the new Municipal 230KV to 27.6KV Transformer Station, what is the estimated total cost (broken down by category), to HHHI? Please provide the business case for this project.

4. Load Forecast

Ref. Exhibit 3

- a. Please advise whether using normalized data would lead to an overstated consumption across all rate classes, or just the wholesale section.
- b. Please provide a more detailed explanation as to how the various projections for load growth and customer growth found at Exhibits 3/Tab 2/Schedule 3 and 3/Tab 2/Schedule 4 pg. 2 respectively, have been determined. The summary at pg. 1 of Exhibit 3/Tab 2/Schedule 1 says only that HHHI has “used a simple trend growth in customer connections, by class, to forecast Bridge and Test year customer numbers”. There does not appear to be any other explanation.
- c. What methodology was used to derive the weather-normalized consumption shown at Exhibit 3/Tab 2/Schedule 2 pg. 1?
- d. Please expand the table at Exhibit 3/Tab 2/Schedule 2 to include 2007 and 2008.
- e. Please expand the table at Exhibit 3/Tab 2/Schedule 2 pg. 2 to include 2004 and 2005 data. [NOT: this is further to question d. above, and the purpose is to allow for a comparison of actual vs. weather-normal consumption; the evidence as filed only allows that comparison to be made for 2006.]
- f. There appears to be table missing from Exhibit 3/Tab 2/Schedule 2 pg. 3? [the text on the bottom of pg. 2 refers to the “following table” and the next page has a heading but nothing else]
- g. Ref: Exhibit 1/Tab 3/ Schedule 4: HHHI’s capital expenditures are increasing in 2008 at a much faster rate than in previous years. Some of these expenditures are apparently driven by increased demand. For instance, the new Municipal 230KV to 27.6KV TS is said to be driven by “significant prestige industrial growth along Steeles Ave.” Has this increased demand been incorporated into the load forecast? If so, how?

5. Operations Costs

Ref: Exhibit 4/Tab 1/Schedule 1

- a. Please provide a copy of the business plan that was used to formulate the forecasted expenditures for 2008.
- b. With respect to Operations expenditures:
 - i. Please provide a detailed explanation, identifying the cost drivers and explaining any cost variances, for the large increase in expenditures from 2006 Board approved (\$495,401) to 2006 actual (\$700,553)

- ii. Please provide a detailed explanation for the 9.6% increase in expenditures from 2007 to 2008 (\$715,000 to \$784,000).
- c. With respect to Maintenance expenditures, please:
 - i. explain why actual expenditures for 2006 are 23.5% greater than Board approved;
 - ii. explain the 6.6% increase in expenditures from 2006 to 2007;
 - iii. explain the further 10.8% increase from 2007 to 2008
- d. With respect to Billing and Collecting, please:
 - i. Explain the 12.5% increase in expenditures in 2008 over 2007.
- e. With respect to Administrative and General expenditures, please
 - i. explain why actual 2006 expenditures were \$505,837 less than Board approved for 2006.
 - ii. explain the 12.7% increase in Administrative and General Expenses from 2007 to 2008 (from \$2.17 million to \$2.45 million).

[NOTE regarding above requests: there is some explanation for cost increases in Appendix “D” of the pre-filed evidence, however, it is unclear how the various cost drivers can be mapped to the various department line items at Exhibit 4/1/2 or why some line items appear to increase at much faster rates than others. In some cases, the explanation provided in Appendix D does not appear to explain the full increase in expenditures. For example, the cost drivers shown in Appendix D for “General administrative salaries and expenses” 2008 test over 2007 Bridge total \$101,000. However, at Exhibit 4/1/2, the increase in expenditures for Administrative and General in 2008 over 2007 totals \$277,000 (a 12.7% increase in one year). SEC is seeking a clearly understanding, *written*, explanation of the cost drivers by department.]

6. Employee Compensation

Ref: Exhibit 4/2/6

- (a) Exhibit 4/2/6, pg. 1, the average compensation for unionized staff is given \$67,184. However, the total compensation figure of \$2,217,075 divided by 34 unionized employees yields an average of \$65,208? Please explain the discrepancy.
- (b) Similarly, the average Management compensation for 2008 is listed at \$124,626, but the actual average appears to be \$114,626

- (\$1,146,259 divided by 10 management employees). Please explain the discrepancy.
- (c) Please explain the increase in Unionized average salary from \$65,208 (or \$67,184 as stated in the evidence) in Board approved 2006 to \$75,057 actual.
 - (d) Please explain why the average unionized compensation is expected to stay at the level of 2006 actual for 2007 and 2008.
 - (e) Please explain why actual average Management compensation for 2006 is 12.4% greater than Board approved.
 - (f) Please explain why average Management salary is expected to remain at 2006 actual levels for 2007 and 2008.
 - (g) Please provide details of HHH's Management Incentive Plan.

7. Shared Services

Ref: Exhibit 4/ Tab 2/ Schedules 3 and 4

- a. For services provided by HHHI to its non-regulated affiliates, are the non-regulated affiliates charged on a rate that is entirely cost-based or a rate that includes a return? If HHHI's fees do include a mark-up or return, what is the amount and how is it calculated? Please provide any source documents detailing how the amount, percentage, or formula for any mark-up or return was initially established.
- b. Please provide a summary of amounts charged by HHHI to its non-regulated affiliates for 2005-2008 by service category, separating cost and mark-up.
- c. Please file a copy of the shared services agreements between HHHI and its affiliates.

8. Ref. Exhibit 4/ Tab 2/ Schedule 9: Distribution Loss Factor

- a. Please provide a detailed rationale for HHHI's proposal to increase the distribution loss factor from 3.68% to 4.99%.
- b. Did HHHI commission any expert report to support the increase? If so, please provide a copy.
- c. Did HHHI prepare any internal reports regarding distribution loss factors? If so, please provide a copy.

9. Cost of Capital

Capital Structure

- a. HHHI states that its capital structure complies with the OEB's Report on Cost of Capital and 2nd Generation incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006, which requires that distributors phase in a 60/40 (debt/equity) capital structure by 2010. How does HHHI intend to complete the phase-in by 2010 given that it will, presumably, be entering a three-year incentive regulation framework after its 2008 rates are set in this proceeding?

Cost of Equity

- b. Please advise what methodology was used to determine the requested return on equity of 8.93%.
- c. Please confirm that HHHI will update its return on equity using the January 2008 data from Consensus Forecasts and the Bank of Canada, in accordance with the methodology documented in Appendix B of the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation, issued December 20, 2006.

Cost of Debt

- d. It appears that the bulk of HHHI's long-term debt is affiliate debt issued by the Town of Halton Hills? Please confirm.
- e. The Board policy on affiliate debt is that it can be recovered at the lower of the contracted rate and the deemed long-term debt rate, which is calculated as "the Long Canada Bond Forecast plus an average spread with 'A/BBB rate corporate bond yields.'" [See OEB's Report on Cost of Capital and 2nd Generation incentive Regulation for Ontario's Electricity Distributors dated December 20, 2006, pg. 13] It appears that HHHI's has sought recovery of the cost rate for its long-term debt issued by the Town of Halton Hills, 6.25%, but has made no comment on whether that rate complies with the OEB Guideline as set out above. Please either confirm that the cost rate sought to be recovered for the Halton Hills debt complies with the OEB Guidelines or make the necessary corrections to HHHI's cost of debt.
- f. Please reconcile short-term debt amount on Ex6/T1/S2/pg 1 & Ex6/T1/S3/pg1. Specifically, there is no short-term debt component shown at Ex.6/T1/S2, but at Ex.6/T1/S3, short-term debt in the amount of \$250,000 is shown in each of 2006, 2007 and 2008.

10. Exhibit 7: Determination of Utility Income

Ref: Exhibit 7/Tab 1/Schedule 1

- a. In calculating its 2008 net utility income and revenue deficiency, it appears HHHI used its 2007 Distribution Revenue and Other Operating Revenue rather than its assumed 2008 revenue using 2008 load at existing (2007) rates. Please explain. If this was done in error, please recalculate the utility income and revenue deficiency using 2008 load at 2007 approved rates.
- b. Please provide a reference for reported interest expense of \$1,266,740.

11. Cost Allocation

Ref: Exhibit 8/ Tab 1/ Schedule 1

- a. Please provide the re-calculate the revenue to cost ratios shown at pg. 3 of Exhibit 8/ Tab1/ Schedule 1 using the “Proposed Fixed Charge” shown in the table at Exhibit 8, Tab 1, Schedule 2 pg. 1.
- b. Please explain in greater detail how the proposed fixed charges were derived.

12. SSM Adjustments

Ref: Exhibit 9

Preamble

At Exhibit 9/ Tab 1/Schedule 2, HHHI states that its SSM amount included for recovery in this 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. HHHI states that its proposal “is consistent with the Board’s Decision in EB-2007-0096. In EB-2007-0096, the Board rejected Toronto Hydro Electric System Ltd.’s (“THESL’s) proposal to gross up the SSM amount for taxes, stating in part:

The Decision which touches most directly on this issue is that referenced above on the Pollution Probe Motion (RP-2004-0203).

As noted, the Board in that case adopted the Pollution Probe “plan” for SSM. *That plan very clearly did not contemplate that the relevant amounts would be grossed up to account for PILS*, and this is clear from the record in that

case, and the transcript of the Technical Conference in this case.

As part of the Pollution Probe Motion, it filed an Affidavit outlining its plan for the SSM. There is no reasonable construction of the plan described in that affidavit that would lead to a conclusion that it contemplated a grossing up for PILS.

During the Technical Conference, Pollution Probe (the author of the SSM plan adopted by the Board) reacted strongly and negatively to the suggestion by Toronto Hydro that it understood that it provided for the grossing up applied by the utility.²

To be fair, in submissions made later in the proceeding Pollution Probe attempted to soften its approach on the issue, suggesting that grossing up may not be inappropriate.

But this revisionism cannot change the fact that the plan the Board approved did not contemplate grossing up.

Further, the Board does not accept the argument advanced by Toronto Hydro, that the SSM should be presumed to be a post-PILS amount simply because of some presumption that it is related to return on equity and that return on equity is presumed to be a post-tax amount.

First, such a presumption cannot displace the simple fact that the Board adopted a plan that did not contemplate grossing up for PILS. Second, there is no compelling reason to align the SSM with return on equity.

The Board observes that the natural gas utilities in Ontario do not gross up their respective SSM incentive amounts for taxes and the amounts approved by the Board are pre-tax.

The Board rejects the suggestion that an SSM of 5 percent on a pre-tax basis is a retroactive change.

Accordingly, *Toronto Hydro must recast its claim to reflect this finding that the SSM is not subject to grossing up to account for PILS.*

[EB-2007-0096, Decision and Order dated September 11, 2007, pp. 3-4. Emphasis added]

Questions:

- a. Please advise how HHHI's proposal is consistent with this decision as it appears HHHI's proposal is the exact opposite of what the Board's decision (i.e. the Board found THESL was not entitled to gross up the SSM amount for taxes, and HHHI has grossed up the SSM amount for taxes);
- b. Please advise whether HHHI plans on changing its SSM calculation in view of the Board's decision in EB-2007-0096;
- c. If HHHI does not plan on doing so, please state on what basis HHHI seeks treatment different than that given THESL.

13. LRAM Adjustment

Ref: Exhibit 9, Tab 1, Schedule 3

Preamble

At pg. 1, HHI says that it did not reduce its LRAM calculation to account for free ridership, and said that this is "in accordance with the Board's decision in EB-2007-0096. In EB-2007-0096, the Board stated in part as follows:

The LRAM ensures utilities receive revenue on energy volumes they would have sold if they had not implemented CDM programs. Toronto Hydro applied to recover an LRAM amount of \$3,111,432. The load reductions that form the basis of the LRAM amount were not adjusted for free riders³. Toronto Hydro's proposal to include lost revenue associated with free riders was supported only by the Electricity Distributors Association.

All other parties that commented on the issue argued that lost revenue associated with free ridership should be excluded in the calculation of the LRAM amount to be recovered from ratepayers. Pollution Probe also suggested that the lost revenue should include carrying charges.

Toronto Hydro's rationale for its position is that the utility's load forecast at the time it filed for 2006 rates did not, explicitly or implicitly, account for autonomous conservation (free ridership). In Toronto Hydro's view it is not reasonable to expect Toronto Hydro to have created a forecasting model that accounted for CDM where programs such as those approved by the Board had not been implemented previously in Ontario, and where even early results

from the Toronto Hydro programs, implemented in 2005 and 2006, would not have been available until 2006 at the earliest.

The Board does not accept Toronto Hydro's proposal. *The LRAM adopted by the Board is to include the appropriate free ridership rates.*

Toronto Hydro should not be compensated through the LRAM for revenue reduction that did not result from its CDM programs.... *The Board therefore finds that it is appropriate for the LRAM amount to be reduced in accordance with the free ridership rates found throughout this Decision.*
[EB-2007-0096 Decision and Order dated September 11, 2007, pg. 5; emphasis added]

Questions:

- a. Please advise how HHHI's decision to not reduce the calculated load reduction for free ridership is consistent with the Board's decision in EB-2007-0096;
- b. Please advise whether HHHI plans on revising its LRAM to account for the Board's decision in EB-2007-0096 and if not, why not.

14. LRAM/SSM recovery

- a. On page 2 of Ex9/T1/S4, it states that "HHHI would also propose that the LRAM and SSM rate riders be combined into, and recovered through a single distribution rate rider and be implemented effective May 1, 2008 for a period of three years ending April 30, 2011." On page 1 of Ex9/T1/S4, it states that "Recovery (of 2005 and 2006 LRAM and SSM amounts) is to be based on a volumetric rate rider commencing May 1, 2008, HHH is proposing a one year recover period effective until April 30, 2009." Please advise whether HHH proposes to recover 2005 & 2006 LRAM and SSM amounts over a one-year period or over a three-year period.

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