

BOARD STAFF INTERROGATORIES
Kingston Hydro Corporation
2011 Electricity Distribution Rates Application
EB-2010-0136

OCTOBER 26, 2010

GENERAL

Responses to Letters of Comment

1. Following publication of the Notice of Application, did Kingston Hydro receive any letters of comment? If so, please confirm whether a reply was sent from the Kingston Hydro to the author of any letters. If confirmed, please file these replies with the Board. If not confirmed, please explain why a response was not sent and confirm if Kingston Hydro intends to respond.

Ref: Exhibit 8/Tab 4/Schedule 3 Conditions of Service (CoS)

2. Please identify any rates and charges that are included in Kingston Hydro's Conditions of Service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered. If applicable, please explain whether in the applicant's view, why these rates and charges should not be included on Kingston Hydro's tariff sheet. If applicable, please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.

LOAD FORECAST

Ref: Exhibit 3/Tab 1/Schedule 1/p.1&3

3. Reference is made to a "lagged employment variable" for the GS<50 kW and for the GS>50 kW classes. Please explain what this lag is, the rationale for its use and any supporting evidence for the use of this lag.

Ref: Exhibit 3/Tab 1/Schedule 1/Attachment 1

4. The forecast residential customer numbers increase by only 139 for 2010 and 140 for 2011 respectively, after growing by 200 each year in the previous three years. Please provide further evidence justifying this drop in growth in the bridge and test years.

Ref: Exhibit 3/Tab 1/Schedule 2/p.1

5. Reference is made (at line 8) to retail data "exclusive of distribution system losses". Please define exactly what this is referring to.

Ref: Exhibit 3/Tab 1/Schedule 2/Attachment 1/p.3

6. The evidence mentions that the Large User class has three institutional users with significant cooling load. Large Users are usually considered 'weather insensitive' and no weather variable is included in the regression. Is this the case in this instance, or how are these Large Users treated?

Ref: Exhibit 3/Tab 1/Schedule 2/Attachment 1/p.4&5

7. Why is the time variable for the residential class and the GS>50kW class, negative?

Ref: Exhibit 3/Tab 1/Schedule 2/Attachment 1/p.13

8. Graphs on this page depict the separation of the GS<50 kW class and the GS>50 kW class. Please provide a similar graph of the customers in both classes combined. How does the combination of the two classes compare with the two separate totals for the classes forecast in the application?

OPERATIONS AND MAINTENANCE EXPENSES

Ref: Exhibit 4/Tab 1/Schedule 1

9. Kingston Hydro's O&M costs increase by approximately 14% in 2010 and 2011, while Capital Expenditures increase only marginally in the same time frame. Why are O&M costs rising to such an extent while the capital expenditures remain stable? Please provide a rationale for the differences in these increases.

Ref: Exhibit 4/Tab 1/Schedule 1

10. Please provide a report on O&M expenditures in 2010 to date, by major expenditure account as shown at Exhibit 4/Tab2/Sch2 page 2.

Ref: Exhibit 4/Tab 2/Schedule 3/2011 Cost Drivers

11. Kingston Hydro has requested a CDM advisor position to be funded by ratepayers in 2011, increasing O&M costs by \$55,000 in the test year. Is Kingston Hydro aware of CDM efforts in other similar sized LDCs? Do these LDCs also require or plan for one FTE for CDM. Why was a half or three quarter time position not seen as adequate? Why has Kingston Hydro not applied for the funding of this position from the OPA?

Ref: Exhibit 4/Tab 2/Schedule 3/2006 to 2011 Cost Drivers

12. Kingston Hydro has provided cost driver information from 2006 to 2011 in this exhibit. Two entries at the end of each annual explanation of the cost drivers are described as Compensation Increase and Inflation, Other. Are the Compensation increases and Inflation factors incorporated into the increases quoted for the other cost drivers? Is there an element of "double counting" in this portion of the evidence? Please provide a clear explanation of these factors, how they are used and how they contribute to the overall cost changes.

Ref: Exhibit 4/Tab 2/Schedule 3/2006 to 2011 Cost Drivers

13. Kingston Hydro has indentified a Compensation related increase of \$85,000 or 4% for the test year. How does this 4% increase relate to the Union Wage increases of 2.75% for 2010 and 2.5% for 2011 shown at Exhibit4/Tab4/Schedule3/page 5?

Ref: Exhibit 4/Tab 2/Schedule 3/page 13 SOP Development

14. Kingston Hydro has indentified a 2010 cost driver of \$56,000 referred to as SOP Development. Is this program continuing into 2011 or is it largely complete by the end of the Bridge year? What is the SOP budget for the test year? Under what account, as shown at Exhibit 4/Tab2/Sch2 page 2, would the SOP work be found?

Ref: Exhibit 4/Tab 2/Schedule 3/page 17 Succession Planning and Crew Levels

15. Kingston Hydro has indicated planned hiring of 5 Journey Person Powerline Technicians and 2 Journey Person Substation Electricians in the test year. The primary justification of these additions is anticipated retirements. How certain is Kingston Hydro of these retirements actually occurring as planned? Are the retirements due to achievement of early retirement provisions (ie 85 or 90 factors) or are they due to employees reaching the age of 65, or maximization of pension contributions? Under what accounts, as shown at Exhibit 4/Tab2/Sch2 page 2 would the impact of this hiring be found?

Ref: Exhibit 4/Tab 2/Schedule 3/page 18 Asset Planning & Maintenance

16. Kingston Hydro has indicated planned hiring of 2 Engineering Technologists to allow engineers to do more asset planning and maintenance work. How was it determined that 2 additional staff were required for this work? Was a single new hire considered? Under what accounts, as shown at Exhibit 4/Tab2/Sch2 page 2 would the impact of this hiring be found?

Ref: Exhibit 4/Tab 2/Schedule 3/page 20 Audit Fees

17. How was the requested increase in audit fees determined? Under what accounts, as shown at Exhibit 4/Tab2/Sch2 page 2 would the impact of this increase be found?

Ref: Exhibit 4/Tab 2/Schedule 3/page 20 Community Relations

18. Community Relations costs are increasing by 72% in the test year after a 20% increase in 2010 and a 28% increase in 2009. The test year increase is primarily driven by the addition of a specific full time professional. Why was a full FTE required for this work? What is the current staffing for Community Relations under the 2010 \$240,000 budget?

Ref: Exhibit 4/Tab 2/Schedule 2/page 3 Community Relations

19. On this table, Community Relations costs are boosted by a new 2011 line item referred to as Community Relations – sundry, totaling \$87,673. Please provide a detailed explanation and rationale for this cost item.

Ref: Exhibit 4/Tab 1/Schedule 1/p. 5

20. Kingston Hydro has identified the inflation rate used for the 2010 and 2011 OM&A forecast to be 2.0%. What is the source document or background used for the inflation assumptions? Does the \$46,000 increase quoted at Exhibit 4/Tab 2/Schedule 3/ page 21 equate directly to the 2% increase? Please show the derivation of the \$46,000 amount.

Ref: Exhibit 4/Tab 2/Schedule 4/Regulatory Costs

21. Kingston Hydro has estimated one – time regulatory expenses of \$100,000 for legal costs, \$125,000 for consultant costs and \$75,000 for intervenor costs. Please provide the assumptions and background information used to arrive at these estimates.

Ref: Exhibit 4/Tab 2/Schedule 2/page 3 Administration and General

22. On this table, the increases in two smaller categories stand out: General Advertising Expenses, up 190% from 2009; and Maintenance of General Plant, up 186% since 2009. Please provide a detailed explanation and rationale for these cost increases.

Ref: Exhibit 2/Tab 4/Schedule 8/p.9

23. Kingston Hydro indicates that it uses a 3 year pruning cycle for tree trimming. Why does Kingston use such a short cycle? Please provide any further evidence that a 3 year cycle is optimal for the service territory? Please provide estimated tree trimming costs for each year from 2008 to 2011. Under what accounts, as shown at Exhibit 4/Tab2/Sch2 page 2 would the impact of this activity be found?

Ref: Exhibit 4/Tab 2/Schedule 6

24. The PST and GST were harmonized effective July 1, 2010. Historically, unlike the GST, the PST was included as an OM&A expense and was also included in capital expenditures. Due to the harmonization of the PST and GST, regulated utilities may benefit from a reduction in OM&A expenses and capital expenditures on an actual basis.

- a) Kingston Hydro has estimated the savings related to operating expenses previously subject to PST that are now subject to HST, to be \$38,417. Please provide the assumptions and background used to calculate this amount and identify separately the amount of commodity tax savings for OM&A and capital and provide an explanation of how each of those amounts was derived.
- b) The Board's decision in Kingston Hydro's 2010 IRM application established a deferral account and directed the applicant to record the incremental input tax credits it receives on distribution revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts would continue in the deferral account until the effective date of the applicant's next cost of service rate order. Has the Applicant recorded any HST Input Tax Credits or other HST related items in PILs account 1592? If yes, please describe what has been recorded and provide supporting evidence showing how the tracking was done. If not, please explain why not.

STAFFING AND COMPENSATION

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

25. Table 1 on this page shows the increase in Kingston Hydro FTEs with approximately 13 FTEs added in 2011. Questions above have enquired about 10 of these new 13 positions. Please identify the other positions with additional background, cost and rationale for adding these positions in the test year.

Ref: Exhibit 4/Tab 2/Schedule 3/p. 21 OMERS Increase

26. OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. At Exhibit 4/Tab2/Schedule 3 page 21, Kingston Hydro has included an increase of \$82,000 in the test year which is \$328,000 amortized over 4 years. Please provide additional detail on these costs including actual OMERS costs from 2009 to 2010 and the forecast costs for 2011, 2012 and 2013. Please provide all rationales and assumptions used and include documentation where appropriate.

SHARED SERVICES AND CORPORATE COST ALLOCATION

Ref: Exhibit 4/Tab 5/Schedule 1

27. What was Kingston Hydro's rationale for pursuing a shared services model and shared services agreement with Utilities Kingston? Were cost savings predicted? Did these cost savings materialize? Please provide any documentation on the shared services agreement and also provide any studies that underline the effectiveness of this arrangement.

Ref: Exhibit 4/Tab 5/Schedule 1

28. Has Kingston Hydro undertaken any studies or analysis to ensure that the cost allocation criteria currently used are appropriate? If so, please provide a copy of any such study or analysis.

CAPITAL EXPENDITURES

Ref: Exhibit 2/Tab 1/Schedule 1/p.8

29. The evidence outlines the issues with Substation M1 and the fire in this station which occurred in 2009. Why is the rebuilding of this station not included in the capital expenditures in 2010 or 2011? What were the other priorities for capital work and what rationale was used to exclude the M1 Substation?

Ref: Exhibit 2/Tab 4/Schedule 7

30. This schedule outlines the detailed plans of Kingston Hydro for capital expenditures for 2010 and 2011. Exhibit 2/Tab 4/Schedule 2 provides a summary of the 'under-investment' in the Kingston Hydro infrastructure for many years, yet after a significant increase in capital expenditures in 2009 (+80%), why does capital expenditure decrease slightly in 2010 and increase by only 1.5% in 2011? Why was a more robust increase not planned for 2010 or 2011?

Ref: Exhibit 2/Tab 4/Schedule 7

31. Please provide an estimate of the additional projects Kingston Hydro would undertake if its capital budget was expanded by an additional 10% (\$450,000). Are there barriers to expansion of the capital program by this level? Please provide the impact on the rate increase for 2011 if this expanded program were to be undertaken.

Ref: Exhibit 2/Tab 4/Schedule 7

32. Please provide a report on capital expenditures in 2010 to date, by major expenditure category.

Ref: Exhibit 2/Tab 6/Schedule 2 Reliability

33. Please provide a report of reliability scores to date in 2010. Have any major outages occurred and for what reasons? Has reliability performance improved from 2009 levels?

LOW INCOME ENERGY ASSISTANCE PROGRAM (LEAP)

Ref: Exhibit 4/Tab 2/Schedule 7

34. Please confirm whether or not Kingston Hydro has included an amount in its 2011 Test year revenue requirement for any additional or 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.

LOST REVENUE ADJUSTMENT MECHANISM

Ref: Exhibit 10/Tab1/Schedule1/Attachment 1, Third Party Verification Letter

35. Please provide the Kingston Hydro savings at the Initiative level as referred to in the footnote on page 2 of the Seeline Verification Report letter as an "OPA Excel File".

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Ref: Exhibit 1/Tab4/Schedule1

36. Please confirm that the revenue requirement numbers for 2011 are based on CGAAP, and not IFRS accounting principles. If confirmed, please identify the fiscal year which the applicant will begin reporting its (audited) actual results on an IFRS basis. If not confirmed, please provide a detailed revenue requirement impact statement comparing CGAAP with IFRS.
37. Please state whether or not Kingston Hydro 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. If no, is the applicant recording IFRS transition costs in the deferral account established by the Board in October 2009?

SMART METER PROGRAM

Ref: Exhibit 9/Tab 3/Schedule1/ Stranded Meter Costs

38. a) Please describe the accounting treatment followed by the applicant on stranded meter costs for ratemaking and financial reporting purposes.
- b) Please provide the amount of the pooled residual net book value of removed meters, less any sale proceeds as of December 31, 2009.
- c) Please provide the estimated amount of the pooled residual net book value of removed meters, less any sale proceeds at the time when smart meters will have been fully deployed. Please provide the actual amount if smart meters have been fully deployed.
- d) Please describe how the applicant intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts

PAYMENTS IN LIEU OF TAXES (PILS)

Tax Returns

Ref: Exhibit 1/Tab 4/Schedule 2/Attachment 2/Audited Financial Statements 2009; Exhibit 4/Tab 8/Schedule 1/Attachment 2/Tax Return for 2009

39. a) 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.
- b) Were the 2009 audited financial statements filed in Exhibit 1/Tab 4/Schedule 2/Attachment 2, the source of the numbers used in the 2009 Schedule 100 General Index of Financial Information – GIFI (included in the 2009 tax return)? If no, please provide the audited financial statements that were used as the source of the numbers used in the GIFI included in the 2009 tax return. (Please provide unaudited financial statements if audited financial statements were not generated.)

Gross Up of PILs Tax Provision

Ref: PILs or Income Taxes Work Form; Exhibit 4/Tab 8/Schedule 1/Attachment 3;

40. On the “PILs, Tax Provision” worksheet of the PILs or Income Taxes Work Form and on Exhibit 4/Tab 8/Schedule 1/Attachment 3, the tax rate used for the gross-up of the PILs tax provision is 28.25%, while the tax rate used to calculate the PILs tax provision before it is grossed-up is 26.33%.

Generally, the Board's methodology is to use a tax rate to calculate the gross-up of the PILs tax provision that is the same as the tax rate used to calculate the PILs tax provision before it is grossed-up. By departing from this general methodology and not using the 26.33% tax rate in both of these calculations, Kingston is requesting a PILs tax proxy that has been increased by approximately \$18,000. This is because $(1-0.2633)$ was not used to calculate the gross-up of the PILs tax provision, rather $(1-0.2825)$ was used.

- a) Please explain why it is reasonable for ratepayers to bear this extra cost and for Kingston to depart from the Board's general methodology.
- b) Please provide an update to the appropriate tables and schedules in Kingston's application using the general Board's methodology.

CEC Additions and Intangible Asset Additions Included in Rate Base

Ref: PILs or Income Taxes Work Form; Exhibit 4/Tab 8/Schedule 1/Attachment 3; Exhibit 4/Tab 8/Schedule 1/Attachment 2/Tax Return for 2009; Exhibit 4/Tab 7/Schedule 1/Attachment 1

41. As per PILs or Income Taxes Work Form, Exhibit 4/Tab 8/Schedule 1/Attachment 3/Schedule 10 CEC Bridge Year, and Exhibit 4/Tab 8/Schedule 1/Attachment 2/Tax Return for 2009/Schedule 10 Cumulative Eligible Capital Deduction (CEC) the following amounts were added to CEC in 2009 and 2010:

2009 - \$369,595
2010 - \$609,000

As per Exhibit 4/Tab 7/Schedule 1/Attachment 1/Appendix 2-M, very similar amounts were added to rate base in Account 1610 Miscellaneous Intangible Plant in 2009 and 2010:

2009 - \$369,597
2010 - \$609,000

- a) Please explain the nature of these additions to CEC and rate base in the 2009 historic year and 2010 bridge year and what they represent.
- b) Please explain why it is reasonable that these balances should be added to CEC in 2009 and 2010.
- c) Please explain why it is reasonable that these balances of should be added to rate base in 2009 and 2010.

Recording Additions to Class 1 Tax Class

Ref: PILs or Income Taxes Work Form; Exhibit 4/Tab 8/Schedule 1/Attachment 3; Exhibit 4/Tab 8/Schedule 1/Attachment 2/Tax Return for 2009

42. As per the PILs or Income Taxes Work Form (Schedule 8 – Historic Bridge, Test Years), Exhibit 4/Tab 8/Schedule 1/Attachment 3/Schedule 8 (Historic, Bridge, Test Years), and Exhibit 4/Tab 8/Schedule 1/Attachment 2/Tax Return for 2009/Schedule 8, there are additions recorded to Class 1 but Canadian tax laws only permit additions to Class 1 in 2009, 2010, and 2011 tax years in certain circumstances.

- a) Please describe the nature of the additions to Class 1 in 2009 historical, 2010 bridge, and 2011 test years and what they represent.
- b) Please explain why these additions should be included in Class 1 and not Class 47 or Class 2.

Incorrect Formulas Used in CCA Tables

Ref: PILs or Income Taxes Work Form; Exhibit 4/Tab 8/Schedule 1/Attachment 3

43. As per the PILs or Income Taxes Work Form (Schedule 8 Bridge, Test Years), Exhibit 4/Tab 8/Schedule 1/Attachment 3/Schedule 8 (Bridge, Test Years), there are incorrect cell reference formulas being used.

- a) In Cell E35 in the Bridge Year Schedule 8, an incorrect cell reference formula is used rather than using a formula that sums cells E13 to E30, resulting in a total opening UCC that should be \$32,337,312. As a result, cells H35, J35 and M 35

generate incorrect numbers. These balances also produce incorrect numbers on line 42 of the worksheet.

Please provide an update to the necessary tables and schedules in the application accordingly.

- b) In cells F35, G35, I35, and L35 of the Test Year Schedule 8 there are no formulas providing subtotals. This generates an incorrect number in H35, J35, and M35 and also on line 42.

Please provide an update to the necessary tables and schedules in the application accordingly.

Incorrect Reserves Included in Calculation of Test and Bridge Years Taxable Income

Ref: PILs or Income Taxes Work Form; Exhibit 4/Tab 8/Schedule 1/Attachment 3

44. As per PILs or Income Taxes Work Form and Exhibit 4/Tab 8/Schedule 1/Attachment 3 for the Bridge Year Taxable Income and Test Year Taxable Income, the reserves added to taxable income and deducted from taxable income do not match Schedule 13 Tax Reserves Bridge. In addition there was no Schedule 13 Tax Reserves Test included in the application to support the reserves addition to Test Year taxable income an incorrect number may have been added.

Please provide an update to the necessary tables and schedules in the application accordingly.

DEFERRAL AND VARIANCE ACCOUNTS

Ref: Exhibit 9/Tab 1/Schedule 1

45. Kingston Hydro is seeking approval for the following 3 deferral and variance accounts:

- Account 1595, Sub-account Disposition of December 31, 2009 Balances,
 - Variance account for Smart Meter Entity Charges (SMC) from the IESO,
 - Deferral account for expenses related to the implementation of the Energy Consumer Protection Act, 2010.
- a) Regarding the request for a variance account for SMC from the IESO: Given that, to date, there are no charges levied by the SME and the Board has not yet received an SME application in relation to these changes:
- i) What is the justification for this account?
 - ii) Please provide the regulatory precedent for this account
 - iii) What are the journal entries to be recorded in this account?
 - iv) When does the Applicant plan to ask for its disposition?
 - v) How does the Applicant plan to allocate the costs by rate class?

- vi) If the costs are not known, what would be the basis for the approval to record these amounts in a deferral account?
 - vii) What new or additional information is available since the filing of the application that would improve the Board's ability to make a decision to approve the recording of these costs in a deferral account?
- b) Regarding the request for a deferral account for expenses related to the implementation of the Energy Consumer Protection Act, 2010:
- i) Please provide the regulatory precedent for this account,
 - ii) What is the justification for this account?
 - iii) What are the journal entries to be recorded in this account?
 - iv) When does the Applicant plan to ask for its disposition?
 - v) How does the Applicant plan to allocate the costs by rate class?
 - vi) If the costs are not known, what would be the basis for the approval to record these amounts in a deferral account?
 - vii) What new or additional information is available since the filing of the application that would improve the Board's ability to make a decision to approve the recording of these costs in a deferral account?

Account 1592, PILs and Tax Variances for 2006 and Subsequent Years

46. Please identify whether Kingston Hydro has posted any amounts to account 1592 since April 2006. If yes, please respond to the following questions. If not, please explain why Kingston Hydro has not posted any amounts to account for the changes in tax legislation that have occurred since 2006 as required by the Board's methodology and prior decisions.
- a) Please revise the deferral and variance account continuity schedule to include account 1592 as a group 2 account and enter all the required information for transaction, adjustments, interest carrying charges, etc. for all the relevant years.
 - b) Please describe each type of tax item that has been accounted for in account 1592.
 - c) Please provide the calculations that show how each item was determined and provide any pertinent supporting evidence.
 - d) Please confirm whether or not the Applicant followed the guidance provided in the July 2007 FAQ. If not, please explain why not.
 - e) Please identify the account balance as of December 31, 2009 as per the 2009 audited financial statements. Please identify the account balance as of December 31, 2009 as per the April 2010 2.1.7 RRR filing to the Board. Please provide a reconciliation if the balances provided in the above are not identical to each other and to the total amount shown on the continuity schedule.
 - f) Should the Board wish to dispose of this account at this time, please identify the following:
 - i) the allocator that in the applicant's view would be most appropriate to use in allocating the balance to the rate classes.

- ii) the disposition period that the applicant would prefer if different from the period proposed for the remaining deferral and variance accounts and explain why.
 - iii) the billing determinant that in the applicant's view would be most appropriate to use.
- g) Please complete the following table based on the previous answers. Add rows as required to complete the analysis in an informative manner. If the applicant uses Excel to prepare the table, please submit the live Excel workbook.

Tax Item	\$ Principal As of [December 31, 2009]
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	
Large Corporation Tax from 2005 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4 /12ths of approved grossed-up proxy) if not recorded in PILs account 1562	
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2006	
Capital Cost Allowance class changes from 2006 EDR application for 2007	
Capital Cost Allowance class changes from 2006 EDR application for 2008	
Capital Cost Allowance class changes from 2006 EDR application for 2009	
Capital Cost Allowance class changes from 2006 EDR	

application for 2010	
Capital Cost Allowance class changes from any prior application not recorded above.	
Insert description of next item(s)	
Insert description of next item(s) and new rows if needed.	
Total	