Hydro Ottawa Limited
3025 Albion Road North, PO Box 8700
Ottawa, Ontario K1G 3S4
Tel.: (613) 738-6400
Fax: (613) 738-6403
www.hydroottawa.com

Hydro Ottawa limitée
3025, chemin Albion Nord, C.P. 8700
Ottawa (Ontario) K1G 3S4
Tél. : (613) 738-6400
Téléc. : (613) 738-6403
www.hydroottawa.com

November 30, 2007

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Attention: Kirsten Walli
Board Secretary

Re: Interrogatory Responses – Electricity Distribution Rates
EB-2007-0713

Attached please find Hydro Ottawa's responses to the interrogatories sent by Board Staff, Energy Probe, the Consumers Council of Canada, the School Energy Coalition and the Vulnerable Energy Consumers Coalition for the above noted proceeding. Responses to the supplementary interrogatories sent by Board Staff on November 23, 2007 (#75 through #84) will be filed in the next few days.

If further information is required, please contact the undersigned at 613-738-5499 ext 527 or lynneanderson@hydroottawa.com.

Yours truly,

Lynne Anderson
Chief Regulatory Affairs and Government Relations Officer
Hydro Ottawa

Interrogatory

1. Audited Financial Statements

The Statement on Auditing Standards requires auditors to communicate reportable conditions to the audit committee. A reportable condition is a significant deficiency in the design or function of internal control that could adversely affect the organization's ability to record, process, summarize, and report financial data.

a. Please advise whether HOL's Audit Committee is aware of any reportable conditions.

b. Please advise whether any reportable conditions have ever been noted by HOL's external auditor during the past 3 years.

If yes, please provide a copy of each communication by the Applicant's auditors of "Internal Control related matters noted in an audit" issued to the Audit Committee.

Response

a. Reportable condition is not a term defined in the CICA Accounting Handbook. As per section 5220.07 "Internal Control in the context of an audit – weaknesses in internal control" of the CICA Accounting Handbook, the auditor should communicate to the audit committee or equivalent significant weaknesses in internal control that the auditor identifies during the course of the financial statement audit. In responding to this question Hydro Ottawa has made its representations based on the assumption that the reference to "reportable condition", is consistent with this standard.

For the financial year ended 2006, our auditors, Deloitte and Touche, made a formal presentation of the financial statement audit results to the Audit Committee of Hydro Ottawa's Board of Directors in accordance with CICA auditing standards; no significant internal control weaknesses were communicated.

b. Prior to the creation of the Hydro Ottawa Audit Committee, Deloitte and Touche made formal presentations of the financial statement audit results, including the results of the audit of Hydro Ottawa, to the Holding Company Audit Committee in accordance with CICA auditing standards; no significant internal control weaknesses were communicated for the financial years ended December 31, 2004 and 2005.

Interrogatory

2. Ref: Page 15 of the Audited Financial Statements for the year ended December 31, 2006

Note 14 "Contingent Liabilities" states that the Ministry of Finance (MOF) is currently auditing HOL's tax returns for fiscal years 2001, 2002, and 2003. An initial Statement of Adjustment (SOA) has been issued by the MOF for the fiscal year ended December 31, 2001. HOL is currently in discussion with MOF to substantiate an estimated $5-6M adjustment to taxable income. A PILS payable provision will be accrued in the company's current operating results.

a. Please provide a copy of the Statement of Adjustment (SOA) issued by the Ministry of Finance.

b. Please provide any updates on the PILS audit and the impact on the operating results of the company.

Response

a) There have been several Statements of Adjustment issued by the Ministry of Finance during the course of their audit of the 2001 and 2002 taxable periods. A formal Statement of Adjustments has not been received for the 2003 audit to date. Statements of Adjustments are amended periodically by the Ministry to reflect resolution of some of the audit adjustments and to keep the Notice of Objection period open to allow for continued dialogue on outstanding items. Attached are the Statements of Adjustments received to date by Hydro Ottawa. Resolution of audit adjustments is an ongoing process and amended Statements of Adjustments are only issued by the Ministry periodically and, therefore, the last one issued for the period audited may not be a current indicator of

the status of negotiations. It should also be noted that the resolution of a 2001 proposed audit adjustment might have an impact on the 2002 Statement of Adjustment.

b) Currently, Hydro Ottawa has accrued an estimated liability of $400,000 for the 2001 audit in its 2006 financial statements. Adjustment to the tax liability will be made again at year-end for the 2007 financial statements if the audits have not been concluded before the end of this fiscal year. It is not possible to predict the impact of the results of these audits on the operating results of Hydro Ottawa due to the ongoing nature of each of the audits.

Ontario

Ministry of Finance | Ministère des Finances

5 Park Home Avenue
2nd Floor
North York, Ontario
M2N 6L4

5 avenue Park Home
2e étage
North York (Ontario)
M2N 6L4

Corporations Tax Branch | Direction de l'imposition des compagnies

Refer to / Référer à: Stan Santavy
(416) 730-5543

Date: October 2, 2006

Mr. Doug Shannon
VP, Finance
Hydro Ottawa
3025 Albion Road North
P.O. Box 8700
Ottawa, Ontario K1G 3S4

OCT 1 1 2006

Dear Mr. Shannon,

Re: Hydro Ottawa Limited
Account Numbers: 1800113 HP
Ontario Tax Audit: *Fiscal 2001*

Please find attached the fiscal 2001 pro forma *Statement of Adjustments* with respect to above-noted company. We are unable to finish our audit prior to the October 8, 2006 statute-barred date and your company has thus far refused to provide us with a valid waiver on this particular year. However, we have undertook to work on all the outstanding issues in the hope of resolving them by the end of this calendar year pursuant to our teleconference call on September 15, 2006. If there remains any unresolved issues by the end of this year, your company still retains the right to file a Notice of Objection within 180 days whereby the file will be reviewed further by a Senior Appeals Officer.

The attached Statement of Adjustments reflects the changes in your company's tax liability. A Notice of Reassessment will be mailed under separate cover for the year being reassessed. Please feel free to contact Mr. Stan Santavy of my office if further clarification is required.

Yours truly,

Ian Tso
Senior Group Manager
Field Audit Section

Encl.

Ontario

PO Box 622, 33 King St. West, Oshawa ON L1H 8H6
CP 622, 33 rue King ouest, Oshawa ON L1H 8H6

Statement of Adjustments re Taxes Assessed
Relevé des redressements de cotisations

Ministry of Finance / Ministère des Finances
Corporations Tax Branch / Direction de l'imposition des compagnies

Account No. / N° de compte: 1 8 0 0 1 1 3

Name of Corporation / Raison sociale de la compagnie: HYDRO OTTAWA LIMITED

Taxation Year End / Fin de l'année d'imposition: 31 December 2001

INCOME TAX

Loss as previously reported	($ 8,934,973)	
Add: Non-capital loss carried back from 2002 year	(17,737,119)	
Deduct: WSIB liability reduction	846,000	
Fiber-optic accrual	414,000	
Additional amortization	776,000	
CECA adjustment	29,000	
Overclaimed CCA	860,000	
Donations	30,000	
Rebate subdivision servicing costs	1,860,000	
VEP/VSP expenses	737,469	
Transition subsidy allocation	932,000	
Transformation/consulting expenses	2,224,009	
Regulatory assets	7,300,000	
Unbilled revenue/revenue accrual	7,467,300	
Interco allocation	1,486,333	
Other unsupported expenses/ unrecorded revenue	1,709,982	
Revised Taxable Income	$ 1	
Ontario and Federal tax thereon		$ Nil

CAPITAL TAX

Net Paid-up Capital previously assessed	$ 491,747,233	
Add: Additional deposits	30,000,000	
Additional reserves	10,000,000	
Other amounts to be added	30,000,000	
Revised Net Paid-up Capital	$ 561,747,233	
Deduct: Investment Allowance	(2,773,774)	
Deduct: Capital Deduction	(4,637,369)	
Revised Taxable Capital	$ 554,336,090	
Tax thereon @ 0.30% X 92/365 days		419,169

Continued .../2

***"DESIGNATED ASSESSMENT"**

The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

If you wish not to be bound by the disposition of the corresponding federal objection or appeal, you must serve a Notice of Objection on the prescribed form in accordance with section 84. See under "Notice of Objection" on the accompanying "Notice of Re-Assessment"

***"COTISATION DÉSIGNÉE"**

Les postes ci-dessus marqués d'un astérisque sont les parties désignées de cette cotisation. Cette description est autorisée en vertu de l'article 92 de la Loi sur l'imposition des corporations, pour les cotisations qui correspondent à celles établies par Revenu Canada en vertu de la Loi de l'impôt sur le revenu (Canada). Il n'est pas nécessaire de signifier un Avis d'opposition pour ces parties des cotisations. La compagnie et le ministre seront liés par la décision finale relative à l'avis fédéral d'opposition ou d'appel.

Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

HYDRO OTTAWA LIMITED
Account No.# 1800113

Fiscal Year Ending: 31 December 2001

Federal Part 1.3

Taxable Capital as previously assessed	$ 397,170,226	
Add: Additional deposits	30,000,000	
Additional reserves	10,000,000	
Other amounts to be added	30,000,000	
Deduct: Capital Deduction	(10,000,000)	
Revised Taxable Capital	$ 457,170,226	
Tax thereon @ 0.225% x 92/365 days		259,272
TOTAL PAYMENTS-IN-LIEU OF TAXES PAYABLE		$ 678,441

Stan Santavy
MRK811

Note: We have not audited the opening balance of asset value adopted for use by this MEU on its 2001 tax return. As such, the valuation of assets may be reviewed and changes made at a subsequent date.

*"DESIGNATED ASSESSMENT"
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

If you wish not to be bound by the disposition of the corresponding federal objection or appeal, you must serve a Notice of Objection on the prescribed form in accordance with section 84. See under "Notice of Objection" on the accompanying "Notice of Re-Assessment"

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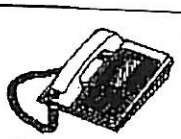
Les postes ci-dessus marqués d'un astérisque sont les parties désignées de cette cotisation. Cette description est autorisée en vertu de l'article 92 de la Loi sur l'imposition des corporations, pour les cotisations qui correspondent à celles établies par Revenu Canada en vertu de la Loi de l'impôt sur le revenu (Canada). Il n'est pas nécessaire de signifier un Avis d'opposition pour ces parties des cotisations. La compagnie et le ministre seront liés par la décision finale relative à l'avis fédéral d'opposition ou d'appel.

Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

Ontario

[redacted]



[redacted]

[redacted]	Doug Shannon		[redacted]	Anson Tong
[redacted]	V.P. Finance			Corporations Tax Unit
[redacted]	(613) 738-6426		[redacted]	(416) 730-5575
[redacted]	(613) 738-5499 x. 234		[redacted]	(416) 218-1689
[redacted]	Hydro Ottawa Limited		[redacted]	March 19, 2007

# of pages (including this cover page): 4

[redacted]

Ontario

PO Box 622 CP 622
33 King St. West 33 rue King ouest
Oshawa ON L1H 8H6 Oshawa ON L1H 8H6

Statement of Adjustments re Taxes Assessed
Relevé des redressements de cotisations

Ministry of Finance — Corporations Tax Branch
Ministère des Finances — Direction de l'imposition des compagnies

Account No. / N° de compte	Taxation Year End / Fin de l'année d'imposition
1 8 0 0 1 1 3	31 December 2001

Name of Corporation / Raison sociale de la compagnie
HYDRO OTTAWA LIMITED

INCOME TAX

Taxable Income previously reported		$ 1
Add: Non-capital loss carried back from 2002 year prev. $ 17,737,119 rev. Nil		17,737,119
Deduct: Additional amortization prev.$776,000 rev. 193,250		582,750
CECA adjustment prev.$ 29,000 rev. 7,453		21,547
VEP/VSP expenses reversed		737,469
Transition subsidy allocation reversed		932,000
Transformation/consulting expenses prev. $ 2,224,009 rev. 247,711		1,976,298
Regulatory assets		7,300,000
Unbilled revenue/rev. accrual reversed		7,467,300
Interco allocation reversed		1,486,333
Revised Loss		($ 2,766,578)
Ontario and Federal tax thereon		$ Nil

CAPITAL TAX

Net Paid-up Capital previously assessed	$ 561,747,233	
Add: Customer credit balances	9,079,492	
Collateral funds	14,815,259	
Transition subsidy	3,163,631	
Non-current customer deposits	5,947,000	
Unamort.pre Oct1/2001 cap. contrib.	16,000,000	
Rebate Subdivision expense	1,860,000	
Employee Future Benefits	4,597,000	
CCA disallowed	860,000	
Deduct: Deposits/reserves/other reversed	(70,000,000)	
Amounts ded. tax vs book	(91,618,232)	
Revised Net Paid-up Capital	$ 456,451,383	
Deduct: Investment Allowance	(2,571,920)	
Deduct: Capital Deduction	(4,610,828)	
Revised Taxable Capital	$ 449,268,635	
Tax thereon @ 0.30% X 92/365 days		339,721

Continued .../2

"DESIGNATED ASSESSMENT"
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

If you wish not to be bound by the disposition of the corresponding federal objection or appeal, you must serve a Notice of Objection on the prescribed form in accordance with section 84. See under "Notice of Objection" on the accompanying "Notice of Re-Assessment"

"COTISATION DÉSIGNÉE"
Les postes ci-dessus marqués d'un astérisque sont les parties désignées de cette cotisation. Cette description est autorisée en vertu de l'article 92 de la Loi sur l'imposition des corporations, pour les cotisations qui correspondent à celles établies par Revenu Canada en vertu de la Loi de l'impôt sur le revenu (Canada). Il n'est pas nécessaire de signifier un Avis d'opposition pour ces parties des cotisations. La compagnie et le ministre seront liés par la décision finale relative à l'avis fédéral d'opposition ou d'appel.

Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

HYDRO OTTAWA LIMITED
Account No.# 1800113

Fiscal Year Ending: 31 December 2001

Federal Part 1.3

Taxable Capital as previously assessed	$ 457,170,226	
Add: Customer credit balance	9,079,492	
Collateral funds	14,815,259	
Transition subsidy	3,163,631	
Non-current customer deposits	5,947,000	
Rebate subdivision exp.	1,860,000	
Unamort.pre Oct1/2001 cap. contrib.	16,000,000	
Employee Future Benefits	4,597,000	
Deduct: Deposits/reserves/other reversed	(70,000,000)	
Deduct: Investment Allowance	(2,773,774)	
Deduct: Capital Deduction	(10,000,000)	
Revised Taxable Capital	$ 429,858,834	
Tax thereon @ 0.225% x 92/365 days		243,783
TOTAL PAYMENTS-IN-LIEU OF TAXES PAYABLE		$ 583,504

Stan Santavy
MRK811

Note: We have not audited the opening balance of asset value adopted for use by this MEU on its 2001 tax return. As such, the valuation of assets may be reviewed and changes made at a subsequent date.

"DESIGNATED ASSESSMENT"
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

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Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

Ministry of Revenue
Tax Compliance and Regional
Operations Branch, Central Region
Toronto Tax Office
5 Park Home Avenue
2nd Floor
Toronto ON M2N 6W8

Ministère des Revenu
Direction de l'observation fiscale et des
opérations régionales
Bureau fiscal - Toronto
5 avenue Park Home
2ième étage
Toronto ON M2N 6W8

Ontario

June 8, 2007

(416) 730-5543

Mr. Doug Shannon
Director of Finance
Hydro Ottawa
3025 Albion Road North, P.O. Box 8700
Ottawa, Ontario K1G 3S4

Dear Mr. Shannon,

Re: Hydro Ottawa Limited
Account No.: 1800113
Ontario Tax Audit: *Fiscal* 2002

We have completed our review of the tax return for the above-noted taxation year.

Attached please find Statements of Adjustments reflecting the changes in your company's tax liability. A Notice of Reassessments will be mailed under separate cover for each year being reassessed.

I want to take this opportunity to thank you for the co-operation extended to us during the course of the audit *and* the courtesy extended to my audit staff during their visits to your premises. If further clarification is required, please feel free to contact Mr. Stan Santavy of my office at the above-noted telephone number.

Yours truly,

Ian Tso
Senior Group Manager
Field Audit Section

Encl.

Ontario

PO Box 622 CP 622
33 King St. West 33 rue King ouest
Oshawa ON L1H 8H6 Oshawa ON L1H 8H6

Statement of Adjustments re Taxes Assessed
Relevé des redressements de cotisations

Ministry of Finance / Ministère des Finances
Corporations Tax Branch / Direction de l'mposition des compagnies

Account No. / N° de compte: 1 8 0 0 1 1 3

Name of Corporation / Raison sociale de la compagnie: **HYDRO OTTAWA LIMITED**

Taxation Year End / Fin de l'année d'imposition: 31 December 2002

INCOME TAX

Loss previously reported		$ 17,737,119	
Add: Regulatory Assets-as requested		2,267,000	
Rebate subdivision servicing costs refunded		1,386,689	
Capital cost allowance	prev.$26,801,693 rev. 27,792,315	990,622	
Deduct: CECA adjustment	prev.$116,189 rev. 87,142	29,047	
Rate Rider Income		1,554,234	
Regulatory Liabilities		2,958,216	
Inventory Provision		2,450,000	
Bad debt expense		427,647	
Revised Loss		$14,962,286	
Ontario and Federal tax thereon			$ Nil

CAPITAL TAX

Net Paid-up Capital previously assessed		$ 487,004,573	
Add: Customer credit balances		5,785,558	
Prudentials in A/P		1,689,751	
Collateral funds		9,747,901	
Inventory Provision		2,450,000	
Net Regulatory Liability		691,216	
Unamort.pre Oct1/2001 cap. contrib.		16,000,000	
Employee Future Benefits		3,536,000	
Deduct: Amounts deducted for tax vs book- as requested		(87,757,159)	
Revised Net Paid-up Capital		$ 439,147,840	
Deduct: Investment Allowance $5,268,821/($591,716,572-87,757,159) X $439,147,840		(4,591,225)	
Deduct: Capital Deduction		(4,336,434)	
Revised Taxable Capital		$ 430,220,181	
Tax thereon @ 0.30%			1,290,661

Continued .../2

***"DESIGNATED ASSESSMENT"**
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

If you wish not to be bound by the disposition of the corresponding federal objection or appeal, you must serve a Notice of Objection on the prescribed form in accordance with section 84. See under "Notice of Objection" on the accompanying "Notice of Re-Assessment"

***"COTISATION DÉSIGNÉE"**
Les postes ci-dessus marqués d'un astérisque sont les parties désignées de cette cotisation. Cette description est autorisée en vertu de l'article 92 de la Loi sur l'imposition des corporations, pour les cotisations qui correspondent à celles établies par Revenu Canada en vertu de la Loi de l'impôt sur le revenu (Canada). Il n'est pas nécessaire de signifier un Avis d'opposition pour ces parties des cotisations. La compagnie et le ministre seront liés par la décision finale relative à l'avis fédéral d'opposition ou d'appel.

Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

HYDRO OTTAWA LIMITED
Account No.# 1800113 Fiscal Year Ending: 31 December 2002

Federal Part 1.3

Taxable Capital as previously assessed	$ 398,977,000	
Add: Customer credit balances	5,785,558	
Prudentials in A/P	1,689,751	
Net Regulatory Liability	691,216	
Collateral funds	9,747,901	
Unamort.pre Oct1/2001 cap. contrib.	16,000,000	
Employee Future Benefits	3,536,000	
Deduct: Investment Allowance	(5,268,821)	
Deduct: Capital Deduction	(10,000,000)	
Revised Taxable Capital	$ 421,158,605	
Tax thereon @ 0.225%		947,607
TOTAL PAYMENTS-IN-LIEU OF TAXES PAYABLE		$2,238,268

Stan Santavy
MRK811

Note: We have not audited the opening balance of asset value adopted for use by this MEU on its 2001 tax return. As such, the valuation of assets may be reviewed and changes made at a subsequent date.

*"DESIGNATED ASSESSMENT"
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

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Ontario

Ministry of Finance **Ministère des Finances**

**5 Park Home Avenue
2nd Floor
North York, Ontario
M2N 6L4**

**5 avenue Park Home
2e étage
North York (Ontario)
M2N 6L4**

Corporations Tax Branch | Direction de l'imposition des compagnies

Refer to / Référer à: Stan Santavy (416) 730-5543

Date: September 06, 2007

Mr. Doug Shannon
Director Finance
Hydro Ottawa
3025 Albion Road North
P.O. Box 8700
Ottawa, Ontario
K1G 3S4

Dear Mr. Shannon,

Re: Hydro Ottawa Limited
Account Numbers: 1800113 HP
Ontario Tax Audit: Fiscal 2001

The tax return for the year noted above has been processed in accordance with your email request dated August 17, 2007 to Ian Tso.

Attached is a Statement of Adjustments reflecting the changes in your company's tax liability. A Notice of Reassessment will be mailed under separate cover for the year being reassessed. Please feel free to contact Mr. Stan Santavy of my office if further clarification is required.

Yours truly,

Bill Hogarth
Senior Group Manager
Field Audit Section

Encl.

Ontario

PO Box 622 CP 622
33 King St. West 33 rue King ouest
Oshawa ON L1H 8H6 Oshawa ON L1H 8H6

Statement of Adjustments re Taxes Assessed
Relevé des redressements de cotisations

Ministry of Finance Corporations Tax Branch
Ministère des Finances Direction de l'imposition des compagnies

Account No. / N° de compte	
1 8 0 0 1 1 3	

Name of Corporation / Raison sociale de la compagnie	Taxation Year End / Fin de l'année d'imposition
HYDRO OTTAWA LIMITED	31 December 2001

INCOME TAX

Loss previously reported	($ 2,766,578)	
Ontario and Federal tax thereon		$ Nil

CAPITAL TAX

Net Paid-up Capital previously assessed	$ 456,451,383	
Add: Unamort.pre Oct1/2001 cap. contrib. - as requested	16,020,000	
Deduct: Unamort.pre Oct1/2001 cap. contrib. prev. assessed	(16,000,000)	
Revised Net Paid-up Capital	$ 456,471,383	
Deduct: Investment Allowance	(2,576,887)	
Deduct: Capital Deduction	(4,605,861)	
Revised Taxable Capital	$ 449,288,635	
Tax thereon @ 0.30% X 92/365 days		339,736

Continued .../2

***"DESIGNATED ASSESSMENT"**

The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

If you wish not to be bound by the disposition of the corresponding federal objection or appeal, you must serve a Notice of Objection on the prescribed form in accordance with section 84. See under "Notice of Objection" on the accompanying "Notice of Re-Assessment"

***"COTISATION DÉSIGNÉE"**

Les postes ci-dessus marqués d'un astérisque sont les parties désignées de cette cotisation. Cette description est autorisée en vertu de l'article 92 de la Loi sur l'imposition des corporations, pour les cotisations qui correspondent à celles établies par Revenu Canada en vertu de la Loi de l'impôt sur le revenu (Canada). Il n'est pas nécessaire de signifier un Avis d'opposition pour ces parties des cotisations. La compagnie et le ministre seront liés par la décision finale relative à l'avis fédéral d'opposition ou d'appel.

Si vous désirez ne pas être lié par la décision relative à l'opposition ou à l'appel fédéral correspondant, vous pouvez signifier un avis d'opposition sur la formule prévue à cette fin conformément à l'article 84. Voir "Avis d'opposition" sur l'Avis de nouvelle cotisation ci-joint.

HYDRO OTTAWA LIMITED
Account No.# 1800113 Fiscal Year Ending: 31 December 2001

Federal Part 1.3

Taxable Capital as previously assessed	$ 429,858,834	
Add: Unamort.pre Oct1/2001 cap. contrib. - as requested	16,020,000	
Deduct: Unamort.pre Oct1/2001 cap. contrib. - prev. assessed	(16,000,000)	
Revised Taxable Capital	$ 429,878,834	
Tax thereon @ 0.225% x 92/365 days		243,794
TOTAL PAYMENTS-IN-LIEU OF TAXES PAYABLE		$ 583,530

Stan Santavy
MRK811

Note: We have not audited the opening balance of asset value adopted for use by this MEU on its 2001 tax return. As such, the valuation of assets may be reviewed and changes made at a subsequent date.

***"DESIGNATED ASSESSMENT"**
The items marked with an asterisk above are designated parts of this assessment. This description is authorized by section 92 of the Corporations Tax Act, for assessments which correspond to those issued by Revenue Canada under the Income Tax Act (Canada). It is not necessary to serve a Notice of Objection to those portions of the assessment. The Corporation and the Minister will be bound by the final disposition of a federal Notice of Objection or Appeal.

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Interrogatory

3. Ref: Related Party Transactions - Note 16 to the Audited Financial Statement for the year ended December 31, 2006.
and
Ref: A1/7/3: Service Level Agreements

In the evidence, HOL stated that it provides certain services to its affiliates and purchases certain services from its affiliates in the normal course of business at commercial rates.

a. Please provide a summary of amounts charged by HOL to its non-regulated affiliates for 2005-2008 by service category, separating cost and mark-up, with actuals for 2005 and 2006, forecast for 2007, and budget for 2008.

Response

a) The following chart summarizes the revenue, costs and the amount by which the revenues exceed the costs (mark up) for each amount charged by Hydro Ottawa to affiliates in the years 2005 to 2008.

		Gross Revenue[1]			
Affilate Names	**Type of Service**	**2005**	**2006**	**2007**	**2008**
City of Ottawa	Street lighting Maintenance and Design	$3,399,042	$651,148	$ 31,201	$0
	LRT	0	1,002,809	(67,075)	0
Energy Ottawa	Facilities, Human Resources and IT Services (SLA)	65,286	52,197	55,145	63,007
	Mechanical and control room services for generating plant	375,032	245,634	(10,577)	0
	Metering and Meter Data Services	83,735	66,241	60,893	72,000
Holding Company	Facilities, Human Resources and IT Services (SLA)	276,197	272,348	290,391	260,112
Telecom Ottawa	Facilities, Human Resources, Supply Chain and IT Services (SLA)	271,875	220,485	277,812	254,473
	Pole Attachments and Duct Rental	590,654	556,987	556,990	964,457
	Mapping	7,000	7,000	20,396	20,392
	TOTAL	$5,068,821	$3,074,849	$1,215,176	$1,634,441
		Cost			
Affilate Names	**Type of Service**	**2005**	**2006**	**2007**	**2008**
City of Ottawa	Street lighting Maintenance and Design	$2,562,099	$ 589,772	$ 55,072	$ 0
	LRT	0	880,433	29,614	0
Energy Ottawa	Facilities, Human Resources and IT Services (SLA)	65,286	52,197	55,145	63,007
	Mechanical and control room services for generating plant	239,112	193,673	171,019	0
	Metering and Meter Data Services	26,638	0	0	0
Holding Company	Facilities, Human Resources and IT Services (SLA)	276,197	272,348	290,391	260,112
Telecom Ottawa	Facilities, Human Resources, Supply Chain and IT Services (SLA)	271,875	220,485	277,812	254,473
	Pole Attachments and Duct Rental	101,097	0	0	0
	Mapping	0	0	0	0
	TOTAL	$3,542,304	$2,208,908	$ 879,053	$577,592

[1] Some of the Revenues shown in Exhibit C2-1-5 are net revenues.

		Mark-up			
Affilate Names	**Type of Service**	**2005**	**2006**	**2007**	**2008**
City of Ottawa	Street lighting Maintenance and Design	$ 836,943	$61,376	($23,871)	$0
	LRT	0	122,376	(96,689)	0
Energy Ottawa	Facilities, Human Resources and IT Services (SLA)	0	0	0	0
	Mechanical and control room services for generating plant	135,920	51,961	(181,596)	
	Metering and Meter Data Services	57,097	66,241	60,893	72,000
Holding Company	Facilities, Human Resources and IT Services (SLA)	0	0	0	0
Telecom Ottawa	Facilities, Human Resources, Supply Chain and IT Services (SLA)	0	0	0	0
	Pole Attachments and Duct Rental	489,557	556,987	556,990	964,457
	Mapping	7,000	7,000	20,396	20,392
	TOTAL	$1,526,517	$865,941	$336,123	$1,056,849

Interrogatory

Capital Program

4. Ref: Exhibit B Generally

The evidence as presented makes it difficult to compare year over year spending in various programs. In some cases, spending is shown for a program in one year, but included in the category "Projects With Variances Less than Materiality" in other years. As an example, spending for Distribution Capital: Sustainment: Distribution Transformer Replacement is provided for 2006 Board approved and 2006 actual at B2/2/1 pg. 2. To find 2007 spending for Distribution Capital: Sustainment, one has to turn to B3/2/1. Spending for Distribution Transformer Replacement, however, is not listed at B3/2/1, but is, presumably, included in under "Projects with Variances less than Materiality" in Table 6 on pg. 3. therefore:

a. please provide a table showing 2006 Board approved, 2006 actual, 2007, 2008, 2009 and 2010 capital spending by detailed sub-program.

b. Please identify programs for which spending in one year not comparable to previous or subsequent years due to differences in definitions or capitalization policy.

c. If possible, please provide a "normalized" version of the table that allows "apples to apples" comparisons year over year.

Response

a) Table1, Table 2 and Table 3 on pages 3 - 6 provide capital spending from 2006 through 2010. Those categories with at least one year beyond

materiality have been included (greater than $500k for distribution plant, greater than $100k for general plant). Capital expenditures for 2009 and 2010 are provided at the capital program level only, as Hydro Ottawa will be finalizing the capital budget and project level forecasts in 2008 and 2009.

Table 1: Distribution Capital Expenditures, Sustainment

	Budget Program	2006 Approved ($000)	2006 Actual ($000)	2007 Estimate ($000)	2008 Forecast ($000)	2009 Forecast ($000)	2010 Forecast ($000)
Stations Asset		$3,092	$1,881	$6,582	$6,311	$6,478	$6,606
	Stations Transformer Replacement	*1,990*	*562*	*398*	*701*		
	Stations Switchgear Replacement	*1,102*	*1,196*	*4,603*	*5,610*		
	Stations Relay Replacement		*123*	*1,581*	-		
Stations Capacity	Stations New Capacity	4,061	1,637	4,190	9,277	4,624	6,090
Stations Enhancements	Stations Enhancements	1,696	2,232	1,515	1,851	1,773	1,260
Stations Automation	Stations Automation	386	616	20			
Distribution Asset		14,484	16,849	12,864	9,795	15,385	14,193
	Cable Replacement	*2,129*	*2,766*	*3,652*	*3,507*		
	Pole Replacement	*4,580*	*5,828*	*3,980*	*3,409*		
	Insulator Replacement	*475*	*1,230*	*633*			
	Distribution Transformer Replacement	*6,601*	*$2,750*	*2,505*	*1,708*		
	Switchgear New and Rehab		*518*				
	Plant Failure Capital	*699*	*3,757*	*2,094*	*1,171*		
Distribution Enhancements		4,022	7,218	6,758	4,175	5,426	5,494
	System Voltage Conversion		*405*	*2,659*	*122*		
	System Reliability		*1,021*	*680*			
	Distribution Enhancements	*4,022*	*4,264*	*2,698*	*609*		
	Major and Minor Line Extensions		*1,528*	*721*	*3,444*		
System Operations Automation	System Operations Automation	3,019	1,336	925	840	780	710
Facilities Programs - Stations	Facility Programs - Stations		1,984	2,679	3,504	2,389	3,204
	TOTAL	$30,760	$33,753	$35,533	$35,753	$36,855	$37,557

Table 2: Distribution Capital Expenditures, Demand

Budget Program	2006 Approved ($000)	2006 Actual ($000)	2007 Estimate ($000)	2008 Forecast ($000)	2009 Forecast ($000)	2010 Forecast ($000)
Plant Relocation and Upgrades	2,874	5,237	4,882	4,182	4,316	4,564
Residential Subdivision	6,940	7,439	7,418	8,350	8,171	8,583
Commercial Development	$4,331	$7,504	$5,401	$5,811	$4,684	$4,592
System Expansion	2,789	1,445	2,102	2,069	2,031	2,036
Infill Services	1,859	4,288	3,021	2,598	2,586	2,897
Damage to Plant	559	1,120	749	468	555	544
Wholesale Meter Upgrade	930	1,258	585	506	1,135	1,112
Smart Meters		16,376	16,920	9,684	7,043	1,460
TOTAL	$20,282	$44,667	$41,078	$33,668	$30,521	$25,788

Table 3: General Plant Capital Expenditures

Budget Program	2006 Approved ($000)	2006 Actual ($000)	2007 Estimate ($000)	2008 Forecast ($000)	2009 Forecast ($000)	2010 Forecast ($000)
GIS Budget Program	$4,902	$6,186	$6,513	-	-	-
Fleet Replacement	2,590	3,222	2,996	1,693	1,463	2,068
CIS Enhancements	1,427	830	1,020	2,722	4,662	1,002
Buildings - Facilities	3,131	2,662	2,451	2,103	1,603	1,604
Furniture and Equipment	691	494	182	272	190	190
Tools Replacement		917	1,024	1,037	996	996
Information Services and Technology		558	827	719	837	1,680
New PC and Peripherals	419	297	759	370	198	198
PC and Peripheral Replacement		210	225	218	217	217
Website Enhancements	132	23	36	392	98	98
Geographic Resource Management System Enhancements	-	-	-	547	481	492
TOTAL	$13,292	$15,399	$16,033	$10,073	$10,745	$8,545

b) Differences due to differences in definition or capitalization process are as follows:

- In 2008 Stations Switchgear Replacement and Stations Relay Replacement have been budgeted under a single item, Stations Switchgear Replacement.

- A new program has been created in 2008 to enable ongoing enhancements of the geographic resource system has been created.

- Prior to 2008, Stations Relay replacement and Stations Switchgear replacement had been budgeted as separate line items; however, in the 2008 budget they were combined into one budget item. Adding together the Stations Relay replacement and Stations Switchgear replacement amounts for previous years will enable the comparison to the 2008 amount in Stations Switchgear replacement.

c) A change in the capitalization process took effect October 1, 2007. Hydro Ottawa is unable to provide the future years expenses using the previous capitalization process, or the historical expenses using the new capitalization process.

Interrogatory

Capital Adjustment Factor

5. Ref: B4/T1/S1

HOL has proposed a capital adjustment factor (CAF) incorporating the proposed 2009 & 2010 capital expenditures with Smart Meters and Stranded Meters removed and adjusting for growth.

a. Please explain in detail what is meant of “adjusting for growth”.

b. Has HOL incorporated a 2009 & 2010 capital investment growth percentage in developing the CAF? If yes, what is it?

Response

a) In asking for approval of a Capital Adjustment Factor, Hydro Ottawa is requesting that the portion of the distribution revenue requirement related to capital be increased by a certain percentage in order to provide for the return on capital, amortization and PILS related to the capital additions for the non rebasing years. Hydro Ottawa does recognize, however, that the distribution revenue for the non-rebasing year will be higher than the previous year if there is growth in load and/or number of customers (excluding any impact of incentive regulation mechanisms). Hydro Ottawa did not consider it appropriate to receive the increased distribution revenue resulting purely from growth and the total increase attributable to the capital additions in the non-rebasing year. Therefore, Hydro Ottawa reduced the percentage increase due to capital additions, 3.81% for 2009 and 3.85% for 2010, by the forecasted percentage increase in load growth for those years, 0.32% for 2009 and 0.57% for 2010. This resulted in the

lower Capital Adjustment Factors of 3.49% and 3.28% as shown in the Attachment to Exhibit B4-1-1.

b) Hydro Ottawa has incorporated a growth/inflation factor of 2% per annum in the 2009 and 2010 capital expenditures.

Interrogatory

Capital Adjustment Factor

6. Ref: B4/T1/S1

The evidence states that the CAF will only apply to the capital portion of rates, and the percentage of base revenue requirement related to capital (CRR) is determined using 2008 numbers as a proxy. 60% of HOL's 2008 base revenue requirement is based on capital.

a. Please provide HOL's CRR over the past 5 years.

b. Using the past 5-year average CRR, what is the factor to apply to rates.

c. Please explain why a single year (2008) rather than past 5-year average CRR should be used in the formula.

Response

a) The following table provides Hydro Ottawa's percentage of base revenue requirement (BRR) related to capital for the past five years (calculated as explained in the response to Board Staff Interrogatory #53:

	2004 $M[1]	2005 $M[2]	2006 $M[3]	2007 $M[4]	2008 proposed $M	5 year average
BRR	$87.1	$96.4	$120.9	$120.9	$148.0	
OM&A	35.9	35.9	44.0	44.0	59.3	
Capital $	51.2	60.5	76.9	76.9	88.6	
Capital %	58.8%	62.8%	63.6%	63.6%	59.9%	61.7%

b) Using the five year average for percentage of capital revenue requirement of 61.7% calculated above, the factor which would be applied to rates for 2009 capital additions:

= 1+ (CRR x CAF + ORR x 3IRM)

where CRR = 61.7%
CAF = the capital adjustment factor = 0.0349
ORR = the percentage of revenue requirement related to OM&A = 38.3%
3GIRM = Board determined factor for the 3rd generation incentive regulation mechanism.

Assuming that the 3GIRM = 0, the factor to apply to rates for the 2009 capital additions would be 1.0215. (compared to the calculated value of 1.021 in the Application). A similar increase would incur for the factor related to 2010 capital additions.

c) Hydro Ottawa does not consider a 5-year average CRR appropriate to use in the Capital Adjustment Formula because the adjustment that is being made is to the revenue requirement derived from the 2008 rate base, not a five-year average rate base.

[1] Base Revenue Requirement did not change for 2002-2004.
[2] 3rd tranche CDM funding of $9.3M added to base revenue requirement.
[3] Without Smart Meters.
[4] 2nd Generatioon IRM, rates not cost based.

Interrogatory

Capital Adjustment Factor

7. Ref: B4/T1/S1

The need for special treatment of capital spending under the IRM framework will be addressed in EB-2007-0673 "3rd Generation Incentive Regulation for Electricity Distributors" proceeding.

a. If a provision for multi-year capital plan is provided by the Board under the 3rd Generation IRM framework, would the CAF portion developed by HOL be removed from the factor to be applied to rates? If not, how will HOL ensure there is no overlap between the 3GIRM adjustment and its proposed capital adjustment factor?

b. If the Board in the 3GIRM proceeding rejects the inclusion of a separate capital adjustment mechanism in the incentive regulation period and HOL's request in this proceeding is accepted, then HOL would be receiving treatment different than that given other distributors. Please explain why HOL believes it deserves special consideration in respect of its capital plan.

Response

a) Hydro Ottawa cannot determine at this time how it will ensure that there is no overlap between the Board's 3GIRM adjustment and Hydro Ottawa's proposed capital adjustment factor because the Board's 3GIRM mechanism will not be known until the summer of 2008. Once the details of the Board's 3GIRM are known, Hydro Ottawa will ensure that no

overlap occurs. Hydro Ottawa's approach would be filed as part of its 2009 rate application and therefore open for review at that time.

Please also see the response to Board Staff Interrogatory # 58.

b) Hydro Ottawa does not view this as special consideration being provided to Hydro Ottawa. This situation would result from the Board approving just and reasonable rates for Hydro Ottawa's based on its specific circumstances. These circumstances have been explained in full in the application. Exhibits B4-2-1, B4-3-1 and B4-3-2 provide full details of the capital expenditures forecast for 2009 and 2010. Presumably, if the Board approves Hydro Ottawa's three-year capital plan, other LDCs would have the opportunity of following a similar approach.

Interrogatory

Capital Adjustment Factor

8. Ref: B4/T1/S1, Methodology for Capital Adjustment Factor

HOL has calculated a CAF for 2009 to be 0.0349 and a CAF for 2010 to be 0.0328 in the table "Methodology for Capital Adjustment Factor" in B4/T1/S1. HOL has also developed the following factor to apply to rates: 1 + (CRR * CAF + ORR * 3GIRM). Assuming 3GIRM equals to zero, the factor to apply to rates would be 1.021 for 2009, and 1.020 for 2010.

a. Please calculate what the CAF would be using historical spending levels over the last five years (assuming 3GIRM equals zero).

Response

a) Hydro Ottawa's average incremental net fixed assets and amortization over the last five years is shown below:

	2001	2006	Average increase over 5 years
Closing Net Fixed Assets	$327,334	$447,803	$24,094
Amortization Expense	$22,233	$32,980	$2,149

When these values are entered into the Capital Adjustment Factor spreadsheet as provided in the Attachment to Exhibit B4-1-1, the capital adjustment for 2009 is 0.0393 and for 2010 is 0.0398; a copy of the spreadsheet is attached.

If 3GIRM is assumed to be zero, for 2009 the factor that would be applied to 2008 rates would be: 1+(59.9% x 0.0393) =1.0235. For 2010, the factor that would be applied to 2009 rates would be: 1+(59.9% x 0.0398) = 1.0238.

Methodology for Capital Adjustment Factor

INPUTS:	**2008**	**2009 Additions**	**2010 Additions**
Equity	40%	40%	40%
Debt - long term	56%	56%	56%
Debt - short term	4%	4%	4%
Return on Equity	8.81%	8.81%	8.81%
Debt Rate	5.26%	5.26%	5.26%
Debt Rate	4.93%	4.93%	4.93%
Cost of Capital	6.67%	6.67%	6.67%
Tax Rate	34.50%	34.50%	34.50%
BASE REVENUE REQUIREMENT FOR CAPITAL ADJUSTMENT FACTOR			
Incremental Net Fixed Assets	$13,866,711	$24,094,000	$24,094,000
Incremental Average Net Fixed Assets		$18,980,356	$24,094,000
Return on incremental increase in Rate Base		$1,265,170	$1,606,029
Incremental Amortization on new Assets		$2,149,000	$2,149,000
Net Income		$668,868	$849,073
PILS		$352,304	$447,221
TOTAL increase in revenue requirement		$3,766,474	$4,202,250
Non OM&A Revenue Requirement	$88,622,681	$92,389,156	$96,591,406
Percentage Increase		4.25%	4.55%
Minus growth in load (net of CDM)		0.32%	0.57%
Net		3.93%	3.98%
Capital Adjustment Factor (CAF)		0.0393	0.0398

OM&A	$59,328,061
Base Revenue Requirement	$147,951,054
OM&A Revenue Requirement %	40.10%
Capital Revenue Requirement %	59.90%

Factor to apply to rates = 1 + (Capital Revenue Requirement % * CAF + OM&A Revenue Requirement % * 3GIRM)
if 3GIRM = 0

Factor to apply to 2008 rates	1.0235
Factor to apply to 2009 rates	1.0238

Interrogatory

Capital Adjustment Factor

9. Ref: B4/1/1

a. It is unclear how HOL envisions the rate order emanating from this proceeding interacting with the rate order emanating from the 3GIRM process in respect of the 2009 and 2010 rate years. Does HOL propose that the rate order from this proceeding run concurrently with the rate order from 3GIRM or that the 3GIRM rate order supersede the rate order from this proceeding? If the former, does HOL have a legal opinion or regulatory precedent that would support it being subject to two rate orders at once? If the latter, does HOL propose that the 3GIRM panel be bound by the former rate order?

Response

a) Hydro Ottawa is proposing that the Board panel in this proceeding approve the capital adjustment factor as a Y-factor, in effect, for the purposes of the 3GIRM. There would accordingly be no need for the Board panel in the 3GIRM proceeding to consider the matter unless, of course, the 3GIRM panel decides to review the approval either on its own motion or on the motion of an intervenor.

There would be two complementary rate orders, in the result, that together would result in a single set of rates. Hydro Ottawa is not aware of any regulatory precedent in this regard. Hydro Ottawa does not have a legal opinion *per se* but, instead, has prepared this response with the assistance of its counsel in this proceeding.

Interrogatory

Distribution Asset Management Strategy

10. Ref: B1/T2/S2, pg2, Asset Management Plan

HOL's asset management process uses information about the asset condition, criticality, cost, and other drivers in a quantitative way to develop the intermediate program for each asset class. One of the drivers is "benchmarking to industry standards and practices"**.** The purpose of the asset management process for each asset class is to ensure desired performance at minimum cost over the long term.

a. Please provide detailed data of industry standards and practices used by HOL as benchmarks in developing its asset management process for each asset class.

Response

a) The electricity distribution industry is capital intensive. Asset life cycle planning is an annual activity at Hydro Ottawa as it was at the predecessor utilities. Hydro Ottawa periodically compares asset planning and decision-making activity through interaction with counterparts at other utilities during conferences, direct contact with other utilities, and participation in industry surveys across North America.

In 2003, Hydro Ottawa started the process of documenting its asset management strategies and activities. This culminated in the completion of the Asset Management Plan (AMP) in 2005. As part of the AMP process, industry experts such as UMS, Acres, Kinectrics, Brown and Caldwell, KEMA, and Jaques Consulting, were hired to help assess asset

condition, refine asset management processes and compare assumptions and results to industry standards. Through the AMP process these experts have confirmed that Hydro Ottawa's asset management processes are consistent with those of others in the electricity industry.

For further details on the benchmarking to industry standards and practices that were used in the AMP process please refer to the complete plan, which can be found www.hydroottawa.com.

Interrogatory

Distribution Asset Management Strategy

11. B1/T2/S2, pg6, Distribution Transformers

Based on historical asset data, 6% or approximately 1800 transformers will have to be replaced. Based on the transformer survey program, only 2.84% or 852 units of transformers will be replaced. The evidence states that the accurate information (from the survey) prompted HOL to revisit its replacement program.

a. Please list the factors contributing to the variances in the number of transformer units to be replaced based on results from the two sources (historical data and survey program).

b. Compared to results collected from the actual asset survey program, how accurate is the data from historical record? Does it follow that data from asset survey programs is more reliable?

c. Does HOL conduct asset survey for each asset class on a regular basis? If yes, please provide a comparison of the asset condition (by each asset class, if available) from the most recent survey results and from HOL's available historical record.

Response

a) The historical data on PCB content were based on testing results of transformers returned from the field to the transformer shop, and therefore represented a small, and typically older, population. The survey results

included the entire transformer population and therefore resulted in an accurate representation.

b) Hydro Ottawa did not have electronic records on all of the distribution transformers in service. The 6%, or 1,800 transformers, was an estimate based on historical results. The data collected in the survey is highly accurate when compared to the small population represented by the historical data. It therefore follows that the survey data are more reliable.

c) Hydro Ottawa complies with the Distribution System Code inspection requirements for distribution equipment; however, it does not have a defined schedule for surveying asset classes. Detailed distribution equipment asset surveys are completed to assist Hydro Ottawa with specific asset or regulatory requirements. The development of programs or projects, such as the GIS electrical model, telecom pole attachments, and the pending PCB regulations, have accelerated specific equipment surveys in the past.

The previous asset surveys of distribution poles and distribution transformers were to collect consistent data on large asset pools which was not available to the level of detail desired from the predecessor utilities. Historical conditions were not available for these assets, so a comparison cannot be made.

The recent testing of station transformers was performed to evaluate the condition of the units. The testing provided updated condition assessments that varied from the results of previous testing. As a result, the replacement plan for station transformers was updated to reflect the most current test results.

Going forward, asset data will be recorded in the GIS as equipment is installed. The requirements of new projects, programs or legislation, however, may require information, which is not currently tracked by Hydro Ottawa, or require updated detailed asset assessments.

Interrogatory

Distribution Asset Management Strategy

12. B1/T2/S2 pg8, Cables

HOL's intermediate program for underground cable replacement recommends $11M spending per year until 2016.

a. Please provide the length and unit cost of cable replacement; however, per year, for PILC, XLPE, Tree-retardant Plastic and Non-tree-retardant plastic cables. Further separate unit cost into labour, material, overhead.

Response

a) The AMP recommends $11M spending per year for underground cable replacement, as explained in Exhibit B1-2-2, page 9, lines 17-20, Hydro Ottawa has spent/is forecasting to spend lesser amounts as follows:

	2006 Actual $000	2007 Estimate $000	2008 Forecast $000
Cable Replacement	2,766	3,652	3,507

Following the recommendations of the AMP, PILC cable is not being replaced through an ongoing replacement program. Hydro Ottawa's experience with PILC cable has proven the cables have a long lifespan. PILC cables are replaced on a planned basis through other sustainment and demand projects such as plant relocations.

XLPE, tree-retardant plastic and non-tree-retardant plastic cables are being replaced by new XLPE cable through an ongoing replacement program. The cost of cable replacement is not dependant on the plastic cable being retired, but on the cable being installed. On average, 15,378m of cable will be replaced per year with XLPE cable. Each cable replacement project has its own particulars that may impact cost, such as the cable location, the operating voltage, the soil conditions if direct buried, etc. An average cost of $199.48 per cable meter has been estimated for this response by averaging the costs of cable replacement projects done in 2006 based on the following:

i)	Labour	$ 28.08/m
ii)	Material	$ 29.94/m
iii)	Vehicles	$ 4.10/m
iv)	Outside Services	$100.61/m
v)	Overhead	$ 36.75/m

Interrogatory

Distribution Asset Management Strategy

13. B1/T2/S2 pg9, Poles

HOL's 2004 survey showed a large concentration of poles in the middle condition range, meaning slight deterioration and between 20-35 years old (useful life 50 years).

HOL's intermediate program recommends a levelled replacement rate of 500 poles per year until 2015.

a. Please provide the total number of distribution poles in HOL's distribution system.

b. Please provide the average unit cost of pole replacement (broken down by labour, material, overhead).

Response

a) Hydro Ottawa owns a total of 45,441 distribution poles.

b) The average unit cost of pole replacement performed in 2006 was $15,060 per pole. The replacement costs consisted of;

i) Labour - $3,998/pole,
ii) Materials - $3,181/pole,
iii) Vehicles - $1,066/pole,
iv) Outside Services - $4,198/pole, and
v) Overhead - $2,617/pole.

Interrogatory

Distribution Asset Management Strategy

14. B1/T2/S2 pg12, Station Transformers

70% of HOL's station transformers are between 30-40 years old. Results of HOL's survey and Asset Management Plan suggest station transformer replacement of $750K to $1M per year.

a. What is the average life expectancy of HOL's station transformers?

b. What is the industry average of the useful length of life for station transformers?

c. How many station transformers does HOL own and operate?

d. With respect to the recommended replacement level of $750K to $1M per year, please provide: the number of units of station transformer asset addressed under this program, and the unit replacement cost (separating labour, material, and overhead).

Response

a) Hydro Ottawa does not have a formal life expectancy of the existing transformer fleet as the design standards to which the transformers have been manufactured have evolved through the decades; however, in the utility industry, a 40-year life expectancy for existing station-class power units is consistent. Power transformers purchased in recent years are estimated to have a shorter (25-35 years) life expectancy due to less

robust manufacturing practices.

b) The industry average for useful length of life for station transformers is considered to be 40 years with variations surrounding service factors.

c) Hydro Ottawa now owns and operates 174 station-class power transformers

d) Under the existing program the number of station transformer assets that are addressed is three per year. The unit cost of station transformer replacement is not possible to breakout as the unit cost of the transformers vary significantly with the class of transformer (e.g., voltage ratings and size rating, etc.). For the period of 2007-2009 the transformers identified are as follows:

Epworth T2 (115kV/8.32kV – 15 MVA)

Labour	$200k
Material	$1,200k
Overhead	$600k

Bronson T3 (13.2kV/4.16kV – 5 MVA)

Labour	$95k
Material	$375k
Overhead	$150k

Bronson T4 (13.2kV/4.16kV – 5 MVA)

Labour	$95k
Material	$375k
Overhead	$150k

Interrogatory

Distribution Asset Management Strategy

15. Ref: B1/T2/S2, pg16, Insulators

There are 240,000 insulators installed on HOL's overhead network, 7,000 of them are porcelain horizontal post insulators (may develop cracks, breakage hazard).

HOL has selected a polymeric insulator for new installations and for replacement of old units. An insulator replacement program was introduced.

Questions:

a. In what areas do polymeric insulators outperform the porcelain horizontal post insulators that HOL currently uses and glass insulators?

b. What is the life expectancy of: the porcelain horizontal post insulator, and, the polymeric insulator.

c. How many of HOL's existing porcelain insulators are reaching/beyond EOL?

d. Please describe HOL's insulator replacement plan, in particular, provide details of the number of insulators to be replaced each year, average replacement cost (capital and non-capital).

Response

a) A defect of the porcelain horizontal post insulators has led to mechanical failures, particularly a cracking that creates a breaking hazard specific to certain models and manufacturers of porcelain insulators. The polymeric insulators do not have the same defect and through their use have proven to be reliable.

The reduced weight of polymer insulators, compared to porcelain insulators, means that installation time is quicker and that they are better ergonomically for the line crews. These factors improve both worker safety and installation costs.

Hydro Ottawa's distribution system experiences a high concentration of salt spray due to winter road maintenance. The improved performance of polymer insulators, in a polluted environment, means that less time is needed to maintain (e.g.. insulator washing) these insulators, thus reducing maintenance costs.

Due to advances in materials and manufacturing, glass insulators have not been an industry standard for distribution equipment for decades. Polymeric insulators are less mechanically fragile than glass insulators. Hydro Ottawa has not purchased or installed glass insulators for some time.

b) Insulator life expectancy is assumed to outlast the other distribution equipment on the overhead lines, and is not a factor in replacements. Hydro Ottawa has not assigned a life expectancy to insulators, as it is common for this asset to be replaced in connection with other programs such as voltage conversation, pole replacement and system expansion.

c) None of the insulators are considered to be beyond end of life.

d) Previously Hydro Ottawa's insulator replacement program was designed to pro-actively replace the insulators that were subject to defects, which presented a safety hazard to staff. As most of the targeted insulators have been replaced, Hydro Ottawa has refined its replacement program to be more reactive. If staff determine, during the course of their work on a job that the defective model of insulators is present, the insulators will be replaced.

Replacement costs vary depending on the particulars of the line pole; for example, if the pole is located in a back yard versus a road right of way, the number of circuits on the pole, the existence of other voltages on the pole. The cost of replacement in 2006 was $492 per unit, and there were 2,500 replaced. Please see response to SEC Interrogatory #22 for information on the 2006 program costs.

The insulator replacement program is a capital program.

Interrogatory

Distribution Asset Management Strategy

16. B1/T2/S6, CIS Version Update Project

On page 5 of B1/T2/S6, HOL stated that it began a due diligence review of available options to consider when choosing its CIS solution both in the short-medium term and in the long term.

a. Please describe all the available options that HOL considered.

b. Please provide in detail the pros and cons of each option, including a detailed analysis of the incremental benefits, incremental costs and risks of each option.

c. Is HOL aware of any other LDCs that also use the PS CIS system from the same vendor? If yes, do they choose to have their PS CIS systems fully upgraded or do they have other options?

d. Table 1 on page 7 of B1/T2/S6: HOL's budget for CIS upgrade is $7.4M. $2.7M will be included in CWIP for 2008, with the remaining $4.7M deferred until 2009. Full version upgrade is targeted in 2009.

(i) How is the $1.2M burden derived;

(ii) Please explain the contingency expense of $300K;

(iii) Please disclose all annual ongoing costs beyond 2009.

Response

a) As part of its reasonable due diligence effort, Hydro Ottawa considered the following available CIS upgrade options:

1. Continue to operate on PS CIS version 8.8 beyond full support dates,
2. Upgrade to PS CIS version 8.9, 8.95 or 9.0,
3. Upgrade to Customer Care and Billing (CC&B), the replacement product for PS CIS, or
4. Implement an alternative CIS product.

b) The pros and cons of each option were investigated with these conclusions:

1. Continue to operate on PS CIS version 8.8 beyond full support dates:

Pros – This was the least costly alternative of the available options but would also cause the highest degree of risk for the business. Though the immediate outlay of project costs is avoided, additional expenses would be anticipated for development/support to sustain the product and compensation to our managed services provider for the risk imposed. Quantifying these costs is difficult as they are dependent on the volume and degree of actual challenges encountered.

Cons – Operating a mission critical system such as CIS without full support is not considered to be a reasonable risk for Hydro Ottawa to incur given the customer relationship management, regulatory compliance and cash flow implications. Disruptions to CIS

operations would quickly create a crisis for the business and customers as well as cause downstream challenges for retailers, MDM/R, etc. Ensuring sufficient resources with the appropriate skill sets are available to support PS CIS (any version) will become increasingly challenging moving forward since the product is being phased out.

2. Upgrade to PS CIS version 8.9, 8.95 or 9.0:

- **Pros** – Migrating to a more current PS CIS product is a typical progression path. As a general rule, this approach minimizes the degree of change management, provides the easiest conversion path while still providing the business with some enhanced functionality. Details of each version upgrade option were fully explored with involvement by Oracle/SPL but extenuating circumstances created an exception to this general rule (as explained below).

- **Cons** – Ensuring sufficient resources with the appropriate skill sets are available to support PS CIS (any version) will become increasingly challenging since the product is being phased out in favour of CC&B as the flagship CIS solution for Oracle/SPL. In addition, the PS CIS product relies heavily on customized code for all Electronic Business Transactions (EBT) functionality that would not automatically forward-fit to other versions. Potential upgrade to v8.9 was quickly discounted as an option as the anticipated 10-month effort for the upgrade project provided little benefit when compared to a 12-month extension of support beyond what existed with just staying on v8.8. Oracle/SPL completed a full complexity assessment for upgrade to v8.95 as well as CC&B to provide detailed context of the relative viability

of these options. Details of the option comparisons are provided below:

Evaluation Criteria	PS ERM v8.95	CC&B (v 2.2)
End of full support services	December, 2009	April, 2013 * * based on 5 years from product general release date expected to be Apr./08
Estimated project duration	10 months	12 months
Internal resource allocations	Combination of Functional and Technical resources from every Stakeholder group required for either option	
Functionality improvements	Little new functionality but some potential gains for Security, Adjustments, Case management.	All v8.95 functionality + productization of Market Transaction Management. for EBT requirements
Product future	v8.95 is last PS CIS release Dwindling PS CIS clients Changes require developers	Flagship CIS product Rising CC&B clients Some dev work via config.
Oracle strategic direction	Not compatible with Fusion	Fusion compatible
Potential cost avoidance	N/A	Regulatory compliance clause available
DRAFT budget estimate*	$ 4.2 million	$ 7.4 million
	* Budget estimates must be taken in the context of being preliminary until project scope confirmed, RFP issued and awarded, and resultant detailed calculations confirmed.	

NOTE: During the Oracle OpenWorld conference in November 2007, revised support dates for PS CIS versions were announced as follows:

- Version 8.8 = June, 2009
- Version 8.9 = December, 2009

These extensions were provided in lieu of releasing a v9.0 (no longer an option).

3. Upgrade to CC&B:

- **Pros** – As detailed in the comparison chart above, this option is the most viable upgrade option when considering risk, benefit, effort and strategic alignment. Although the cost of the upgrade is not insignificant, it pales in comparison to implementation of an alternative CIS solution and provides greater longevity than the PS CIS v8.95 option. New functionality in CC&B, called Market Transaction Management, will incorporate a method for meeting EBT requirements rather than the customized code solution in PS CIS. Demonstrations of CC&B showed other functionality features in CC&B are quite similar to PS CIS v8.8 as are data structures, etc., which suggests that change management considerations will not be extensive. Investigations to date highlighted the Regulatory Compliance clause for CC&B, whereby Oracle/SPL guarantees that CC&B will keep compliant with regulatory requirements, thereby offering future cost avoidance opportunities. In keeping with Oracle's product lifecycle strategy of premier support for 5 years from general availability release date as well as support dates of related component systems, it should be anticipated that there will be an on-going need for at least technical upgrades on this frequency.

- **Cons** – Given the degree of change within the industry of prolonged transitions of Smart Meters and MDM/R, embarking on a CIS upgrade may pose challenges from an organizational capacity point of view.

4. New implementation of an alternative CIS product:

- **Pros** –. Other products are available and additional functionality may be available in alternative products but the benefit would need to be weighed against the change in management risk and cost.

- **Cons** – Based on the analysis of industry standards, the cost of an upgrade is typically 30% of new implementation costs (approxiately $22 million). The Oracle/SPL solution has proven itself to be a stable, reliable and adaptable product to meet our business needs and no other out-of-the-box product is currently operating that can match or surpass this track record.

c) In Ontario, EnWin is currently operating on version 8.8 of PS CIS and is evaluating its CIS upgrade options. The Enersource/Toronto Hydro project has chosen the CC&B product for their CIS solution. In the broader context of other PS CIS clients, some have already successfully made the transition to CC&B, some others have either CC&B upgrade projects planned or underway, and others are evaluating options.

d) Note that based on announcements during Oracle OpenWorld conference of extended PS CIS support, the timing of a CIS upgrade project to CC&B may be deferred from 2008/2009 to 2009/2010.

(i) Estimated burden rate of 20% was used for preliminary budget purposes.

(ii) Approximately 5% contingency was allocated for preliminary budget purposes to cover unexpected challenges encountered during the project after the scope is defined.

(iii) Annual on-going costs beyond implementation should remain comparable to recent experience of 2005, 2006 and 2007, in the $.8M to $1.5 M range.

Interrogatory

Capitalization Policy and Allocation Procedure Based On Updated Estimates

17. Ref B1/T3/S1

On page 3 of B1/T3/S1, HOL states that its new Cost Allocation methodology is based on the changes in accounting estimates and the methodology for allocating overhead costs reflects the simplified methodology using 3 burden rates to capitalize overhead costs.

a. Please provide details of the 3 burden rates.

Response

a) Details of the three burden rates utilized to capitalize overheads are shown in Exhibit B1-3-1, Appendix T, page 19, Exhibit IV-4 – Burden Structure and are reproduced below:

Exhibit IV-4

Burden Structure

Burden	Nature of Costs Recovered	Basis of Allocation	Types of Projects
Engineering	Engineering	Sum of: - Direct Labour - Materials - Fleet Charges - Outside Services	Distribution Plant Only
Supervision	Management salaries and general and administrative costs in the Construction & Maintenance (CAM) and Distribution Asset Management (DAM) departments	Sum of - Direct Labour - Outside Services	Distribution Plant Only *Note: Applied as well to distribution maintenance and work-for others*
Administration	Various administrative and support costs including: - Supply Chain - Facilities - Human Resources and Safety - IT - Finance - Corporate costs - Holdco - Regulatory	Sum of - Direct Labour - Materials - Fleet Charges - Outside Services	Distribution Plant and General Plant

Interrogatory

Capitalization Policy and Allocation Procedure Based On Updated Estimates

18. Ref: B1-3-1, Appendix U, Hydro Ottawa Limited "Revisions to Capitalization Policy and Allocation Procedure Based on Updated Estimates"

The following table is adapted from the table on pg. 4 of Appendix "U":

		2	3	4	5	6	7	8	9	10	11	12	13	14
							2008 Proposed Budget @ New Capitalization Rate					**2008 Budet @ Former Capitalization Rate**		
		2007 Approved Budget												
		Total	**Capital**	**Op. Exp**	**Cap%**		**Total (D)**	**Capital (A)**	**Op. Exp**	**Cap %**		**Capital**	**Operating**	**A-B**
	Indirect Costs		**$'M**		**C**			**$'M**				**B=D*C**	**D-B**	
1	IT	3	1.6	1.4	53%		3.3	0.1	3.2	3%		1.8	1.5	-1.7
2	HR	3.5	1.9	1.6	54%		3.5	1.2	2.3	34%		1.9	1.6	-0.7
3	Finance	3.2	1.8	1.4	56%		3.3	0.6	2.7	18%		1.9	1.4	-1.3
4	Holdco	1.9	1	0.9	53%		1.9	0.2	1.7	11%		1.0	0.9	-0.8
5	Corporate	1.9	1	0.9	53%		1.9	0.4	1.5	21%		1.0	0.9	-0.6
6	Facilities	4	2.2	1.8	55%		3.6	1	2.6	28%		2.0	1.6	-1.0
7	Other	2	1.1	0.9	55%		2.2	0.6	1.6	27%		1.2	1.0	-0.6
8	**Total**	**19.5**	**10.6**	**8.9**	54%		**19.7**	**4.1**	**15.6**	**21%**		**10.7**	**9.0**	**-6.6**

Calculated at the new capitalization rate, $4.1 million of HOL's 2008 indirect cost will be allocated to capital, and the remaining $15.6M will be expensed. Calculated at the former capitalization rate, $10.7M will be allocated to capital, and the remaining $9M will be expensed.

a. Please confirm that the above calculations are correct.

b. Please calculate the 2008 service revenue requirement under both the 2007 and proposed 2008 capitalization rates and show detailed revenue requirement components.

Response

a) The calculations appear to be correct taking into account rounding. The 6.6 clearly agrees with the $6.5M as noted in Exhibit B1-3-1 Attachment U, page 4.

b) Hydro Ottawa did not determine what the burden rates would have been for 2008 based on the 2008 forecasts and the previous capitalization process. The 2007 burden rates would no longer have been valid because they were based on the 2007 costs, and the 2007 mix of labour hours for maintenance, capital and work for others. The calculation to determine these burden rates is complex, iterative and time-consuming. (Reducing this complexity is a secondary benefit resulting from the revised methodology.)

However, based on the $6.5M impact to distribution expenses, and assuming an average 25-year amortization, the impact to the total revenue requirement without the change in the capitalization process can be estimated as shown in the following table.

Rate Base	**%**	**2008 Service Revenue Requirement Per Exhibit A2-1-2, Table 1, Page 1 ($ millions)**	**Estimated 2008 Service Revenue Requirement without capitalization change ($ millions)**
Rate Base		$581.8	$584.9
Cost of Capital	6.67		
Return on Rate Base		38.8	39.0
Distribution Expenses		59.3	52.8
Amortization		43.7	43.9
Payments in Lieu of Taxes		13.7	$13.8
Service Revenue Requirement		$155.5	$149.5

Interrogatory

Distribution Capital Program Expenditures

19. Ref: B2/T2/S1/pg1, B3/T2/S1/pg1, B3/T2/S2/pg1 2006-2008 Capital Expenditures

a. Please confirm that HOL does not add any cost associated with a capital project to rate base until the project's assets have been put into service.

Response

a) Hydro Ottawa does not add any cost associated with a capital project to rate base until the project's assets have been put into service. Until the assets are in service, all costs are recorded as Construction-Work-in-Progress ("CIP"), which is not included in rate base.

Interrogatory

Distribution Capital Program Expenditures

20. Ref: B2/T2/S1 pg5, Distribution Transformer Replacement Program
Ref: B2/T2/S1 pg7, Stations Transformer Replacement Program

For HOL's 2006 distribution and stations transformer replacement programs, results of the survey were used in conjunction with the Asset Management Plan to quantify the number of distribution and station transformers to be replaced. Based on the survey results, distribution and stations transformer replacement plans were revised to a less intensive plan, resulting to 58% less actual spending on distribution transformer replacement and 72% less actual spending on stations transformer replacement.

a. Please explain, by category of capital program, how significantly HOL's Asset Management Plan deviates from the survey results?

b. Data in the following table was extracted from Evidence B2/T2/S1:

	2006 Approved	**2006 Actual**	**Ref**
Distribution Transformer Replacement ($000's) (A)	$6,601	$2,750	B2/T2/S1/pg2
Distribution Transformers (unit) (B)	540	372	B2/T2/S1/pg5
Distribution Transformer Unit Replacement cost ($000's/unit) (A/B)	$12,000/unit	$7,400/unit	
Stations transformer Replacement ($000's) (C)	$1,990	$562	B2/T2/S1/pg2
Stations Transformers (unit) (D)			
Stations Transformers Unit Replacement Cost ($000's/unit) (E=C/D)			

(i) Please provide the number of 2006 approved and 2006 actual station transformers under the Stations Transformer replacement program, and calculate the unit replacement cost. Please explain any variation in the proposed and actual replacement cost per unit.

(ii) Refer to Distribution transformer unit replacement cost. 2006 actual unit replacement cost of $7,400/unit was 38% less than approved level. Please explain the variation.

Response

a) Distribution Transformers

Typically, as per the Asset Management Plan (AMP), Hydro Ottawa follows the industry practice of running a distribution transformer to failure. Distribution transformers are also replaced due to the execution of other superseding programs, such as pole replacement projects, voltage conversion projects and relocations (e.g., road widening). The distribution transformer replacement program has varied in 2006, 2007 and will vary in 2008 from the AMP due to an external driver. Pending legislation concerning the use and removal of PCBs has prompted Hydro Ottawa to remove from service pole-mounted and pad-mounted transformers with PCB concentrations greater than 50 ppm, regardless of their operating condition. Please see Exhibit B1-2-2, section 2.1.

Station Transformers

The station transformer replacement program varies significantly from the original asset management plan. Increased attention towards station transformer condition assessment was an internal outcome of the Asset Management Plan. A critical component was a detailed evaluation of the paper strength in the station transformer insulation. The outcome of this

study has indicated that in general there is more "life" left in the transformer insulation than what was estimated during the AMP development and, consequently, the transformer replacement schedule has been reduced in order to provide more funds towards station switchgear replacement.

b) The table in part b) above has been completed below with added text in italics.

	2006 Approved	**2006 Actual**	**Ref**
Distribution Transformer Replacement ($000's) (A)	$6,601	$2,750	B2/T2/S1/pg2
Distribution Transformers (unit) (B)	540	372	B2/T2/S1/pg5
Distribution Transformer Unit Replacement cost ($000's/unit) (A/B)	$12,000/unit	$7,400/unit	
Stations transformer Replacement ($000's) (C)	$1,990	$562	B2/T2/S1/pg2
Stations Transformers (unit) (D)	*3*	*1*	
Stations Transformers Unit Replacement Cost ($000's/unit) (E=C/D)	*$663.33/unit*	*$562/unit*	

i) Unit costs of station transformer replacement is not meaningful to breakout as the unit cost of the transformers varies significantly with the class of transformer; that is, the primary voltage rating, the transformer kVA, etc. Please see the response to SEC Interrogatory # 14 d) for information on particular transformer replacement project costs.

Station transformers have a long purchase lead time, and the projects will most often occur in more than one year. The per-unit costs in a year are therefore not the per-unit costs for replacing a

transformer, but the portion of that project that occurred in that year. The total cost of the station transformer replacements started in 2006 is $2,400k.

ii) A number of factors influence the cost of replacing a distribution transformer. The forecast for the project was made based on 80% of the transformers requiring replacement being pad-mounted units and 20% being pole-mounted units. The survey found 848 transformers with PCB concentrations greater than 50 ppm, of which 126 (15%) were pad-mounted and 722 (85%) were pole-mounted. Pole-mounted transformers are less costly and require less time to replace than pad-mounted transformers, resulting in a lower per unit cost. The higher portion of pole-mounted transformers than originally estimated resulted in a lower per-unit replacement cost.

The replacement of the majority of the three-phase commercial transformers has been scheduled for 2007 and 2008. Commercial three-phase installations are higher cost replacement jobs, and excluding them from the work in 2006 has contributed to the lower overall costs.

Another contributor to a lower per unit cost of transformer replacement than forecast was the dedication of apprentice crews to the program. Two apprentice crews were assigned full time to the replacement task. Over the course of the project the teams became very proficient at the task and, because they were dedicated to the program, they were not interrupted by requests to assist with other projects or respond for outage restoration. Overall efficiencies were found in job set up, delivery of material and parts, and staff familiarity with the daily tasks.

Interrogatory

Insulator Replacement Program

22. Ref: B2/T2/S1 pg8,

	2006 Approved	2006 Actual	Ref
Insulator Replacement ($000's) (A)	$475	$1,230	B2/T2/S1/pg2
Insulator units (B)	1500	2500	B2/T2/S1/pg8
Unit Replacement cost ($/unit) (A/B)	$320	$490	

a. The actual per unit replacement cost in 2006 was $2,500 compared to $1,500 forecast. The evidence states [at pg. 8] that 'per unit cost to replace insulators varies significantly on the installation particulars, such as pole framing, existence of adjacent circuits, pole location such as the road right of way or backyard, and other factors." Please explain specifically what specific factors led to the actual per unit replacement cost to be 52% above the forecast level.

Response

a) In 2006, the estimated per unit replacement cost was $316 and the actual 2006 per unit replacement cost was $492.

The initial estimate was based on historical insulator replacement costs, which involved line poles in easily accessible areas. The projects in 2006 were not all easily accessible areas, so the estimate was low.

Two projects in 2006 contributed to higher overall program costs; a line pole on Colonnade Road and a line pole near the Bank and Heron area.

Both of these projects involved poles that were located in back yards thereby presenting access challenges to the work crews and resulting in a longer time to access and change the insulators, which increased costs.

Both of the projects also included changing insulators on lines that supplied commercial and industrial customers. The business requirements of the customers required that outages occur after regular business hours. Consequently, overtime charges were incurred which were not part of the original estimate.

Hydro Ottawa had contracted line crews performing work in 2006. The contracted crews worked on some of the insulator replacement projects. The hourly rates of the external crews were higher than Hydro Ottawa's own staff and increased the overall program costs.

Interrogatory

Distribution Capital Program - Demand

23. Ref: B2/T2/S1/pg9: Commercial Development

	2006 Approved	2006 Actual	2007	2008	Ref
Commercial Development	$4,331	$7,504	$5,401	$5,811	B2/T2/S1/pg3 B3/3/1 B3/4/1

a. Please explain in greater detail what "Commercial Development" capital programs consist of.

b. Please provide a more detailed explanation of the additional work that was done in 2006 above the forecasted amount. If there are any differences in unit costs that explain the spending variation, please explain those as well.

c. Please provide more detail as to the level work planned for 2008 as well as how that forecast was derived.

Response

a) Commercial Development capital programs consist of labour, material, vehicles and outside services needed to connect a commercial customer that are not qualifying for an Infill Service[1] as defined in Hydro Ottawa's *Conditions of Service*. These services require more complex design, coordination and expertise than a residential service. Examples of

[1] "Infill Service" means any service (e.g. rural or urban) installed which was not part of a pre-planned subdivision or a service that was installed five years or more after the pre-planned subdivision has had the primary electrical installation.

commercial development include apartment buildings, stacked townhouses, strip malls, box stores, shopping centres, office buildings, mixed-use buildings and institutional buildings. The labour component in this program includes project management, design and construction.

b) Commercial Development capital programs are solely driven by customer request for connection. The expenses related to a particular project depend on many factors such as the size of the service and the characteristics of the distribution system in the area (e.g. distribution voltage, overhead or underground lines).

When Hydro Ottawa forecasts the Commercial Services expenses for the next year, it does not have a detailed project listing. Customers may not contact Hydro Ottawa to plan and schedule a project until during the calendar year the construction occurs. Therefore, there is no list of 'forecasted' project to compare to 'actual' projects.

Due to the various sizes and types of commercial services there is little value in evaluating yearly averaged costs, however, there are factors responsible for increased costs of Commercial Projects.

- There has been a trend in the development to include more infill-type[2] commercial construction, as per City of Ottawa Official Plan, which is more costly than green field development due to the need to protect and/or reconfigure existing plant.
- Increased material costs, as discussed in Exhibit D1-3-1, have also contributed to increased overall project costs.

c) As per the *Distribution System Code*, and Hydro Ottawa's *Conditions of Service*: "The Customer has the right to have a property, generator or

[2] Infill-type is the development of vacant lots in established urban areas.

other load as described in this document, connected to the distribution system in the licensed service area", if a few conditions are met. Hydro Ottawa invests great effort in understanding the factors that need consideration in developing each demand driven activity forecast. Hydro Ottawa sets short, medium and long-term Commercial Development forecasts based on such information as carryover activity from the previous year, developer inquiries, quantity and type of development projects awaiting City approval, City of Ottawa growth forecasts, economic forecasts from the Conference Board of Canada and forecasts from other agencies.

Interrogatory

Infill Services

24. Ref: B2/T2/S1/pg9:

a. The Evidence states that higher spending in 2006 was due to higher than expected requests for infill service connections. Please provide a more detailed explanation of the extra work that was done in 2006 over the forecast amount (number of units, cost per unit) as well as the work forecast for 2008.

Response

a) Types of Infill services are described in Hydro Ottawa's Conditions of Service. Infill services include a range of activities from isolating and re-energizing a service, to installing a new overhead or underground service, to moving and upgrading a service. As with all demand driven activity, Hydro Ottawa must provide infill services once stated conditions are met. Customer demand dictates the scope, number and timing of the work.

Costs of infill services are based on the average to provide each individual service and may be adjusted regularly to more truly reflect actual cost. Actual cost and Hydro Ottawa's cost responsibility depends on where the infill is and what is involved beyond what is covered in the basic fees. An outline of the methodology used in arriving at the Customer's cost is described in Appendix G in Hydro Ottawa's *Conditions of Service*. Activity forecast is based primarily on past trends with adjustment based on knowledge of the economic outlook.

Most infill requests are not made far in advance of the required service date; therefore, during the budgeting process, Hydro Ottawa does not have a list of the next year's infill activities. As a result, individual projects cannot be identified as the reason for the increased expenses. Also, the make-up of the infill requests is unknown at budgeting time, and can impact the overall costs.

Activity in 2006 was fuelled by the City of Ottawa's push to reduce urban sprawl, aging buildings needing upgrade or demolition, and a strong local economy.

For 2008, Hydro Ottawa expects the activity pace to be slightly less than 2006 and 2007 to date. The forecast for 2008 was not based on a number of units and cost per unit; rather, it has been based on previous expenditure levels, the strong local economy and the City of Ottawa's Official Plan, which promotes urban intensification.

The yearly costs for infill services are provided in the table below.

Infill Expenses

2005 Actual $000	2006 Actual $000	2007 Estimate $000	2008 Forecast $000	2009 Forecast $000	2010 Forecast $000
3,848	4,288	3,021	2,598	2,586	2,897

Interrogatory

Plant Relocations and Upgrades

25. Ref: B2/T2/S1/pg10

The Evidence has identified 2 major projects covered under Plant Relocations and Upgrades capital program: Highway 7 relocation of existing pole lines to new right of way locations, and King Edward Avenue Overhead to Underground Conversion. Both projects are multi-year projects.

a. Please provide capital spending by major project, from 2006 to 2011,and for each identified project, break down into detailed capital components: material, labor, overhead, etc.

b. Please advise when would each project be completed.

Response

a) Capital spending on both major projects is contained in Table 1 and Table 2 below:

Table 1: Highway 7

Year	Material ($000)	Labour ($000)	Vehicles ($000)	Outside Services ($000)	Overhead ($000)	Total ($000)
2005 actual	$0	$50	$0	$13	$11	$74
2006 actual	140	69	0.7	630	194	1,033.7
2007 forecast	165	107	20	750	259	1,301
2008 estimate	22	38	6.8	13	19.6	99.4

Most of the construction labour on the Highway 7 project was provided by contractors and is included in Outside Services.

Table 2: King Edward Overhead to Underground Conversion

Year	Material ($000)	Labour ($000)	Vehicles ($000)	Outside Services ($000)	Overhead ($000)	Total ($000)
2006 actual	182.1	54	3.7	151	74.6	465.4
2007 forecast	775.5	227.4	31.6	180.3	224	1,438.8
2008 estimate						2,500
2009 estimate						2,500
2010 estimate						500
2011 estimate						500

The King Edward project is a City of Ottawa road works project. The timing of Hydro Ottawa's work on the project is dependent on the City of Ottawa's project schedule, which has experienced delays. The future costs for the King Edward project have been estimated at a high level. The project timing and detailed design have not been finalized, resulting in no meaningful breakdown being available at this time.

b) Hydro Ottawa's forecast completion with the Highway 7 project is 2008. Hydro Ottawa's forecast completion with the King Edward project is 2011.

Interrogatory

Load Forecast

26. Ref: C1/2/1

a. Pg. 15: Please explain why the growth rate for residential sales and sales of GS<50 rate class are projected to be below the growth rate of system energy sales.

b. Please provide a more detailed explanation for the large decreases in most rate classes, as shown in Table 14. Specifically, what independent variables determined the decline in average use?

Response

a) The regression model developed for forecasting class sales included the historical sales data for the years 2003 to 2007 (mid-year). During this period there was relatively less growth in the sales for the residential and GS<50 rate classes than in other classes. With a regression technique, what has happened in the past is generally expected to continue into the future. For this reason, the model projects that growth rates in these two sectors will be less than overall sales growth. Hydro Ottawa has no reason to expect a significant change in consumption patterns between classes, hence is satisfied that the projections for each class are reasonable.

b) The Residential and all three General Service > 50 kW classes show declining use per customer for 2008. These forecasts have been determined, in part, by the historical trends and the economic inputs; Gross Domestic Product (GDP) and Real Personal Income (RPI). The average use per customer is also affected by the number of customers in

the class, which uses employment and non-manufacturing employment as drivers.

Interrogatory

Load Forecast

27. Ref: C1/2/1- Load Forecast- CDM Adjustments

Preamble

The evidence states that HOL has made an adjustment to its load forecast to take into account the OPA's forecasted CDM savings. In EB-2006-0501, the Board agreed with intervenors who argued that the OPA's total demand reductions included naturally occurring conservation, which would already be taken into account in the applicant's load forecasting model and which therefore should not be included in the adjustments to the load forecast to take into account CDM activities. The Board's findings can be summarized in the following passage:

The Board acknowledges that forecasting the impact of CDM on peak loads is not a simple task at this time. The impact and effectiveness of particular CDM programs is sometimes elusive, and hard to define with precision. Having said that, the Board is not satisfied that Hydro One's proposed CDM adjustments are appropriate. While we do not object to Hydro One starting its analysis with the provincial target of 1,350 MW for 2007, *we agree with intervenors that Hydro One has double counted the impact of natural conservation. It is clear from the evidence that the OPA intends to count natural conservation in determining if the 2007 target of 1,350 MW has been met.39 Hydro One testified that its forecast, before the CDM adjustment, already factors in natural conservation.* Therefore, the Board fails to understand how Hydro One can rationalize not reducing the 1,350 MW target for estimated natural conservation. [Ontario Energy Board, EB-2006-0501 Decision With Reasons, pg. 91.

Emphasis added]

In HOL's pre-filed evidence, at C1/2/1, pg. 22, it states that "average use per residential customer has clearly been decreasing and is forecasted to reduce as conservation becomes a way of life."

Please:

a. Confirm that HOL's load forecasting model would take into account naturally occurring conservation. If not, why not?

b. Confirm that the OPA's CDM savings that HOL used to determine a reduction in its load forecast would include naturally occurring conservation.

c. Explain whether the OPA CDM savings that HOL used to reduce its load forecast have been adjusted to take into account naturally occurring conservation (i.e. has HOL used the OPA CDM savings net of naturally occurring conservation?). If not, why not?

Response

a. Hydro Ottawa's load forecasting model takes into account naturally occurring conservation in the sense that historical actual consumption is used to build the model and if the numbers reflect conservation then it will be captured and reflected in the forecast (other inputs remaining constant). However, natural conservation that results from new initiatives that are not the result of focused conservation programs would not be captured.

b. As stated in the preamble to this interrogatory, the Board in EB-2006-0501 has concluded that OPA's total demand reductions include naturally

occurring conservation. Hydro Ottawa has used OPA's total demand reductions in its load forecast; therefore, it would include naturally occurring conservation.

c. Hydro Ottawa did not adjust the OPA's CDM savings that were used to reduce the load forecast for naturally occurring conservation. Please see the response to VECC Interrogatory #36 c) for an explanation of why not.

Interrogatory

Other Revenue

28. Ref: C2/1/3- Other Income, 2007 vs. 2006 variance analysis

a. Please explain why Specific Service Charges (excluding poles) are expected to be $300k lower in 2007 than in 2006.

Response

a) As shown in Table 1 – 2007 Revenue Offsets and page 2, lines 4 and 5 of Exhibit C2-1-3, the revenue from Total Specific Service Charges, which includes poles, is expected to be $300k lower in 2007 than in 2006. The total revenue for Specific Service Charges (excluding poles) is expected to be $118k lower than in 2007 than in 2006. The reason for the lower revenue is explained at lines 9 to 17 on page 2 of Exhibit C2-1-3.

Interrogatory

Other Revenue

29. Ref: C2/1/4: Other Income, 2008 vs. 2006 variance analysis

a. Pg. 6: please provide details of the Dividend payment made to HOL's holding company. How much was the payment, and when was it issued?

Response

a) Hydro Ottawa's Board of Directors declared a dividend of $22M payable to the Holding Company on September 26, 2007. The payment was made on September 26, 2007 as directed.

Interrogatory

O&M and Administration Costs

30. Ref: A2/T2/S1

The guidelines advise managers to target gross OM&A budget "at 2007 budget level (net of work for others plus 2%" THOL has stated that it targets gross OM&A before CDM at 2007 budget level plus 2%.

a. Please explain how this is compatible with the statement under paragraph 1.1 of the exhibit that states, "The base budget must be developed used (sic) zero-based budgeting."

b. The Guidelines state that budget results "will be reviewed by a budget review committee, in detail, on a line-by-line basis for each department." Please provide copies of the "line-by-line" review of the OM&A budgets that were performed by the budget review committee.

Response

a) Although the quantitative guideline to Hydro Ottawa's management was to target no more than a 2% increase in gross OM&A, the methodology to prepare and review the budget was a zero-based budget approach. The methodology emphasized that the 2007 budget by itself was not sufficient to sustain it as a base for applying the 2% guideline. Essentially each senior manager was accountable to justify his or her 2007 budget based on ongoing operational requirements and any request for an increase within the 2% guideline.

b) Budget review meetings are an internal process and therefore are not minuted. Consequently there is no written record of budget discussions

and guidance given by the Budget Review Committee. The "D" series of exhibits provide a thorough analysis of OM&A and reflects the guidance given by the Budget Review Committee to senior departmental staff in the finalization of their budgets.

Interrogatory

O&M and Administration Costs

31. Ref: D1/1/1, pg. 11:

a. please provide a copy of the contract with IBM**.**

b. what was the basis for adjusting the agreement with IBM as a result of call volumes being 20% higher than originally contracted?

c. Was any research done as to the cause of the increase in call volumes? For instance:

(i) Was any inquiry made as to whether the call volumes resulted from onetime events that were not likely to continue?

(ii) Was any inquiry made as to whether the increased call volumes resulted from the way in which IBM managed the calls?

Response

Hydro Ottawa and IBM Canada Limited ("IBM") entered into an Application Managed Service Agreement dated May 28, 2004 ("AMS Agreement") that became effective on April 1, 2004 at 12:01 a.m. (Eastern Time) and will expire, unless renewed, on December 31, 2010 at 11:59 p.m. (Eastern Time). Schedule A (Service Description) to the AMS Agreement describes the services to be provided by IBM as "Service Stream 1- Customer Information System Solution/CIS Service" and in addition, prescribes a "Change Order Process" for adding additional service streams by mutual agreement.

IBM made Change Order Proposal #6 in response to Change Request #6 whereby Hydro Ottawa requested IBM (i) to develop and implement changes in Service Stream 1 and (ii) to provide customer care support services to Hydro Ottawa's customer community as an augmentation of Hydro Ottawa's Customer Call Centre. The latter became "Service Stream 2 – Customer Contact Centre Augmentation Services " with interim and transition phases until December 31, 2004 followed by a steady state phase from January 1, 2005 to December 31, 2010.

IBM made and Hydro Ottawa accepted Change Order Proposal #69 for services related to Service Stream 2. The change was an increase in the charge payable by Hydro Ottawa for the period from October 15, 2005 to December 31, 2005. The reason for the increase was the fact that, throughout 2005, the call volumes were significantly higher than the one customer contact per customer per year that was assumed in Change Order Proposal #6.

IBM made and Hydro Ottawa accepted Change Order Proposal #060915 dated October 4, 2006 for services related to Service Stream 2 (Change Request #185). The change is the result of a joint review by Hydro Ottawa and IBM of the performance of the services related to the increase in customer call volumes and IBM's service level performance.

The AMS Agreement contains provisions that preclude either party from disclosing the terms of the Agreement, including its schedules and change order proposals, without the consent of the other party except to the extent permitted thereunder. Voluntary disclosure, such as responding to this interrogatory on the public record, is not an exception.

IBM has refused to give its consent to the disclosure of the AMS Agreement in its entirety either on a confidential basis or otherwise. Hydro Ottawa can only disclose it, therefore, if it is required to do so "by law, judicial process or by

government authorities so long as [Hydro Ottawa] provides [IBM] with reasonable proper notice of such requirements in order to permit [IBM] to interpose an object or such an appropriate order to prevent or limit disclosure"; otherwise, disclosure by Hydro Ottawa would be a breach of contract.

IBM is prepared, however, to give its consent to the disclosure of Change Order Proposals #6, #69, #060915 on a confidential basis (i) under the Board's *Rules of Practice* and *Procedure* and its *Practice Direction on Confidential Filings*; and (ii) subject to additional conditions that are now being discussed by Hydro Ottawa and IBM.

The following responses are based on the foregoing:

a) Hydro Ottawa declines to provide a copy of the AMS Agreement in this response on the ground that to do so, without IBM's consent, would result in a breach of the confidentiality provisions of the AMS Agreement (i.e., a breach of contract). Hydro Ottawa is instead planning to file copies of Change Order Proposals #6, #69 and #060915 (Change Request #185). in accordance with Rules 10.01, 10.02 and 29.02 of the *Rules of Practice and Procedure* and sections 5.1.4 and 5.3.1 of the *Practice Direction on Confidential Filings.* Hydro Ottawa will do so once it has reached agreement on additional conditions with IBM.

b) Service Steam 2 and IBM's corresponding solution, schedule and pricing were based on the assumptions specified in Change Order Proposal #6. One of the assumptions was one call per customer per year. Throughout 2005, however, actual call volumes were significantly higher. Actual call volumes continued to exceed the assumed level into 2006, by about 20%, and so Hydro Ottawa and IBM conducted a joint review of the performance of the services related to the increase in customer call volumes and IBM's service level performance. The outcome of the joint

review, and subsequent negotiations as well, was Change Order Proposal #060915 (Change Request #185).

c) Yes, Hydro Ottawa and IBM undertook the joint review referred to in part b) of this response. The review disclosed that the significant increase in call volumes (i.e., above the assumed level) was not due to a one-time event, nor was it the result of IBM's performance (e.g., the way IBM's personnel handled the calls).

Interrogatory

O&M and Administration Costs

32. Ref: D1/1/Schedules 2,3,4- Variance Analysis

The data as presented does not allow for an apples to apples comparison of expenditures year over year due to the fact that the "capital allocations" figure is only presented in aggregate form. For example, the 2006 Administration expenditure of $6.9 million is not comparable to the 2007 estimated expenditures of $7.571 million. Also the data for O&M is not broken down by the various programs (control room, general switching, etc.) described in paras. 3.1 to 3.13 in Exhibit D/Tab 1/Schedule 1). Therefore:

(i) Please provide a table showing OM&A expenditures for 2006 Board approved, 2006 actual, 2007, and 2008 normalized to take into account different capitalization rates in each year.

(ii) Under the "O&M" line please provide a breakdown of expenditures by subprogram (control room, general switching, etc.)

Response

(i) As discussed in the response to SEC Interrogatory #18 b), Hydro Ottawa did not determine burdens rates for 2008 based on the prior capitalization process[1]. A precise restatement of 2008 as it would have looked using the prior capitalization process cannot be provided. Based on the estimated year over year change of

[1] In the Responses to Interrogatories, Hydro Ottawa has used the terms "accounting change" and "change in capitalization process" interchangeably to mean the implementation of both the new cost allocation procedure and capitalization policy.

\$6.5M, and estimated change in reallocations between O&M and Administration, an approximation can be provided for what 2008 would have looked like using the prior capitalization process.

Operations, Maintenance and Administration (OM&A)	2006 Approved Rate Application	2006 Actual	2007 Estimate	2008 Forecast Approximation using old capitalization methodology	2008 Forecast
Operations & Maintenance	\$22,105,462	\$19,764,812	20,397,675	\$23,373,601	\$19,673,601
Billing and Collection	9,197,432	8,446,010	9,392,339	9,716,811	9,716,811
Community Relations	3,455,624	3,512,896	4,419,933	4,515,270	4,515,270
Administrative and General[2] Expenses	5,125,241	6,904,950	7,571,263	10,113,829	20,313,829
Insurance Expense	210,000	296,852	289,565	325,692	325,692
Bad Debt Expense	900,000	2,992,045	2,002,739	2,000,008	2,000,008
Advertising Expenses	62,000	7,403		0	0
Allowable Charitable donations[3]		40,000	40,000	40,000	40,000
Other Distribution Expenses	2,931,751	1,859,728	1,991,516	2,002,832	2,002,832
Net OM&A without Smart Meters	**43,987,510**	**43,824,696**	**46,105,030**	**52,088,043**	**58,588,043**
Allocations to capital	not available	(\$33,414,021)	(\$36,681,333)	(\$35,366,253)	(\$28,866,253)
Gross OM&A without Smart Meters		**77,347,304**	**82,786,363**	**87,454,296**	**87,454,296**
Smart Meter Expenses[4]	\$0	\$0	\$1,034,835	\$740,018	\$740,018
Net OM&A with Smart Meters	**\$43,987,510**	**\$43,824,696**	**\$47,139,865**	**\$52,828,061**	**\$59,328,061**

[2] Administration costs do not include the costs for Low Voltages charges from Hydro One. These costs were recorded in USoA Account 5665 for 2006 but subsequent guidance from the OEB have these costs recorded in Account 4750, therefore not part of OM&A.

[3] Actual charitable donations were higher. This reflects the charitable donations related to helping customers pay their electricity bills.

[4] The Smart Meter expenses are discussed in Section 12.0. For 2007, the expenses shown relate to the calendar year including a portion from the 2006 rate year (January 1, 2007 to April 30, 2007) and a portion from the 2007 rate year (May 1, 2007 to December 31, 2007). For the calendar year 2008, the expenses are forecast at a total of \$1,723,018. But this is comprised of \$983,000 from the 2007 rate year (January 1, 2008 to April 30, 2008) and \$740,018 from the 2008 rate year (May 1, 2008 to December 31, 2008).

ii) Please see the response to VECC Interrogatory #42.

Interrogatory

O&M and Administration Costs

33. Ref. D1/1/3, pg. 5:

a. Please provide a more detailed explanation for the increase in general administration costs of $2.1 million in 2007 over 2006 actual. In particular, for each of the items listed at Exhibit D1/1/3, please explain the driver for the increased expenditures and a more detailed breakdown of the costs. For example:

(i) please provide a more detailed breakdown of the increase in human resources costs of $300,000. What is the employee recognition program referred to and how much did it contribute to the additional expenditures?

(ii) explain the reasons for additional security patrols and other facilities maintenance costs totaling $200,000;

(iii) with respect to the increased media communications costs of $300,000, part of that increase appears to be related to overflow work from 2006. Are 2008 budgets expected to remain at the same level? If so, why?

(iv) Please explain why liability insurance increased by $200,000;

Response

(i) The Service Recognition Program recognizes employees for their contributions and ongoing service to Hydro Ottawa. Employees who

complete specified service milestones are eligible to receive a service recognition award. Service levels recognized include 5, 10, 15, 20, 25, 30 and 35 years of service. Each eligible employee receives a service recognition award at a formal ceremony. This program resulted in $70k in additional expenses. Consulting services related to the renewal of the collective agreement has resulted in an additional $70k of expenditures, and $30k is for training of new apprentices. The remaining amount is the result of several other minor items.

(ii) Due to the escalating price of copper, Hydro Ottawa has been targeted repeatedly by thieves looking for wire and cable with copper content. As a result, the surveillance of work centers and storage yards has been increased. Also certain sub-stations are now watched on a 24/7 basis as there is a safety concern resulting from the theft of ground grids, which can be deadly to the thief as well as employees who may be unaware of their removal or damage. Inadequate grounding protection could be lethal to staff performing routine maintenance or capital work. Increased graffiti removal also contributes to increased maintenance costs.

(iii) The increased costs under media communications and promotional media are not overflow work from 2006. The increased costs include the following on-going items:

- $70k for bill inserts, which was expensed under Billing & Collecting in 2006.

- $50k for the new communication process related to planned outage communications. Hydro Ottawa has decided to increase communications on this front.

- $50k for general to customers on conservation that were not part of the CDM programs.

- $40k for E-billing marketing. This budget will still be needed in 2008 because E-billing will be implemented in 2008, with 2007 as a bridging phase, so customer communications will be required both in 2007 and 2008.

- $20k for communications on the closing of the payment counter in 2007.

In addition to the above listed items, as explained in Exhibit D1-1-3, page 6, lines 18-20, the communications department was not fully staffed in 2006, such that numerous projects were deferred to 2007. The communications department is being more proactive during 2007, in all aspects of communicating to customers and other stakeholders. As a result, the general media communication expense will be higher than that of 2006. This trend is expected to be the same for 2008. Furthermore, plans for 2008 include four issues of *Currents*, Hydro Ottawa's newsletter to customers.

(iv) The liability insurance premiums are through MEARIE, which is an insurance Reciprocal and insures the majority of LDC's in Ontario. The premiums are based on a number of factors including revenues, Hydro Ottawa loss experience vs. the Reciprocal as a whole, and general market conditions. MEARIE also has re-insurance for 50% of the total exposure such that the external insurance markets can affect the premiums. Considering all of these factors, Hydro Ottawa generally forecasts insurance increases in the 5 to 10% range per annum. In 2006, there was a one-time rebate of premiums due to

strong performance of the Reciprocal. Hydro Ottawa's share was approximately $80k reducing the expense for 2006. Included in the liability expenses are self-retained losses. In 2005, there was a Ministry of Labour accrual for $125k for a potential fine that could be levied based on the charges. In 2006, this amount was reversed as the details of the case proceeded and Hydro Ottawa's potential fine liability was reduced to $35k. These two items account for the increase in 2007 from 2006.

Another increase for 2007 related to regulatory cost assessments from the Board. As approved by the Board, Hydro Ottawa and other LDCs were permitted to defer the OEB costs assessment until April 30, 2006. Therefore, 2006 only included a portion of these costs whereas 2007 would include a full year of costs.

Interrogatory

O&M and Administration Costs

34. Ref: D1/1/4: 2008 Administration costs

a. Please provide a further breakdown of the $2.5 million increase in Administration costs (excluding the $10.2 million increase resulting from changes to allocations of costs to capital and O&M). In particular:

(i) Please provide a more detailed explanation for the 2%, or $500,000, "increase in other miscellaneous costs". Why does HOL have an additional level of cost increase for "miscellaneous" when it has already identified several specific areas of cost increases?

Response

a) The compensation increase of $1 million and the other administrative costs increase of $1.5 million are described at pages 6-7 of Exhibit D1-1- 4.

The $500,000 increase, in particular, relates to a 2% increase in other miscellaneous cost across all administrative departments. The cost includes computer and office supplies, postage, promotional material, travel, training and facilities costs. No single item was significant when compared to the materiality limit set by the Board.

Interrogatory

O&M and Administration Costs

35. Ref: D1/1/4- Variance 2008 over 2007

a. Of the $2.3 million increase in compensation, how much is due to the addition of 20 apprentices, one stations electrician and one supervisor related to workforce planning, and how much is related to the general increase of 3.2% for unionized personnel and 3% for management?

Response

a) The $2.3M increase in compensation is for Operations and Maintenance (p.2), rather than Administration (p.6). The increase related to the 20 apprentices, one station electrician and one supervisor for the apprentices is $1.6M. The remaining increase in compensation of $700k relates to the general 3.25% increase for union personnel, step-grade increases and the forecasted 3% increase for management staff.

Interrogatory

O&M and Administration Costs

36. Ref: D1/2/1: Services from Affiliates

Please explain how the cost-based pricing is determined for Administration and Corporate Services ($2.1 million in 2008, up from $1.876 million in 2006) received from the Holding Company. Specifically, how are the services determined and how is the cost allocated to HOL?

Response

The Holding Company calculates the cost allocation to each of its subsidiaries on an annual basis as part of the budgeting process. The cost allocation methodology is described in the response to Board Staff Interrogatory # 34.

The increase in services provided from $1.876 million in 2006 to $2.1 million in 2007 and 2008 were documented in Exhibit D1-2-1, Section 1.3. The major increases for 2008 included an increased focus on internal audit and business continuity planning. Other changes include the introduction of the Board of Directors for Hydro Ottawa, as required by the *Affiliate Relationships Code for Electricity Distributors and Transmitters*. This Board of Directors was only in place for a portion of 2006.

Interrogatory

O&M and Administration Costs

37. Ref: G1/1/1- Calculation of Revenue Deficiency

a. In Table 2 at Exhibit G1/1/1, pg. 3, it states that increases to OM&A expenses contribute to the revenue deficiency in the amount of $15.151 million. However, Total Net OM&A shown at Exhibit D1/1/4 pg. 1 is $12.483 million greater than 2007, not including taxes. Please explain.

Response

a) The Revenue Deficiency of $25,195,047, shown on Table 2 of Exhibit G1-1-1, is the difference between the 2008 Base Revenue Requirement plus Transformer Ownership Credit and the calculated revenue based on 2007 rates (without the Smart Meter adder) and 2008 forecasted kWhs, kWs and customer numbers. In order to determine the contribution of each of the drivers to this deficiency, the 2006 approved dollars from the 2006 EDR were multiplied by the 2007 IRM adjustment of 0.43% and compared to the 2008 estimate. The results for Operations, Maintenance and Administration ("OM&A") are shown in the table below.

2006 Approved	2007=2006 (x 0.43%)	2008 Forecast	Variance
$43,987,510	$44,176,656	$59,328,061	($15,151,405)

Rates for 2007 were delinked from the 2007 costs, and therefore the calculated 2007 OM&A, shown in the table above, is different from the estimate for 2007. The 2007 Estimate for Total Net OM&A shown on Table 1 of Exhibit D1-1-4 of $46,105,030 is Hydro Ottawa's actual estimate of expenses. As Footnote 1 on page 1 of Exhibit D1-1-4 states,

the 2008 Forecast for Total Net OM&A of $58,588,043 does not include the costs for Smart Meters. When the $740,018 for Smart Meters is added to $58,588,043 it equals the $59,328,061 shown above.

Interrogatory

O&M and Administration Costs

38. Ref. D1/3/1: Procurement Strategy

a. Please quantify the impact of increasing distribution equipment costs on total OM&A and/or capital costs for 2008 vs. 2007 and 2006.

Response

a) Increasing distribution equipment costs largely impact the capital budget. As described in Exhibit D1-3-1 there have been significant increases in equipment costs in recent years due to global demand for copper, steel, oil, and wood poles. These costs have continued to increase in 2007, and are expected to increase again in 2008.

Hydro Ottawa has developed budget envelopes under which corporate budget planning, as described in Exhibit A2-2-1, is completed. Spending is tracked throughout the year to ensure costs are within the budgeted amount. A budget-wide increase in material costs from estimated costs would result in less work being done throughout the course of the year, in order to keep the overall costs within budget. The diversity of the material purchased each year, and the costs of the other items in the budget (labour, outside services, trucking), make it difficult to quantify equipment costs as a global impact. Increases in equipment costs have not increased the Capital Sustainment budget envelope.

Increases in distribution equipment costs do impact the Demand Capital budget expenses, as Hydro Ottawa is obliged to perform these activities. If Hydro Ottawa's equipment costs increase, so will the capital

contributions. Depending on the type of capital demand project, the customer may contribute all, part, or none of the equipment costs. As with sustainment, it is difficult to quantify the impact of rising equipment costs on the overall budget.

Equipment costs assigned to a distribution project also include administrative allocations, which change based on yearly financials. Tables 1 and 2 include the expenses for the purchase of material allocated to distribution sustainment and distribution demand capital projects for 2006 through 2008, excluding administrative costs.

Table 1: Distribution Equipment Expenses – Sustainment Capital

	Material for Capital Sustainment $000	Material for Capital Sustainment %
2006 actual	12,260	33%
2007[1] estimate	13,670	34%
2008 forecast	13,112	35%

Table 2: Distribution Equipment Expenses – Demand Capital

	Material for Capital Demand $000	Material for Capital Demand %
2006 actual	9,288	20%
2007[2] estimate	8,961	21%
2008 forecast	7,883	23%

As an illustration of the material increases Hydro Ottawa is facing, attached are copies of three press releases from ABB's web site, www.abb.ca. ABB is a multinational company that supplies, among other

[1] The 2007 costs contain actual costs until the end of June and forecast costs between July 1 and year-end.
[2] The 2007 costs contain actual costs until the end of June and forecast costs between July 1 and year-end.

things, distribution equipment. Although Hydro Ottawa does not have a strategic alliance with ABB, their business operations can be considered indicative of the marketplace.

Price Announcement

November 23, 2005

ABB Power Technologies AB, Components Transformer Bushings and On-Load Tap Changers Announces Price Increase

ABB, one of the leading manufacturers of transformer components, announces today that it will increase prices on bushings and on-load tap-changers by 10-15% based on material cost increases.

The adjustments are the result of a significant cost inflation in materials utilized in the manufacture of these components including mainly aluminium, copper, steel, oil, porcelain and insulating materials. 2004 marked the return of material cost inflation and it has continued through 2005 and into 2006.

Customers will be notified separately of the specific impact to them.

ABB continues to minimize the impact of increased costs to customers, but with the acceleration of inflation, the costs must be passed through to ensure ABB's ability to serve our customers with the highest quality and service.

For more information, please contact:

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Press Release

For your business and technology editors

ABB Announces Price Increase

Distribution Transformers

Raleigh, March 3, 2006 -- ABB, the leading power and automation technology group, said today that it will increase prices on pole and pad-mount distribution transformers by 5% based on market demands for its products. The increase applies to product from ABB plants as well as Power Partners, Inc. in Athens, GA.

The unprecedented demand for its products is expected to continue into 2007. This has resulted in accelerated investments to increase capacity and secure material supply.

Until such time additional capacity comes available, ABB and Power Partners will manage production space based on commitments to its traditional customer base while making every effort to accommodate all other requests.

Customers will be notified separately of the specific impact to them. The price increase is effective on all quotes starting March 3, 2006 and deliveries starting July 1, 2006.

ABB (www.abb.com) is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact. The ABB Group of companies operates in around 100 countries and employs about 105,000 people.

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Price Announcement

December 1, 2006

ABB Power Technologies AB, Components Transformer Bushings and On-load Tap Changers Announces a general price increase effective 1 January 2007

ABB, one of the leading manufacturers of transformer components, announces a general price increase on all bushings and on-load tap-changers by an average of 8%.

The adjustments are the result of continued cost inflation in materials utilized in the manufacture of these components including mainly aluminium, copper, silver, steel, oil, porcelain and insulating materials. ABB's discussions with the commodity suppliers indicate no change in the upward trend of prices. The constrain of supply is likely to continue.

ABB continues to minimize the impact of increased costs to customers, but with the acceleration of inflation, the costs must be passed through to ensure ABB's ability to serve our customers with the highest quality and service. ABB will continue to deliver the highest quality and value to our customers while remaining competitive in the market.

For more information, please contact:

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Interrogatory

O&M and Administration Costs

39. Ref. D1/4/1: Health, Safety and Environment Overview

a. Please provide the 2006, 2007 and 2008 expenditures for this program and explain any significant year over year variances.

Response

a) The following table provides 2006 actual, 2007 estimate and 2008 forecast expenditures for Health, Safety and Environment. There has not been a significant change year over year in costs, however an explanation of the differences is provided.

Year	Operating Cost	Variance	Notes
2006 Actual	$1,834,757		
2007 Estimate	$1,660,268	($174,489)	2006 included a supervisory position that has been eliminated. Training costs were $50k higher in 2006.
2008 Forecast	$1,694,232	$33,964	2% increase due to inflation.

Interrogatory

O&M and Administration Costs

40. Ref. D1/4/2- Vegetation Management

a. Please provide the budget for this program for 2006, 2007, and 2008.

b. How is the "Annual Average Cost of Failures" line in Figure 3 computed? What costs are included?

c. What is the cost of moving from a three-year trim cycle to a two-year cycle?

d. It appears from Figure 3 that even more significant savings could be achieved by switching to a 1-year trim cycle. Is that correct? If so, has HOL investigated that possibility?

Response

a) The budget for this program in 2006-2008 is included in the table below.

Year	Total $M[1]
2006 actual	$2.2[2]
2007 estimate	$2.3
2008 forecast[3]	$2.6

[1] Includes contract expenses including off-cycle and emergency trimming. Does not include internal costs to administer the contract, such as burdens and inspectors.
[2] This is based on actual 2006 costs, which were offset by $200k related to the difference between the 2005 actual costs and the accrual of costs for 2005.
[3] A new tender was issued in the second half of 2007 for a six-year program that will occur from 2008 through 2013. Although a forecast has been provided for 2008, the actual value has not been finalized, as Hydro Ottawa has not yet entered into a new contract.

b) Please see the response to VECC Interrogatory #46.

c) Moving from a three-year trim cycle to a two-year trim cycle is forecasted to create savings in the long run by eliminating the spot trims. Contractor costs are expected to increase due to typical inflationary increases and recent fuel cost increases. The overall cost savings of the new trim cycles are yet to be determined, as Hydro Ottawa has not yet signed a new contract.

d) Figure 3 does show that there may be more overall cost savings through moving to a one year trim cycle. The cost savings are shown on a consequence cost point basis, rather than dollar basis.

Reducing the trim cycle could realize savings through reduced costs related to outage response and emergency trims, although there are increased costs for the trim program. The associated risk of outages will decrease as the trim frequency is reduced. The point to be considered is what trim cycle is the most cost effective and most appropriate for the operating environment.

Although the model used to create Figure 3 contains some assumed data, Hydro Ottawa is confident in the overall recommendations. During the six years the new trim cycle will be used, actual outage and trim information will be collected to revise the model that created Figure 3. Hydro Ottawa will then re-evaluate its trim cycle.

Interrogatory

O&M and Administration Costs

41. Ref.: D1/4/3: Ungerground Locates

a. Please expand Table 1 to show the total cost of the program and cost per request for each year.

Response

a) A revised Table 1 of Exhibit A1-4-3 at page 3 is presented below.

The contract for the 2008 locate activities is out for tender, and so Hydro Ottawa does not have a forecast cost for the activities. It is reasonable to assume that costs for 2008 will be similar to the costs in previous years, plus an inflationary increase.

Table 1 - Activity Level

Year	Requests	Expenses	$/Locate
2005 actual	27,013	$843,730[1]	31.23
2006 actual	28,796	$1,159,187	40.26
2007 estimate	30,000	$1,196,164[2]	39.87
2008 forecast	28,600	$1,144,000	40.00

[1] Internal labour is not included in the 2005 expenses, as recordkeeping at the time did not contain this detailed breakdown.
[2] The 2007 expenses have been estimated based on actual expenses to October 31, 2007, and forecasted expenses for the balance of the year.

Interrogatory

O&M and Administration Costs

42. Ref: D1/5/1: Compensation

a. Please file details of HOL's Incentive Compensation plan.

Response

a) Attached is the Annual Incentive Plan Guide for Management Employees of Hydro Ottawa. The plan is currently under review and changes are expected, but any changes would be planned to be expense neutral.

Annual Incentive Plan Guide

For

Management Employees of

Hydro Ottawa Limited

November 2005

Table of Contents

About this Brochure

This brochure highlights the features of Hydro Ottawa Ltd Ltd.'s Annual Incentive Plan. Use it in conjunction with the Guide to Management Compensation for an overview of Hydro Ottawa Ltd's compensation programs.

About the Incentive Plan

We have a goal of continuing Hydro Ottawa Ltd's development into a first class, performance-driven company. With this in mind, senior leaders develop consistently challenging goals and measures for the organization. Company executives and the board of directors work together to ensure that the incentive plan reflects those goals and objectives and has a focus of organizational excellence and fiscal responsibility.

The Hydro Ottawa Ltd Annual Incentive Plan:

- Is designed to recognize and reward your contributions to Hydro Ottawa Ltd's success.
- Provides you with a powerful incentive to achieve financial and strategic goals during the year.
- Ties your incentive plan payment to your performance, based on clearly defined objectives.

Your ability to earn an incentive plan payment will depend on your individual opportunity (Target Payment Percentage), base salary level; on how well the Company succeeds in meeting corporate goals, and how well you yourself perform. The Incentive Plan is aimed at recognizing and rewarding high performers who are working to make Hydro Ottawa Ltd's a success.

Eligibility for the Plan

Eligibility for the Incentive Plan includes all full time staff.

You must be hired before July 1 to be eligible for the current year's incentive plan.

You must be employed by Hydro Ottawa Ltd at the end of the fiscal year to be eligible for plan participation.

Incentive Plan Formula

Payment of incentives to employees is dependent on the achievement of key financial goals by the company. Therefore when:

CORPORATE FINANCIAL PERFORMANCE MEETS OR EXCEEDS TARGET, the formula for the incentive plan is

Base Salary X Target Incentive Rate (percentage) X Individual Performance Indicator (IPI) X Individual Performance Weighting

+

Base Salary X Target Incentive Rate (percentage) X Corporate Performance Factor X Corporate Performance Weighting

CORPORATE FINANCIAL PERFORMANCE DOES NOT MEET TARGET:

IF Corporate Financial Performance is Below Threshold, there will be NO incentive plan payout (corporate OR personal components) for the year.

IF Corporate Financial Performance is Between Threshold and Target, the INDIVIDUAL component of incentive pay will be reduced by way of a Financial Multiplier (based on achievement of corporate financial goals – multiplier will be between 0.5 and 1.0 depending on actual financial results versus target), such that the formula becomes:

Base Salary X Target Incentive Rate (percentage) X Individual Performance Indicator (IPI) X Individual Performance Weighting **X Financial Multiplier**

+

Base Salary X Target Incentive Rate (percentage) X Corporate Performance Factor X Corporate Performance Weighting

Why are Incentive Plan Payouts linked to Financial Performance?

- Achievement of a minimum level of profitability is a standard for incentive plan payments in most for-profit businesses
- The organization must achieve minimum levels of profitability to ensure affordability of incentive plan payments.
- Linking incentive pay to business success ensures good shareholder value and emphasizes sound financial management

Target Incentive Rate

In general your target incentive rate is based on your evaluated job grade.

Grade	Individual Opportunity
1	5%
2	5%
3	10%
4	15%
5	15%
6	20%
7	20%

Target incentive rate is stated as a percentage of your base salary in your letter of offer/ official company documentation explaining personal compensation details.

Corporate Performance Factor

The Board of Directors, through the Compensation Committee, establishes and approves the corporate performance goals, as well as the relative weighting for each goal, for the HYDRO OTTAWA LTD Incentive Plan on an annual basis. Performance goals are based on those business strategies and operating plans that drive ratepayer value.

The corporate performance factor is an overall score that reflects the degree to which the organization achieves its key business goals. The overall Corporate Performance Factor is a weighted calculation that is the sum of the performance score for each goal multiplied by the relative weighting applied to that goal (e.g., financial goals could be weighted as 70% of the total corporate performance).

Two general categories of goals comprise the Corporate Performance Factor, financial and customer service. The number of financial and customer service goals, and their measure, are to be determined and communicated following the roll out of the annual business plan. Typical goals might include controllable costs (financial) and system reliability (customer service).

Each year, the Board will establish a “target” level of performance for each goal, as well as “threshold” (minimum acceptable level of achievement at which incentive pay may be earned) and “stretch” (level of achievement at which maximum incentive pay may be earned) levels for use in calculating performance scores.

Performance scores for each measure/goal will be determined as follows:

Results Achieved	Score
Below Threshold	0
Threshold	.5
Target	1
Stretch	1.5
Above Stretch	1.5

Scores for performance between Threshold and Target, and between Target and Stretch, will be assessed on a pro-rated basis.

Individual Performance Indicator

You and your manager will work together to determine your own personal performance goals, based on the annual business plan. Individual goals will be set annually and reviewed/evaluated as per the corporate performance management processes. An Individual Performance Indicator (IPI) will be established based on the degree to which individual goals were achieved.

IPI will be determined as follows:

Results Achieved	Score
Below Threshold	0
Threshold	.5
Target	1
Stretch	1.5
Above Stretch	1.5

Scores for performance between Threshold and Target, and between Target and Stretch, will be assessed on a pro-rated basis.

Weighting (Corporate vs. Individual Performance Indicators)

The weighting of individual and corporate performance factors is set for each grade level to reflect the ability of individuals at that level to directly influence corporate outcomes. The more senior the position, the more direct influence the individual can have on corporate performance and therefore the higher the weighting for corporate performance. The weightings, by grade level, are:

Grade	Corporate Performance	Individual Performance
1	25%	75%
2	25%	75%
3	25%	75%
4	35%	65%
5	35%	65%
6	50%	50%
7	50%	50%
8	70%	30%
9	70%	30%
10	70%	30%
11	75%	25%

Incentive Plan Payments

Payments will be made following confirmation of year-end results and Board approval of results and payments.

Your incentive plan payment is taxable income and standard deductions will apply, including OMERS contributions to the extent permitted by the plan.

Changes in Your Employment Status

If You Leave the Company – If you leave Hydro Ottawa Ltd. during the year, eligibility for your incentive plan payment will depend on the reason you are leaving:

Death, Disability, or Retirement – Your incentive plan payment will be pro-rated based on the number of months you have been actively employed during the year. Your pro-rated incentive plan payment will normally be paid at the time Incentive Plan payments are made to all participants. Your incentive plan payment will be paid to you if you retire or become disabled and to your designated beneficiary if you die.

Other Reasons – If you quit or your employment is terminated before the end of the fiscal year, and you have officially ceased to be an employee of Hydro Ottawa Ltd, you will not be eligible for an incentive plan payment. If you quit or are terminated after the end of the performance period but before the incentive plan payments are made, you will be paid at the time all other incentive plan payments are distributed.

If You are Promoted or Hired during the Year – If you are promoted to a higher level position during the year, your eligibility for incentive plan payment will be pro-rated on the number of full months you worked in each position and the base pay and individual opportunity (Target Incentive Rate) for each position. If you are hired during the year, your incentive plan payment will be pro-rated based on the number of months you were employed during the year, subject to meeting minimum eligibility requirements.

A Final Word about the Incentive Plan

If you have any questions about the plan and how it pertains to you, please contact your manager or the Human Resources Department.

The Board of Directors of Hydro Ottawa Ltd Holding Inc. or their delegates may amend Hydro Ottawa Ltd's Annual Incentive Plan from time to time. Any changes to the Incentive Plan shall not constitute a fundamental change to the terms of your employment contract or otherwise constitute termination of employment. Participation in the plan does not guarantee an incentive plan.payment.

Interrogatory

O&M and Administration Costs

43. Ref: D2/1/1: PILS

a. Please explain in greater detail what process HOL will use to update the PILS model for changes in tax legislation. Specifically, how will change in corporate income tax rates recently announced by the federal government be reflected?

Response

a) Hydro Ottawa prepares its financial forecast using the best available data to that date. The enacted corporate income tax rate of 20.50% was used for the 2008 PILs model calculation. The recent federal government announcement proposes dropping the rate to 19.50%. Upon enactment, Hydro Ottawa will reflect the effect of this rate change in the variance account 1592.

Interrogatory

O&M and Administration Costs

44. Ref: H1/1/1: Cost Allocation

a. Please restate the revenue to cost ratios and service charges shown in Table 1 assuming the revenue to cost ratios for Street Lights and Sentinel Lights were set at 70%, the minimum acceptable ratio according to the Board Staff proposal.

Response

a) As reported in the response to Board Staff Interrogatory # 67, Hydro Ottawa has prepared the Cost Allocation model with 2008 data and the following revenue to cost ratios were calculated for Street Lights and Sentinel Lights:

	Revenue to Cost
Street Lights	69.35%
Sentinel Lights	35.08%

Hydro Ottawa considers the result for Street Lights to be sufficiently close enough to the Board Staff's proposed minimum acceptable ratio of 70%, given the level of estimation involved in the inputs to the Cost Allocation model. Therefore no adjustment has been made.

For Sentinel Lights, the Revenue to Cost ratio of 35.08% represents a revenue of $4,538 and a cost of $12,936. Even shifting $8,398 of revenue from the GS > 1500 < 5000 kW class to achieve a 100% ratio for Sentinel Lights would only reduce the GS > 1500 < 5000 kW ratio from to 159.43% to 159.29%. Given that Hydro Ottawa is in the process of

phasing out all Sentinel Lights, it would not be prudent to make any adjustments at this time.

Interrogatory

O&M and Administration Costs

45. Ref: I1/3/1: Rate Design

a. Please confirm the rate impacts shown in the table below (spreadsheet attached for ease of reference) are correct.

Monthly Distribution Rates by Rate Class*			
	2007	2008	
Residential @ 1,000kWh/mo.			
Fixed	9.24	9.02	-2.38%
Distribution Vol. Rate	18.3	22	20.22%
Calendar Year Rate Rider	**0**	**0.8**	
Reg. Asset Recovery	1.3	-0.2	-115.38%
Low Voltage Service Charge	0	0.2	
Total	28.84	31.82	10.33%
Total Excluding Reg.-Asset and Calendar-**Year Rate Rider**	**27.54**	**31.22**	**13.36%**
GS <50KW (@16,000kWh/mo.)			
Fixed	10.3	10.3	0.00%
Distribution Vol. Rate	288	347.2	20.56%
Calendar Year Rate Rider	0	12.8	
Reg. Asset Recovery	16	-8	-150.00%
Low Voltage Service Charge	0	3.2	
Total	314.3	365.5	16.29%
Total Excluding Reg.-Asset and Calendar-**Year Rate Rider**	**298.3**	**360.7**	**20.92%**
GS >50 < 1,499 (@380KW avg. mo. Demand)			
Fixed	249.13	297.69	19.49%
Distribution Vol. Rate	967.594	1164.32	20.33%
Calendar Year Rate Rider	0 41	.382	
Reg. Asset Recovery	231.724	-112.594	-148.59%
Low Voltage Service Charge	0	28.462	
Total	1448.448	1419.26	-2.02%
Total Excluding Reg.-Asset and Calendar-**Year Rate Rider**	**1216.724**	**1490.472**	**22.50%**

Response

The rate impacts presented in SEC Interrogatory #45 have included the Low Voltage ("LV") Service Charge as a 'Monthly Distribution Rate'. As stated in Exhibit I1-4-1, as a result of new USoA accounts designated for recording LV charges and related variances, LV charges no longer form part of the Base Revenue Requirement for LDCs, but are treated in a similar manner to Transmission rates. As a result, Hydro Ottawa has recalculated the rate impacts excluding the LV Service Charge and present them below in the same format as provided by SEC above. The Regulatory Asset Recovery rate rider has been updated and was filed on November 16, 2007; see Exhibit I1-6-1.

Residential @ 1,000 kWh/month

	2007 $	2008 $	Impact
Fixed	9.24	9.02	-2.38%
Distribution Volumetric Rate	18.30	22.00	20.22%
Calendar Year Rate Rider	0.00	0.80	
Regulatory Asset Recovery	1.30	-0.70	-153.85%
Total	28.84	31.12	7.91%
Total Excluding RA and Calendar Year Rate Rider	27.54	31.02	12.64%

GS<50kW @16,000 kWh/month

	2007 $	2008 $	Impact
Fixed	10.30	10.30	0.00%
Distribution Volumetric Rate	288.00	347.20	20.56%
Calendar Year Rate Rider	0.00	12.80	
Regulatory Asset Recovery	16.00	-16.00	-200.00%
Total	314.30	354.30	12.73%
Total Excluding RA and Calendar Year Rate Rider	298.30	357.70	19.85%

GS>50<1,499 @380 kW average month Demand

	2007 $	2008 $	Impact
Fixed	249.13	297.69	19.49%
Distribution Volumetric Rate	967.59	1164.32	20.33%
Calendar Year Rate Rider	0.00	41.38	
Regulatory Asset Recovery	231.72	-174.12	-175.14%
Total	1448.45	1329.29	-8.23%
Total Excluding RA and Calendar Year Rate Rider	1216.72	1462.02	20.16%

Interrogatory

O&M and Administration Costs

46. Ref: B3/6/1: working capital

a. Please restate the working capital expense for 2008 by recalculating the OM&A expense in Table 1 using the existing allocation methodology. That is, what would the working capital allowance be if HOL did not change its capitalization rates?

Response

a) Hydro Ottawa has not prepared a detailed 2008 budget using the prior capitalization process[1]. However, as stated in Exhibit D1-1-4 at page 4, lines 9-13, the accounting change for the overhead costs directly attributable to capital programs would decrease the capitalized amount for 2008 and increase OM&A by approximately $6.5M from what it would be otherwise. The working capital allowance for 2008 could then be approximated as follows:

	2008 Forecast $000
Power Supply Expenses	$558,895
OM&A Expenses	52,828
Total Expenses for Working Capital	611,723
Working Capital @ 15%	$91,759

[1] In the Responses to Interrogatories, Hydro Ottawa has used the terms “accounting change” and “change in capitalization process” interchangeably to mean the implementation of both the new cost allocation procedure and capitalization policy.