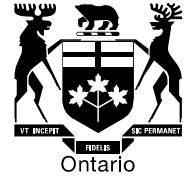


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BY EMAIL

October 4, 2010

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Board Staff Interrogatories for Newmarket – Tay Power Distribution Inc.
EB-2009-0269**

Further to the Board's Procedural Order No. 2, dated September 22, 2010, please find attached the Board Staff interrogatories on the cost of service rates application filed by Newmarket – Tay Power Distribution Inc. on July 22, 2010. These interrogatories were to have been filed Friday October 1, 2010. Board staff requests the indulgence of the Board to accept these interrogatories.

Please forward the attached to Newmarket – Tay Distribution Inc. and all intervenors in this proceeding.

Yours truly,

Original signed by

Christie Clark
Case Manager

Enclosure

Board Staff Interrogatories
Newmarket Tay Distribution Inc.
2010 Electricity Distribution Rates Application
EB-2009-0269

As identified in the Procedural Order No. 2 issued on September 22, 2010, the Board has determined the Issues List for the review of this application and will proceed with a series of interrogatories to the applicant arising from its pre-filed evidence. The following Board staff interrogatories contain questions relating to specific aspects of the application of Newmarket – Tay Power Distribution Ltd. Board staff has prepared these interrogatories to conform to the Issues List.

GENERAL

Issue 1 a.) Has Newmarket-Tay responded appropriately to all relevant Board directions from previous proceedings?

1.) Ref: Exhibit 1 Tab 1 Schedule 1

Letter of the Board to All Licensed Electricity Distributors, March 5, 2009
Letter of the Board to Paul Ferguson, President, Newmarket – Tay Power Distribution Ltd. April 30, 2010

On March 5, 2009 The Board wrote to all licensed electricity distributors encouraged distributors planning to file a 2010 cost of service application as soon as possible but no later than August 28, 2009. Newmarket – Tay did not file by the deadline.

On April 20, 2010 the Board wrote Paul Ferguson, president of Newmarket – Tay stating:

“Please be advised that, if the Board does not receive your cost of service application by **April 30, 2010**, any application that you file for 2010 rates should be filed on the basis of the 3rd generation incentive regulation mechanism for the Newmarket service area and 2nd generation for Tay service Area.”

Please provide an explanation for the late filing of the application.

2.) Ref: Exhibit 1 Tab 4 Schedule 4 Attachment 1

Newmarket – Tay has not provided a reconciliation of the 2008 and 2009 financial data to the audited financial statements (“AFS”). Newmarket – Tay has provided trial balances instead. Section 2.2.3 of the Filing Requirements states:

“The utility must file a detailed reconciliation of the financial results shown in the Annual Reports/Audited Financial

Statements with the regulatory financial results filed in the application.”

Please provide a detailed reconciliation with full explanations of for any adjustments of the Application to the AFS for 2008 and 2009.

Issue 1 d.) What is the appropriate effective date for any new rates flowing from this Application?

3.) Ref: Exhibit 1 Tab 1 Schedule 2

Exhibit 8

In the “Legal Application” filed in Exhibit 1 Tab 1 Schedule 2, Newmarket – Tay has not stated an effective date for its proposed rates. Newmarket Tay has also not provided a Tariff of Rates and Charges which would include an Effective Date in Exhibit 8. In addition, Newmarket – Tay has not addressed implementation issues for its proposed rates, either in the Legal Application or its rates design evidence Exhibit 8. Typically new rates are in effect as of May, 1 of the proposed test year, and for this Application that would be May 1, 2010.

- a) What is the proposed Effective Date and why?
- b) In recognizing that a rate order will not be issued for quite some time, what is Newmarket – Tay’s proposal for implementing rates?

Issue 1 e.) Is the Applicant’s proposed rate harmonization appropriate?

4.) Ref: Exhibit 1 Tab 2 Schedule 2 and the following 6 pages

Exhibit 8 Tab 9 Schedule 4 Page 13

In the “For Immediate Release” document dated May 10, 2006, the then Newmarket Hydro Ltd. Stated:

“Putting these two utilities together delivers cost savings. By eliminating certain duplicate costs and enhancing administrative efficiencies, an annual incremental savings estimated at approximately \$70,000 will be achieved.”

- a) Please list the duplication of costs that have been eliminated and the actual savings realized in 2008, 2009, and 2010. Please state your assumptions and show calculations, referencing evidence or other sources for numbers used.
- b) Please list the administrative efficiencies that have materialized and state the estimated savings. Please state your assumptions and show calculations, referencing evidence or other sources for numbers used.

6.) Ref: Exhibit 2 Tab 3 Schedule 1

Exhibit 2 Tab 4 Schedule 3

Board staff has prepared the following table from the evidence:

Newmarket - Tay Capital Expenditures

	Government Requirements	2010	2009
1	Overhead Line Additions, Rebuilds (CP 212 - Holland Junction TS)	\$ 868,039	\$ 1,187,951
2	Blanket Jobs and Metering (CP 276 & TP 276 - Smart Meter Deployment and Application of TOU Pricing)	\$ 2,027,551	\$ 473,285
	Government Requirements Total	\$ 2,895,590	\$ 1,661,236
	System Reliability		
3	Distribution Stations (CP 214 - Leadbeater MUS Refurb)	\$ 709,637	
4	Overhead Line Additions, Rebuilds (TP 007 - Line Rebuild)		\$ 182,604
5	Overhead Line Additions, Rebuilds (CP 230 - Rebuild Residential Overhead Pole Line)	\$ 131,415	\$ 65,232
6	Overhead Line Additions, Rebuilds (CP 227 - Lundy's Lane Feeder Tie & Open Bus)	\$ 234,444	
7	Overhead Line Additions, Rebuilds (CP 228 - Gorham Street - Replace Pole Line)	\$ 120,902	
8	Overhead Line Additions, Rebuilds (TP 013 - Replace Pole Line - 4th Avenue to Alberta, Port McNicol)	\$ 125,215	
9	Undergand Line Additions, Rebuilds (CP 199 & CP 231 - Eagle Hills - Replace Undergrand System)	\$ 1,095,267	\$ 903,047
10	Blanket Jobs (CP 218 & TP 218 - Replace End of Life Transformers)	\$ 139,282	\$ 137,794
11	Blanket Jobs (CP 220 & TP 220 - Pole Replacement Program)	\$ 113,259	\$ 67,955
12	System Reliability Totals	\$ 2,669,421	\$ 1,356,632
	Growth in Demand		
13	Distribution Stations (CP 224 - Boggartown Station)	\$ 746,438	
14	Customer Additions (CP 216,217, TP 216, 217 - Addition of Res, Com and Indus Customers)	\$ 841,007	\$ 1,297,893
15	Overhead Line Additions, Rebuilds (CP 226 - Leslie Street Line Addition)	\$ 152,441	
16	Growth in Demand Totals	\$ 1,739,886	\$ 1,297,893
	Third Party Driven		
17	Overhead Line Additions, Rebuilds (CP 193 - Bayview Pole Line Rebuild)		\$ 467,186
18	Overhead Line Additions, Rebuilds (CP 287 - Yonge St Pole Line Rebuild)	\$ 141,440	
19	Overhead Line Additions, Rebuilds (CP 287 - Doug Duncan Drive, Pole Line Rebuild)	\$ 129,238	
20	Overhead Line Additions, Rebuilds (TP 016 - Line Addition/Rebuild - Triple Bay Road, Hwy 12)	\$ 101,137	
21	Overhead Line Additions, Rebuilds (CP 198 - Infrastructure Project - Davis Drive and Yonge Street)	\$ 1,937,576	\$ 936,968
22	Third Party Driven Totals	\$ 2,309,391	\$ 936,968
	Internally Driven		
23	Fleet (Single Bucket Truck and Dump Truck Replacement)	\$ 115,000	\$ 346,763
24	Computer Software	\$ 200,000	
25	Internally Driven Totals	\$ 315,000	\$ 346,763
26	ALL CAPITAL EXPENDITURES TOTAL	\$ 9,929,288	\$ 5,599,492

a) Please confirm that it is correct. If it is not, please make corrections.

- b) Exhibit 2 Tab 3 Schedule 1 indicates that forecast total capital additions for 2010 are \$10,383,607 and for 2009 was \$5,857, 917. Please reconcile the differences between Exhibit 2 Tab 3 Schedule 1 and the above table.
- c) Are any of the planned expenditures for 2010 that will not be used and useful by the end of the year? If so, please state the dollar amount for the assets that will not be used and useful.

7.) Ref: Exhibit 2 Tab 2 Schedule 2
Exhibit 2 Tab 4 Schedule 6
Exhibit 2 Tab 4 Schedules 3 through 4
Exhibit 2 Tab 3 Schedule 1
Exhibit 2 Tab 3 Schedule 2 subsequent page

In the Asset Retirement Policy, Exhibit 2 Tab 2 Schedule 2, Newmarket Tay states that it has no formal asset retirement policy in place. In Exhibit 2 Tab 4 Schedule 6, Asset Management, Newmarket Tay describes situations where replacing some of the distribution assets occurs. Newmarket – Tay. In Exhibit 2 Tab 4, Schedule 2 through 4 Newmarket – Tay described proposed and completed capital projects which include replacements and rebuilds for 2009 and 2008. The Asset continuity sheet and the Amortization sheet do not show any retirements for lines, poles, conduits or cables.

- a) If there is no Asset Retirement Policy, does Newmarket – Tay follow Generally Accepted Accounting Principles for retiring its assets?
- b) Please explain Newmarket – Tay’s retirement accounting, by describing the T-Account Entries.
- c) Please show how these accounting entries for retirements are applied to the asset and accumulated depreciation balances for 2006 through 2010 inclusive.
- d) Does Newmarket – Tay have any stranded assets that form part of the rate base? If so, please itemize by account these assets for 2006 through 2010 inclusive.

Issue 2 h.) Is the accounting for smart meters in rate base appropriate?

8.) Ref: Exhibit 2 Tab 1 Schedule 1 Page 3.

On the referenced exhibit, Newmarket – Tay states:

“Between 2006 and April of 2009 all costs associated with smart meters and TOU billing in the Newmarket service area were borne by The Applicant. The impact of these expenditures on the Test Year revenue requirement is \$1,319,722 which includes operating costs.”

- a) Please explain and show the calculation of the stated revenue requirement impact of \$1,319,722.

Also on this exhibit, Newmarket – Tay point out that at the end of 2010 all eligible customers will be on TOU billing, and that the total cost for the smart meter project will be \$7.1 million.

- b) Please state the total number of installed smart meters and the number remaining as of September 30, 2010.
- c) Please state only the number of meters installed from January 1, 2010 through September 30, 2010.
- d) Please state only the number of meters installed from May 1, 2010 through September 30, 2010.
- e) For the purposes of rate making, how is Newmarket – Tay proposing to account for the former “dumb” meters that have been replaced?

FORECASTS OF VOLUMES, CUSTOMERS, CONNECTIONS, AND REVENUES

Issue 3 a.) Is the load forecast, including methodology and weather normalization, appropriate?

9.) Ref: Exhibit 3Tab 1 Schedule 2 Elenchus Report

Board staff is concerned about the model’s design and performance as illustrated in the plots on page 6 of the Elenchus Report.

- a) Please confirm that the entire residential load is considered temperature sensitive. If it is not, please explain the separation of non-weather sensitive and temperature sensitive loads.
- b) Please confirm that the entire GS < 50 kW load is considered temperature sensitive. If it is not, please explain the separation of non-weather sensitive and temperature sensitive loads.
- c) Please explain the method used to separate the non-weather sensitive portion of the GS 50 – 4,999 kW class.
- d) The Elenchus Report states that Reiningers’ volumes are less than historical and were removed for modelling purposes. Please explain whether or not any load for Reiningers was included in the 2010 volumetric forecast.
- e) Please confirm that the weather sensitive loads for all the classes were combined as if they were one class for the purposes of modelling the weather sensitive forecast.
- f) What percentage of Newmarket – Tay’s residential and GS<50 kWh customers in the Newmarket service territory use natural gas for heating?

- g) What percentage of Newmarket – Tay's residential and GS<50 kWh customers in the Tay service territory use natural gas for heating?
- h) Was there any attempt to separate the natural gas heated residences and GS<50 kWh customers?
- i) Was there any attempt to consider hours of day-time light as a determinant in the model?
- j) Toronto has several weather stations, which station was used for degree days?
- k) Toronto's weather is largely influenced by Lake Ontario. Was a weather station closer to Newmarket modelled and rejected? If so why was it rejected?
- l) Tay's weather is largely influenced by Georgian Bay. Were weather stations closer to Newmarket territory and the Tay territory modelled and rejected? If so why was it rejected?
- m) Were heating degree days and cooling degree days based on a temperature other than 18 °C tested as a model determinant? If so, why was it rejected?
- n) Was full time employment ("FTE") or the percentage change in FTE used as the determinant? Please provide a table of the input data.
- o) Please provide a rationale for the negative intercept in the Tay model.
- p) Which Theil's U factor was used, Theil's U_1 or Theil's U_2 ?
- q) Please provide Newmarket – Tay's interpretation of the Theil's U factor value for each model.

Issue 3 b.) Are the forecasts of factors (e.g. number of customers, economic activity) appropriate?

10.) Ref: Exhibit 3 Tab 1 Schedule 2 Elenchus Report

- a) Please provide a detailed description of the development of the customer connections forecast by class.
- b) Please state the sources of any data that was relied upon to develop the forecast.
- c) Please compare the forecast growth to the growth forecasted for Newmarket by the York Regional Government.

Issue 3 c.) Is CDM appropriately reflected in the load forecast?

11.) Ref: Exhibit 3 Tab 1 Schedule 2 page 3

Newmarket – Tay states that they have further adjusted the load forecast for the expected achievement of CDM results.

- a) Please describe how this adjustment was determined.
- b) Please describe how this adjustment was applied.
- c) Please state the magnitude, in kWh, of the adjustment by class or in aggregate, depending on the answer to a) above.

Issue 3 d.) Are the proposed Revenue Offsets appropriate?

12.) Ref: Exhibit 3 Tab 3 Schedule 2
Exhibit 4 Tab 6 Schedule 2

Newmarket – Tay states in Exhibit 4 Tab 6 Schedule 2, that the revenues from street lighting maintenance service reduces overall costs and shows in the table of that exhibit an amount of \$475,000 for street light service. In Exhibit 3 Tab 3 Schedule 2, Newmarket – Tay is not showing a revenue offset. Please state why these revenues are not shown as revenue offsets.

COSTS OF OPERATIONS

Issue 4 a.) Are the costs, services, and arrangements under the ongoing arrangement with the Applicant's affiliates, including all related parties, appropriate?

13.) Ref: Exhibit 1 Tab 2 Schedule 3

Newmarket – Tay is related to a number of affiliates, as indicated on the organization chart in Exhibit 1 Tab 2 Schedule 3.

- a) Please name and describe these affiliates.
- b) Please describe the nature of any business that transacts between Newmarket – Tay and the affiliates. This would include general administration, such as but not limited to, financial services, human resources services and management consulting.
- c) Please provide the service agreements between Newmarket – Tay and the affiliates.
- d) Please state the costs for providing these services and the amounts collected.
- e) Please state the basis for establishing the costs in d).

- f) Please state how the charges for the services were determined.
- g) Are the revenues from the services included as revenue offsets for the purposes of setting rates?
- h) Please state if and why these charges comply with the Affiliate Relationship Code.

14.) Ref: Exhibit 4 Tab 6 Schedule 2

Newmarket – Tay states that the maintenance services for street lighting are billed separately at the Applicant's full costs.

- a) Please list the components of the costs charged for street lighting and how the overheads are allocated to the basic labour to establish the rate.
- b) Please state if and why these charges comply with the Affiliate Relationship Code.

Issue 4 b.) Are the Test Year Human Resources and related costs (wages, salaries, benefits, incentive payments, labour, productivity, and pension costs) including employee levels, appropriate?

15.) Ref: Exhibit 4 Tab 4 Schedule 1 Page 2

Typically in an organization the size of Newmarket – Tay, there are staff turnovers resulting in temporary vacant positions until new staff can be hired.

- a) What assumptions were made and built into the compensation budget to reflect operating at less than 100% employment in the test year?

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013.

- b) Please state whether or not the Newmarket - Tay's proposed pension costs include this increase.
- c) If the OMERS increases are included, please provide the forecasted increase by years and the documentation to support the increases. Please state how these future increases are included in the 2010 benefits
- d) If the OMERS increases are not included, please state how the applicant proposes to deal with this increase.

16.) Ref: Exhibit 4 Tab 1 Schedule 2 pages 3 & 4

Newmarket – Tay is requesting to include an additional engineer and an apprentice for a total cost increase of \$195,000.

- a) Does this cost include salary only? If not please state what the cost includes.

- b) Will the new engineer be employed the full year? If not, for how long will the engineer be employed in the test year, and what reduction to the \$195,000 would that represent?
- c) Will there be any technicians or others let go because of the engineer? If so, what is the cost reduction?
- d) Please explain what was meant by "The current positions will continue to be fully deployed in the 2010 test year until an additional engineer can be retained."
- e) Is the incentive pay tied to net income or rate of return? If it is, what is the portion of total incentive would that represent?

17.) Ref: Exhibit 1 Tab 1 Schedule 3 page 13

Newmarket Tay states "The Applicant has determined that it is more efficient to outsource large capital projects to third parties and focus the Applicant's staff on maintenance and certain smaller capital projects. The Applicant has returned to its historical allocation of resources by assigning 55% to 60% of its available labour time to maintenance projects from the recent allocation using a 50/50 split between capital and maintenance."

- a) Please provide the business analysis that determined that outsourcing for capital is more cost effective when the total costs for capital and maintenance is considered.
- b) Please state the impact on 2010 OM&A expenses and on capital expenses for moving costs from capital to operations?

Issue 4 c.) Has the Applicant demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

18.) Ref: Exhibit 4 Tab 1 Schedule 1
Exhibit 4 Tab 4 Schedule 1 page 2

Newmarket – Tay has budgeted \$7,784,526 for OM&A. In that amount is incentive pay for management.

- a) Please provide the budget directives that were given for improvements in efficiency, productivity and for cost reductions and related reductions in OM&A expenses.
- b) Please provide the guidelines for assessing the level of incentive pay.
- c) Please state the planned expenditures in the forecast that will improve efficiency and improve value associated to the compensation expense.

Issue 4 f.) Is the Payment in Lieu of Taxes (including methodology) appropriate?

19.) Ref: Exhibit 4/Tab 8/Tax returns

Please provide the federal and Ontario Notice of Assessments, Notice of Re-assessments (if applicable), Statements of Adjustments, and any other correspondence with the CRA and Ministry of Finance regarding any tax items, or tax filing positions that may be in dispute, or under consideration or review, for tax years 2007 to 2009.

Issue 4 g.) Are taxes and credits (other than PILs) appropriate?

20.) Ref: Exhibit 4 Tab 1 Schedule 1

Newmarket – Tay is proposing a reduction in Capital and Property Taxes from \$246,309 in 2009 to \$173,946 in 2010, a reduction of \$72,303.

- a) Please provide separately for 2006 to 2010 the capital taxes and property taxes.
- b) Please explain the reduction in taxes.
- c) Are there other taxes that Newmarket – Tay is responsible to pay other than income taxes?
- d) If there are other taxes, in what account are they expensed in the Newmarket – Tay's application?

Issue 4 h.) Are the overall levels of OM&A budgets appropriate?

21.) Ref: Exhibit 4 Tab 3 Schedule 1

Board staff has developed the following table of controllable expenses:

	2006 Actual	2007 Actual	2008 Actual	2009 Bridge Year	2010 Test	4 Yr. Increase
1 Operation	\$1,860,955	\$1,894,991	\$1,831,140	\$2,208,026	\$2,560,224	\$699,269
2 Billing and Collection	\$1,501,889	\$1,653,517	\$1,750,464	\$1,852,686	\$2,331,264	\$829,375
3 Community Relations	\$107,754	\$79,479	\$72,007	\$63,202	\$76,332	(\$31,422)
Administrative and General						
4 Expenses	\$2,068,003	\$2,263,092	\$2,374,534	\$2,442,373	\$2,798,398	\$730,395
5 Total OM&A Expenses	\$ 5,538,601	\$ 5,891,079	\$ 6,028,145	\$ 6,566,287	\$ 7,766,218	\$ 2,227,617
6 Variance		\$352,478	\$137,066	\$538,142	\$1,199,931	
7 Percent Change		6.36%	2.33%	8.93%	18.27%	40.22%
8 Residential	27,229	27,595	28,147	28,852	29,370	
9 GS < 50	2,775	2,791	2,843	2,881	2,901	
10 GS 50 - 4,999	374	385	395	398	401	
11 Total OM&A Expenses	30,378	30,771	31,385	32,131	32,672	
12 Cost per Customer	\$ 182.32	\$ 191.45	\$ 192.07	\$ 204.36	\$ 237.70	
13 Variance		\$ 9.13	\$ 0.62	\$ 12.29	\$ 33.34	\$ 55.38
14 Percent Change		5.01%	0.32%	6.40%	16.32%	30.37%

Please confirm that the table is correct. If it is not, please correct the table.

22.) Ref: Exhibit 4 Tab 1 Schedule 2

Board staff would like information regarding Newmarket – Tay’s Test Year expenses in relation to International Financial Reporting Standards (“IFRS”).

- a) Please confirm that the revenue requirement for 2010 is based on Canadian Generally Accepted Accounting Principles (“CGAAP”), and not IFRS accounting principles.
- b) If confirmed, please identify the fiscal year which the applicant will begin reporting its (audited) actual results on an IFRS basis.
- c) If not confirmed, please provide a detailed revenue requirement impact statement comparing CGAAP with IFRS.
- d) Please state whether or not the applicant has included an amount for IFRS transition costs in its Test Year revenue requirement. If yes, please identify the amount and provide a breakdown with a detailed explanation of each cost item.
- e) If the answer to b) is no, is the applicant recording IFRS transition costs in the deferral account established by the Board in October 2009?

23.) Ref: Exhibit 4 Tab 1 Schedule 2 Pages 22 - 24

Board staff is concerned about the level of regulatory costs for 2010.

- a) Please break down the costs for Legal support into its components, and provide an updated estimate based on experience to date.

- b) Please break down the costs for Elenchus into its components, and provide an updated estimate based on experience to date.
- c) Please provide a breakdown of the costs for intervenors.
- d) Please provide all regulatory authorizations or directions for undertaking the Navigant Study titled: The Effects of Time-of-Use Rates on Residential Electricity Consumption.

24.) Ref: Exhibit 1 Tab 1 Schedule 2

Newmarket – Tay has requested deferral accounts for costs associated with the Low Income Energy Assistance Programme (“LEAP”), Green Energy and Green Economy Act (“GEGEA”), and the late payment charges class action. It is not clear as to whether any costs associated with these issues have been included in the Test Year OM&A.

In regards to LEAP;

- a) Are any costs associated with LEAP included in the Test Year and if so please identify the amount and the account(s).
- b) If there are no costs associated with LEAP in the Test Year please provide the following calculation: 0.12% of the total distribution revenue proposed by the applicant for the 2010 Test Year.
- c) Please state whether or not the applicant has included an amount in its 2010 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

In regards to GEGEA;

- d) Are any costs associated with GEGEA included in the Test Year and if so please identify the amount account(s).

In regards to the late payment charge class action”

- e) Please state whether or not the applicant has included an amount for recovery of late payment penalty litigation costs in its 2010 Test Year application.
- f) If yes, please identify the amount and the related account(s) and explain how the applicant is proposing to recover this amount.
- g) If yes, please provide evidence supporting the amount allocated to the applicant (e.g. the settlement agreement).

Issue 4 i.) Is the accounting for operating and maintaining smart meters appropriate?

25.) Ref: Exhibit 4 Tab 3 Schedule 1 Pages 3 & 4
Exhibit 9 Tab 1 Schedule 2

Newmarket – Tay, in Exhibit 4 Tab 3 Schedule 1 Pages 3 & 4 explains increases in Account 5310 Reading – Contract Services and Account 5315 Billing – Labour & Expenses as being related to Smart meters and TOU pricing. Board staff have prepared the following summary:

Smart Meters and TOU 2010 Expenses

	(\$)
1 ODS	56,000
2 Exceptions Reporting	150,000
3 Software Matenance Costs	33,000
4 Security Audit	23,000
5 Other - IESO	<u>110,000</u>
6 Total	<u>372,000</u>

In Exhibit 8 Tab 1 Schedule 2, Newmarket – Tay show an increase in Account 1556 Smart Meters – OM&A of \$68,366 excluding interest for the first quarter of 2010.

- a) Please state the portion of the \$372,000 that would be for smart meters without TOU expenses included?
- b) If Newmarket – Tay is proposing to include the OM&A costs for smart meters in the revenue requirement, why has the principal in Account 1556 Smart Meters – OM&A increased for 2010?

COST ALLOCATION

Issue 7 a.) Is the Applicant's cost allocation appropriate?

26.) Ref: Exhibit 7 Tab 1 Schedule 2
Exhibit 3 Tab 1 Schedule 2 Elenchus Report

Newmarket – Tay lists the changes that it is proposing to the cost allocation model and state that Page I8 Demand Data was only changed for GS 50 – 4,999 kW. The change was to reduce the demand for the customer that it lost in 2009. The Elenchus report state that three customers in this class ceased operations and a fourth reduced operations. The Elenchus report also shows volumetric growth in the residential class and the GS<50 kW class.

- a) Why did Newmarket – Tay not adjust the GS 50 – 4,999 kW class for all three companies that ceased operations?

- b) Why did Newmarket – Tay not adjust the demand factors for the one customer that reduced demand?
- c) Why has Newmarket – Tay not adjusted the demand factors for the growth in the residential and GS<50 kW classes?

27.) Ref: Exhibit 3 Tab 1 Schedule 2
Cost Allocation Runs 4 and 5

Board staff prepared the following table from the referenced exhibits:

Newmarket - Tay
Customer Connections

	Res.	GS<50	GS>50	Street Lighting	Sentinel Lighting	USL
1 Elenchus Forecast	29,370	2,901	401	8,574	414	125
2 Cost Allocation Run 4	29,370	2,901	401	8,252	80	125
3 Cost Allocation Run 5	29,370	2,901	401	2,058	80	125

- a) Please confirm that the table correctly reflects the evidence otherwise please provide a corrected table.
- b) Please explain the differences in the number of connections between the Elenchus Forecast and Run 4 of the cost allocation model for Street Lighting, Sentinel Lighting and USL.
- c) Newmarket – Tay states that it is weighting the Street Lighting service connections at 25% of that for a residential customer. Is the reduction of the number of connections in Run 5, which is almost 25% of the number of connections the means by which Newmarket – Tay is proposing to accomplish this?
- d) Please explain why the reduction wasn't accomplished by using a weighting factor of 0.25 for Weighting Factor – Services on Sheet I6 Customer Data Worksheet?
- e) Please explain the discrepancies between the Elenchus Forecast and the cost allocation model for connections for sentinel lighting.

Board staff prepared the following table from the proposed cost allocation study, Run 5. The costs presented in this table are from Sheet O4 Summary of Allocators by Class and Account, and Sheet I6 Customer Data Worksheet.

Newmarket - Tay
Billing and Collection Costs (\$)

	Res.	GS<50	GS>50	Street Lighting	Sentinal Lighting	USL
1 Billing	662,671	154,823	64,617	2,337	-	7,303
2 Cost/customer	22.56	53.37	161.14	584.24	-	58.42
3 Collection	563,274	131,600	54,924	1,986	-	6,208
5 Cost/customer	19.18	45.36	136.97	496.60	-	49.66
6 Customers	29,370	2,901	401	4	80	125

Please confirm that the table correctly reflects the evidence otherwise please provide a corrected table.

- f) Please describe the nature of the expenses and itemize the components for the budgeted expenses for Billing Account and Collection Account separately.
- g) Please provide calculations that would show that the allocation of billing expenses to street lighting and USL is reasonable.
- h) Please provide calculations that would show that the allocation of collection expenses to street lighting and USL is reasonable.
- i) Please explain the need for collection costs from street lighting customers.

28.) Ref: Exhibit 7 Tab 3 Schedule 1 Table on page 4

Newmarket – Tay has provided a study to estimate the ratio of costs to serve a residential customer to the costs to serve a street light and has concluded that a 1:4 ratio is appropriate. The referenced table develops ratios for seven subdivisions which serve to underpin the proposed ratio.

- a) Please explain the development of the costs found in the table on page 4.
- b) How are the costs for primary conductors categorized and allocated in the proposed cost allocation model?
- c) How are the costs for secondary conductors categorized and allocated in the proposed cost allocation model?
- d) How are the transformer costs categorized and allocated in the proposed cost allocation model?

RATE DESIGN

Issue 8 a.) Are the customer charges and the fixed-variable splits for each class appropriate?

29.) Ref: Exhibit 8 Tab 3 Schedule 2 page 2

Newmarket – Tay seems to have intended to provide a table that combines Newmarket and Tay’s 2009 distribution revenue at weighted average rates. It appears that the tables provided are not what Newmarket – Tay intended. Please provide the intended table.

Issue 8 b.) Are the proposed Retail Transmission Service Rates appropriate?

30.) Ref: Exhibit 8 Tab 5 Schedule 1

- a) Please show the derivation of the estimated costs of \$4,525,660 for Network charges.
- b) Please show the derivation of the estimated costs of \$3,368,696 for Connection charges.
- c) Please show and explain the allocation of the Network and Connection charges to the classes.

Issue 8 e.) Is the Applicant’s proposed Tariff of Rates and Charges appropriate?

31.) Ref: Exhibit 8 Tab 9 Schedule 2

- a) Please provide the proposed Tariff of Rates and Charges. This document should include all proposed distribution rates, Effective Date, Implementation Date if applicable, Specific Service Charges and all other charges that the Board regulates.

Board staff is concerned that there may be charges that Newmarket – Tay could be making to its customers that are not included as Specific Service Charges.

- b) Please identify any rates and charges that are included in the applicant’s conditions of service and provide an explanation for the nature of the costs being recovered.
- c) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 Test Year.
- d) Please explain whether in the applicant’s view, these rates and charges should be included on the applicant’s tariff sheet.

32.) Ref: Exhibit 8 Tab 4 Schedule 2

Proposed Cost Allocation Model

Newmarket – Tay is requesting a Transformer Ownership Credit (“TOC”) of \$0.70. Sheet O3.1 Line Transformers Unit Cost Worksheet calculates the TOC should be \$0.77. Please explain why Newmarket – Tay is only proposing \$0.70.

Issue 8 f.) Is the proposed treatment of LV appropriate?

33.) Ref: Exhibit 8 Tab 6 Schedule 1

Please show and explain the allocation of the LV charges to the rate classes.

DEFERRAL AND VARIANCE ACCOUNT

Issue 9 a.) Is the proposal for the amounts, disposition, and continuance appropriate?

34.) Ref: Exhibit 9 Tab 1 Schedule 2

Ref: Exhibit 9 Tab 1 Schedule 2 Regulatory Assets Continuity Schedule

Generally, the Board orders disposing of only audited balances. Approving only audited balances provides the comfort that the balances have been independently tested and verified.

- a) Please provide the audited balances for Newmarket and Tay separately for December 31, 2009.
- b) If available, please file audited balances for Newmarket and Tay separately for April 30, 2010.
- c) Please file respective Regulatory Assets Continuity Schedules that reconcile to the audited balances in both hard copy and electronic form for Newmarket and for Tay separately.

According to the evidence filed, the balances requested for disposition reconcile with Newmarket – Tay’s RRR 2.1.1 Q1/2010 filing with the Board, except Account 1555 Smart meter – Capital Account 1556 Smart Meter – OM&A and Account 1595 Approved Regulatory Assets .

- d) For Account 1555 Smart meter – Capital Account 1556 Smart Meter – OM&A and Account 1595 Approved Regulatory Assets, please state what was filed under RRR 2.1.1 for Q1/2010.
- e) Please provide a detailed explanation of the differences for each of these accounts.
- f) Please state which amount Newmarket – Tay is seeking approval for disposition in this application, and why.

The Board in the Smart Meter Guidelines (G-2008-0002) instructed distributors to file audited balances for disposition:

“The Board expects that a distributor will normally file for inclusion of smart meter costs into ongoing operations and rate base when it files for a cost of service rate adjustment. When applying for recovery of smart meter costs, a distributor should ensure that all cost information has been audited, including the smart meter related deferral account balances.”¹

- g) In EB-2007-0063, *Decision with Reasons* August 8, 2007, Appendix A, the Board found Newmarket – Tay’s estimated Total Cost per Unit to be \$126.83. Please provide the actual to date installed cost and a variance analysis to the previously filed costs for December 31, 2009 and for April 30, 2010 if available.
- h) As stated in G-2008-0002, *Guideline Smart Meter Funding and Cost Recovery Section 1.5* please provide the capital and operating unit cost per installed smart meter and in total for:
 - i Procurement and installation of the components of the AMI system,
 - ii Customer information system
 - iii Incremental operating and maintenance activities,
 - iv Changes to ancillary systems, and
 - v Stranded meters

In addition the Board’s Guidelines require the following information to be disclosed:

- vi justification for any smart meter or AMI costs incurred to support functionality that exceeds the minimum functionality adopted in O Reg. 425/06, and
- i) Provide the basis on which recovery of those costs is allowed under applicable law for any costs incurred that are associated with functions for which the Smart Meter Entity has the exclusive authority to carry out pursuant to O. Reg. 393/07.
- j) Are the April 30, 2010 amounts in Account 1555 Smart meter – Capital Account 1556 Smart Meter – OM&A based on projections or on actual costs?
- k) Newmarket – Tay shows for Account 1555 Smart Meter Capital, a steady reduction to its balance from December 31, 2008 to April 30, 2010. Please explain.
- l) Are any OM&A expenses for TOU included in Account 1556 Smart Meter – OM&A?

¹ *Smart Meter Funding and Cost Recovery*; EB-2008-0002, October 22, 2008 page 12

The applicant is requesting disposition of Account 1595 Approved Regulatory Assets, the residual amount from the disposition of 2008 Newmarket balances. The amount requested for disposition is a debit of \$996,037.

- m) Since balance in this account should not be cleared until the associated rate rider has ended, has the rate rider for this account ended (per the Board's EDDVAR report EB-2008-0046 (pg. 6))?
- n) Did Newmarket – Tay discontinue the deferral and variance account rate rider after April 30, 2010 as stated in the EB-2007-0776 Decision and Order dated April 23, 2009?
- o) For what period was the rider designed to collect the total amount requested in EB-2007-0776 of \$1,635,858.
- p) If the rider was to be collected over two years, \$996,037 seems high compared to one half of \$1,635,858, or \$817, 929. Please explain the difference.
- q) The EB-2007-0776 deferral and variance account balance for disposition of \$1,635,858 was directed to be collected from Newmarket customers only. Please explain why Newmarket – Tay are now proposing to clear the residual balance of \$996,037 to both Newmarket and Tay customers.

Issue 9 b.) Are the proposed Deferral and Variance Account rate riders appropriate?

35.) Ref: Exhibit 9 Tab 3 Schedule 4

The Board approved the disposition of the December 31 2008 balances in the deferral and variance accounts for Newmarket in EB-2007-0776. Board staff feels that the December 31, 2008 balances should only be a cost to the Tay customers.

- a) Please recalculate the rate riders for Tay customers only for the disposition of the deferral account balances as of December 31, 2008.

Newmarket and Tay have their own unique sets of rates. In other words the rates are not harmonized. As such, Board staff feels that some deferral accounts, such as the RCVA and RSVA accounts are based on these separate sets of rates, should not be cleared equally to both sets of customers.

- b) Please review all remaining deferral and variance accounts and determine which accounts have cost drivers that differ between the two operating areas. List all deferral and variance accounts and balances and state the reasons why the accounts should be disposed of separately or combined.
- c) Please calculate the rate riders that would result from b).

Issue 9 c.) Is the proposed recovery of the Global Adjustment (sub-account of 1588) from RPP and non-RPP customers appropriate?

36.) Ref: Exhibit 9 Tab 1 Schedule 2 Pages 6 & 7

Many recent Board Decisions (e.g. EB-2009-0132, EB-2009-0186, and EB-2009-0405) order the Account 1588 Global Adjustment sub-account be disposed as a separate rate rider to non-RPP customers, excluding the MUSH sector.

- a) If the Board were to order Newmarket Tay to provide such a rate rider, would Newmarket – Tay’s billing system be capable of billing non-RPP the separate rate rider?
- b) Would Newmarket – Tay have any objections to such a rate rider, and if so, what would they be?
- c) Would Newmarket – Tay’s billing system be able to exclude the MUSH sector from this rate rider?
- d) If Newmarket – Tay were unable to bill in this fashion what would it consider proposing as an alternative?

Issue 9 d.) Is the proposed new deferral account to record Green Energy Act costs appropriate?

37.) Ref: Exhibit 1 Tab 1 Schedule 2

Newmarket – Tay is seeking approval for a deferral account to record costs associated with the Green energy Act. The Board has established four new deferral accounts listed below in the USoA that electricity distributors may use to begin recording capital investments and expenses incurred for qualifying projects undertaken to accommodate renewable generation or towards the development of a smart grid. Details of these accounts were released in October 2009 FAQ.

- Account 1531, Renewable Connection Capital Deferral Account,
 - Account 1532, Renewable Connection OM&A Deferral Account,
 - Account 1534, Smart Grid Capital Deferral Account, and
 - Account 1535, Smart Grid OM&A Deferral Account.
- a) In light of these accounts does Newmarket – Tay require an additional account?
 - b) Please provide a detailed description of the costs that will be recorded in each of the accounts.
 - c) Are the costs to be recorded in these accounts consistent with the Board’s guidelines G-2009-0087 (including Appendix A) with respect to the qualifying expenditures?
 - d) Please state any regulatory precedent for this proposed deferral account.

- e) Please state any additional justification that Newmarket – Tay has for this account.

Issue 9 e.) Is the proposed new deferral account to record LEAP costs appropriate?

38.) Ref: Exhibit 1 Tab 1 Schedule 2

Newmarket – Tay is seeking approval for a deferral account to record costs associated with the Low-income Energy Assistance Programme (“LEAP”).

- a) Please provide a the justification for this account.
- b) Please state the journal entries to be recorded in this account?
- c) Please state how the Applicant plans to allocate the costs to the rate classes?
- d) Please provide any new or additional information that has become available since the filing of the application that could be provided to the Board to facilitate a decision to approve the recording of these costs in a deferral account?