

# **Board Staff Interrogatories 2008 Electricity Distribution Rates Sioux Lookout Hydro Inc EB-2007-0785**

## **OPERATING COSTS**

### **OUTSOURCING**

#### 1.1 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 6

On page 1, Sioux Lookout Hydro lists the services which it has purchased from Thunder Bay Hydro. In the section "Summary of tendering approach/summary of cost approach," it is stated that such services are provided on a contract basis and are reviewed yearly. It is then stated that "*Cost is based on customer count and flat rate fee.*" Please state: (i) if any customers are excluded from the customer count and, if so, which ones, and how the flat rate fee is determined.

#### 1.2 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 6

On page 1, Sioux Lookout Hydro lists the services which it has purchased from other organizations and Thunder Bay Hydro is the only such organization listed. Please confirm that Thunder Bay Hydro is the only external organization from which Sioux Lookout Hydro purchases services. If Thunder Bay Hydro is not the only such organization, please state from which other organizations Sioux Lookout Hydro purchases such services and provide equivalent information on any such arrangements to that provided for the Thunder Bay Hydro arrangements, including equivalent information to that requested in interrogatory number 1.1

## **EMPLOYEE COMPENSATION**

#### 1.3 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Sioux Lookout provides a breakdown of total salary and wages from 2006 to 2008. Please confirm whether or not Sioux Lookout

has overtime compensation. If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

1.4 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 1, Sioux Lookout provides a breakdown of total employee benefits. Please explain the increase in total benefits of 11% from 2006 to 2008.

1.5 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

On Page 2, Sioux Lookout provides a breakdown of the total costs charged for compensation to OM&A from 2006 to 2008. In 2006, Sioux Lookout charged \$413,419 of its total costs to OM&A. Please explain where the remaining amount of \$65,000 was charged.

1.6 Ref: Exhibit(s) Exhibit 4 / Tab 2 / Schedule 7

Please provide details regarding the status of Sioux Lookout's pension fund and all assumptions used in the analysis.

## **OM&A EXPENSES**

1.7 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 1

- a) Please confirm that Sioux Lookout has not made changes to the company's accounting policies in respect to capitalization of operation expenses and/or has not made any significant changes to accounting estimates used in allocation of costs between operations and capital expenses post fiscal year end 2006. I
- b) If any accounting policy changes or any significant changes in accounting estimates have been made post 2006 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

1.8 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 2 / Page 1

The following table was modified by Board staff to review Sioux Lookout's OM&A expenses. Note rounding differences may occur, but are immaterial to this question.

SUMMARY OF OM&A COSTS	2006 Board Approved	2006 Actual	Variance form 2006 Board Approved	% change
Operation (Working Capital)	\$ 337,710	\$ 340,553	\$ 2,843	0.84%
Maintenance (Working Capital)	\$ 89,819	\$ 72,867	-\$ 16,952	-18.87%
Billing and Collections	\$ 242,157	\$ 298,055	\$ 55,898	23.08%
Community Relations	\$ -	\$ 2,218	\$ 2,218	100.00%
Bad Debt	\$ 2,814	\$ 51,740	\$ 48,926	1738.72%
Property Insurance	\$ 25,446	\$ 25,728	\$ 282	1.11%
General Advertising Expenses	\$ 785	\$ 546	-\$ 239	-30.45%
Administrative and General Expenses	\$ 222,888	\$ 246,991	\$ 24,103	10.81%
<b>Total OM&amp;A</b>	<b>\$ 921,618</b>	<b>\$ 1,038,698</b>	<b>\$ 117,080</b>	<b>12.70%</b>
Administration		\$ 513,033		
Operation Maintenance		<u>\$ 487,428</u>		
<b>Total Per Financial Statements</b>		<b><u>\$ 1,000,461</u></b>		
<b>Unexplained Difference</b>		<b><u>\$ 38,237</u></b>		

- a) 2006 Actual expenses per the above table are reported as \$1,038,698. The value reported in the 2006 audited financial statements is \$1,000,461. Please provide a reconciliation to explain the \$38,237 difference.
- b) Billing and Collections increased by \$55,898 between 2006 Actual and 2006 Board Approved. Per Exhibit 4/ Tab 2/ Schedule 2/Page 3 Meter Reading Expense has increased by \$17,377 and Customer Billing increased by \$36,637. Please provide explanations for these two increases.
- c) Per Exhibit 4/ Tab 2/ Schedule 2/Page 5 Outside Services Employed has increased by \$18,927. Please provide an explanation for this increase.

1.9 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 2 / Page 1

The following table was modified by Board staff to review Sioux Lookout's OM&A expenses.

SUMMARY OF OM&A COSTS	2006 Actual	2007 Bridge	Variance form 2006	
			Actual	% change
Operation (Working Capital)	\$ 340,553	\$ 402,439	\$ 61,886	18.17%
Maintenance (Working Capital)	\$ 72,867	\$ 90,755	\$ 17,888	24.55%
Billing and Collections	\$ 298,055	\$ 307,814	\$ 9,759	3.27%
Community Relations	\$ 2,218	\$ -	-\$ 2,218	-100.00%
Bad Debt	\$ 51,740	\$ 40,000	-\$ 11,740	-22.69%
Property Insurance	\$ 25,728	\$ 26,176	\$ 448	1.74%
General Advertising Expenses	\$ 546	\$ 800	\$ 254	46.52%
Administrative and General Expenses	\$ 246,991	\$ 251,308	\$ 4,317	1.75%
<b>Total OM&amp;A</b>	<b>\$ 1,038,698</b>	<b>\$ 1,119,292</b>	<b>\$ 80,594</b>	<b>7.76%</b>

- a) Operation expense increases by \$61,896 between 2006 Actual and 2007 Bridge. On Exhibit 4/Tab 2/Schedule 3/ Page 1 Sioux Lookout identifies the driver of this increase as an adjustment to accrued sick leave in the amount of \$50,729. The adjustment is made against operation labour Account 5020. Is this accounting entry a one time entry?
- b) If this amount is not a one time accounting entry please explain why.

1.10 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 2 / Page 1

The following table was modified by Board staff to review Sioux Lookout's OM&A expenses

SUMMARY OF OM&A COSTS	2007 Bridge	2008 Test	Variance form 2007	
			Bridge	% change
Operation (Working Capital)	\$ 402,439	\$ 421,827	\$ 19,388	4.82%
Maintenance (Working Capital)	\$ 90,755	\$ 87,281	-\$ 3,474	-3.83%
Billing and Collections	\$ 307,814	\$ 346,826	\$ 39,012	12.67%
Community Relations	-	-	-	0.00%
Bad Debt	\$ 40,000	\$ 20,000	-\$ 20,000	-50.00%
Property Insurance	\$ 26,176	\$ 26,700	\$ 524	2.00%
General Advertising Expenses	\$ 800	\$ 1,000	\$ 200	25.00%
Administrative and General Expenses	\$ 251,308	\$ 233,192	-\$ 18,116	-7.21%
<b>Total OM&amp;A</b>	<b>\$ 1,119,292</b>	<b>\$ 1,136,826</b>	<b>\$ 17,534</b>	<b>1.57%</b>

- a) Please prepare a reconciliation between the 2007 OM&A budget to the 2007 forecast as presented above in the amount of \$1,119,292. If the values reconciled are materially different, please explain why these values are different.
- b) Operation costs increase by \$19,388 between 2007 Bridge and 2008 Test. Per Exhibit 4/Tab 2/Schedule 1/ Page 1 Sioux Lookout identifies Account 5020 increasing by \$8,888. Please confirm if Sioux Lookout has reversed the accounting entry for accrued sick leave for \$50,729.
- c) If Sioux Lookout has reversed the \$50,729 please confirm that Sioux Lookout has increased Account 5020 by an amount of \$59,617 (\$50,729 plus \$8,888), and explain the reason for this increase.

1.11 Ref: Exhibit(s) Exhibit 4 / Tab 1 / Schedule 2

- a) Bad Debt expenses are reported as \$2,814 for Board Approved 2006, \$51,740 for Actual 2006, and \$40,000 for Bridge 2007. Please provide details of the components (i.e. energy sales, work order recoveries etc.) that are included in Bad Debt Expenses for all years.
- b) Please describe the methodology(s) employed by Sioux Lookout to calculate the value for Bad Debt Expense of \$20,000 for Test 2008.

Exhibit 9/ Tab 1/ Schedules 4 and 5

The Wholesale Network Transmission Rate will decrease 18% effective November 1 2007. The Wholesale Connection Transmission Rate will decrease 28% and the Wholesale Transformation Connection Transmission Rate will increase 7% effective November 1 2007.

- a) For each rate class, please provide a revised RTR – Network Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the revised RTR – Network Service Rate for each rate class should equal the amount paid for the Wholesale Network Transmission Rate.)
- b) For each rate class, please provide a revised RTR – Line and Transformation Connection Service Rate that would be revenue neutral over the 12 month period beginning May 1, 2008. (i.e. The amount collected by the RTR - Line and Transformation Connection Service Rate for each rate class should equal the amount paid for the Wholesale Connection Transmission Rate and the Wholesale Transformation Connection Transmission Rate.)

## **2 RATE BASE**

### 2.1 Ref: Exhibit(s) Exhibit 2/ Tab 1/ Schedule 1

Please confirm that Sioux Lookout Hydro has no projects for which a Leave to Construct under section 92 is required.

### 2.2 Ref: Exhibit(s) Exhibit 2/ Tab 1/ Schedule 1

- a. Please provide Sioux Lookout 'sCode of Business Conduct.
- b. For the years 2002 to 2008 inclusive, please provide a table listing the following (use actual dollars in years where available, or expected or planned or projected dollars, or % where indicated):
  - i. Net income
  - ii. Actual Return on Equity (%)
  - iii. Allowed Return on Equity (%)
  - iv. Retained Earnings;
  - v. Dividends to shareholders;
  - vi. Sustainment Capital expenditures;
  - vii. Development Capital Expenditures;
  - viii. Operations Capital Expenditures;
  - ix. Other Capital Expenditures (identify)
  - x. Total Capital Expenditures
  - xi. Depreciation

### 2.3 Ref: Exhibit(s) Exhibit 1/ Tab 1/ Schedule 13/ Page 1:

Provide a detailed list and description of the "balance of the regulatory assets, not previously included in the 2006 EDR..." as stated in the 1st paragraph.

### 2.4 Ref: Exhibit(s) Exhibit 1/ Tab 3/ Schedule 1

Please provide a complete list of the amortization periods for "other equipment". Please include Vehicles, Computer hardware and software.

2.5 Ref: Exhibit(s) Exhibit2/Tab2/Schedule1/Page 4

In the Continuity statement, under 2007 Bridge year column total additions, Gross asset value is shown as \$344,290. However in Exhibit 2/ Tab 3/ Schedule 1/ Pages 1-2, the sum of the capital budget for the 2007 Bridge year is \$346,290.

- a. There is an apparent repetition of one project (project 00008 office equipment) at the bottom of page 1 of the Exhibit 2/Tab 3 / Schedule 1 which would account for the difference. Should one of the rows be removed?
- b. If the discrepancy is not due to the repetition described under a) above, please explain the discrepancy between the two amounts.

2.6 Ref: Exhibit(s) Exhibit 2/ Tab 2/ Schedule 1/ Page 4

Please explain the nature and provide the details of the adjustments in the third last row of the table of the Continuity statement e.g. under 2008 Test year an amount of \$66,780 is shown as the adjustment under the Gross Asset value column.

2.7 Ref: Exhibit(s) Exhibit 2/ Tab 2/ Schedule 2/ Page 1

The last column of the Gross Assets table is labelled as "Variance from 2006 Actual", but the numbers under the column are reflected as the variance between 2008 Test vs. 2007 Bridge. Please confirm that the column label should be "Variance from 2007 Bridge".

2.8 Ref: Exhibit(s) Exhibit 2/Tab 2/Schedule 4/page 3

The total 2008 Accumulated depreciation increase from 2007 Bridge to 2008 Test year is shown as \$256,324. However at Exhibit 9/Tab 1/ Schedule1/Page1 the total Amortization Expenses for 2008 is stated as \$257,983.66. Please explain in detail the discrepancy.

2.9 Ref: Exhibit(s) Exhibit 2/ Tab 2/ Schedule 5

At page 1 of the exhibit, the heading and the tables are not consistent e.g. "2006 Board Approved vs. 2006 Actual" is not reflected in the table which provides headings of "2006 Bridge" and "2008 Test". Please:

- a) Provide a revised table reflecting the correct headings.
- b) Provide a table with accumulated depreciation for all the asset account items and provide a total amount for the variance of the projects which

are material and for the total of accounts which are non-material to reconcile the total with the total accumulated variance on all projects.

- c) Below the account 1930 table, it states "The amounts were determined using the average of the 2003 and 2004 balances, which thereby reduced the actual amount in this account as of the end of 2004."
  - i Please explain why the variance between the 2006 Board approved and the 2006 actuals, can be explained by the half-year rule.
  - ii Is the purchase of the new truck in 2005, the only difference?
- d) Please confirm whether or not the 2006 actual figure of \$196,518 reflects the half-year rule or the end of year balance for 2006.

2.10 Ref: Exhibit(s) Exhibit 2/ Tab 3/ Schedule 1

Please provide the capital budget by project for 2006, Board approved and Actual, using the same format listed in Exhibit 2 Tab 3, Schedule 1, pages 1 to 3.

2.11 Ref: Exhibit(s) Exhibit 2/ Tab 3/ Schedule 1

For each of the years 2006, 2007 and 2008, please provide:

- a. The calculation of the materiality level
- b. A comprehensive table of capital expenditures on a project basis, with a subtotal for those which exceed the materiality threshold, and a subtotal for the group of those which do not exceed the materiality threshold. Provide the overall total capital expenditures;
- c. Please produce a capital expenditures budgets summary for projects above the materiality level according to a) above and indicate:
  - i. How would the table be adjusted if the budget was required to be reduced by 25%?
  - ii. What would be the consequences of the adjustment on each of the programs?

2.12 Ref: Exhibit(s) Exhibit 2/Tab 3/Schedule 2/Page 5:

At page 5, under Renewal Projects, Justification, it is stated that "The Applicant maintains its distribution plant according to a thorough assessment

that uses a combination of time based and condition based maintenance methodology.” Please

- a) Provide details of the time based maintenance methodology, including timing of examinations for the various assets;
- b) Provide details of the condition based maintenance methodology, including the asset condition assessment process and results, and how these are and have been converted to an action plan.

2.13 Ref: Exhibit(s) Exhibit 2/Tab 3/Schedule 2

Provide the following information on service reliability indicators recorded and used by SLHI:

- a) Provide a listing of all the Service Reliability Indicators maintained and used, and their actual values for each of the years 2002 through 2006, and indicate the target that the utility is seeking to maintain;
- b) Indicate whether there is any relationship between the indicators and the capital expenditure program, and provide the specific data which supports capital expenditures which are initiated due to reliability reasons;
- c) Indicate which capital expenditure programs are responsive to the indices which are outside of the recent three year average.

2.14 Ref: Exhibit(s) Exhibit 2/ Tab 3/ Schedule 2/ Page 12-13

For transportation and related equipment. Please:

- a) Provide an inventory of vehicles, including the type, and the year of acquisition for each of the years 2006, 2007 and 2008
- b) Describe the vehicle(s) to be replaced or modified under the \$80,000 budget in 2008, and whether new or modified.

2.15 Ref: Exhibit(s) Exhibit 2/Tab 3/Schedule 4/Page 1-2

The Capitalization Policy provided describes how capital expenditures are undertaken. Please indicate

- a. The policy according to which overhead costs are assigned to projects;
- b. How they are capitalized e.g. % of project value, or % based on work hours
- c. How interest on capital used during construction is capitalized.

### 3 COST OF CAPITAL

#### 3.1 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 1 – Capital Structure

Sioux Lookout provides the following table under “Capital Structure”:

Description	Amount	Portion	Cost Rate	Weighted Avg.
Long Term Debt	3,191,975	49.33%	6.00%	2.96%
Short Term Debt	258,826	4.00%	4.77%	0.19%
Common Equity	3,019,856	46.67%	8.68%	4.05%
Total	6,470,658	100%		7.20%

- a) Please confirm that the table shown corresponds to the 2008 forward test year for which Sioux Lookout is seeking Board approval of its revenue requirement and distribution rates.
- b) Please provide the information in the same table format for each of the years:
  - ii) 2006 Board-approved;
  - iii) 2006 actual; and
  - iiii) 2007 bridge.

#### 3.2 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 1 – Short-term Debt

In the table shown under “Capital Structure” and duplicated in interrogatory 1, Sioux Lookout has used a short-term debt rate (or “Cost Rate”) of 4.77%.

The Board Report on Cost of Capital and 2<sup>nd</sup> Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (the “Board Report”) states the following in section 2.2.2:

***“The Board has determined that the deemed short-term debt rate will be calculated as the average of the 3-month bankers’ acceptance rate plus a fixed spread of 25 basis points. This is consistent with the Board’s method for accounting interest rates (i.e. short-term carrying cost treatment) for variance and deferral accounts. The Board will use the 3-month bankers’ acceptance rate as published on the Bank of Canada’s website, for all business days of the same month as used for determining the deemed long-term debt rate and the ROE.*”**

*For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied*

*to the deemed short-term debt component of a distributor's rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates."* [Emphasis in original]

- a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.
- b) Please confirm if Sioux Lookout is proposing that the deemed short-term debt rate would be updated based on January 2008 *Consensus Forecasts* and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report. If Sioux Lookout is not proposing that the methodology in the Board Report be followed, please provide Sioux Lookout's reasons for varying from the methodology in the Board Report.

3.3 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 1 and Exhibit 1 / Tab 1

Sioux Lookout states that it is requesting an equity return of 8.68% per the Board's formulaic approach as documented in Appendix B of the Board Report, with the final ROE for 2008 rate-setting purposes to be established based on January 2008 *Consensus Forecasts* and Bank of Canada data per the methodology in the Board Report. Please provide the derivation of the 8.68% ROE showing the calculations, data used and identifying data sources and date(s) of the data used.

3.4 Ref: Exhibit(s) Exhibit 6 / Tab 1 / Schedule 2 and Exhibit 1 / Tab 2 /

Sioux Lookout provides data on its cost of debt in Exhibit 6 / Tab 1/ Schedule 2. Note 6 of Sioux Lookout's 2006 Audited Financial Statements provides further information on the existing bank instalment loan.

In the Board Report, the Board states, in section 2.2.1, the following policy for setting the debt rate:

***"For rate-making purposes, the Board considers it appropriate that further distinctions be made between affiliated debt and third party debt, and between new and existing debt.***

***The Board has determined that for embedded debt the rate approved in prior Board decisions shall be maintained for the life of each active instrument, unless a new rate is negotiated, in which case it will be treated as new debt. The Board has***

***determined that the rate for new debt that is held by a third party will be the prudently negotiated contracted rate. This would include recognition of premiums and discounts.***

***For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with "A/BBB" rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with "A/BBB" rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and "A/BBB" corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.***

***For all variable-rate debt and for all affiliate debt that is callable on demand the Board will use the current deemed long-term debt rate. When setting distribution rates at rebasing these debt rates will be adjusted regardless of whether the applicant makes a request for the change.*** [Emphasis in original]

- a) Please restate the information shown in Exhibit 6 / Tab 1 / Schedule 2 to show the following information for debt instruments in effect and the weighted average cost of long-term debt of Sioux Lookout for each year:
- i) 2004;
  - ii) 2005;
  - iii) 2006 Board-approved;
  - iv) 2006 actual;
  - v) 2007 bridge; and
  - vi) 2008 forward test.

Year:							
	Name of instrument	Debt holder (name)	Is debt holder affiliated with Sioux Lookout Hydro? (Yes/No)	Issue date	Maturity date	Principal	Interest rate
1							
2							
3							
...							
Total							

b) Note 6 of the 2006 Audited Financial Statements states that the bank operating loan bears interest at the bank's prime rate. In Exhibit 6 / Tab 1 / Schedule 2, Sioux Lookout provides the following information on its debt:

	Issue Date	Amount out-standing	Rate	Termination date	Year	Year-days	Average Balance	Cost
Demand Instalment Loan	10-Apr-02	1,901,667	4.00%	04-Jul-07	2004	366	1,901,667	76,067
Demand Instalment Loan	10-Apr-02	1,761,667	4.42%	04-Jul-07	2005	365	1,761,667	77,868
Demand Instalment Loan	10-Apr-02	1,621,667	5.81%	04-Jul-07	2006	365	1,621,667	94,219
Demand Instalment Loan	10-Apr-02	1,563,334	6.00%	04-Jul-07	2007	185	792,375	47,542
Demand Instalment Loan	04-Jul-07	2,789,823	6.00%	01-Jun-22	2007	181	1,383,446	83,007
Demand Instalment Loan	04-Jul-07	2,712,323	6.00%	01-Jun-22	2008	366	2,712,323	162,739

iii For debt instruments up to July 4, 2007, please explain if the rates shown are the actual bank prime rate.

iv For the new or renewed demand instalment loan issued on July 4, 2007, please explain if the 6.00% is the actual or forecasted bank prime rate. If it is not, please provide a justification for the proposed 6.0% rate.

- v Is the rate for the demand instalment loan variable? Please provide documentation to support the response.
- vi For the new or renewed demand instalment loan, please explain if and how the proposed rate complies with the debt rate policy for rate-setting, as documented in section 2.2.1 of the Board Report. If the proposed rate does not comply with the methodology documented in the Board Report, please provide a justification for the deviation.

## **4 REVENUE REQUIREMENT**

### **4.1 Ref: Exhibit(s) Exhibit 7/Tab 1/Schedule 1**

Board Staff have prepared the following table which shows the calculation of Sioux Lookout's Revenue Requirement from Distribution Rates and Revenue Requirement from Rate Riders from the 2006 EDR. Revenue Requirement from Distribution Rates can be confirmed by applying the 2006 EDR distribution billing determinants times the Board approved May 1, 2006 distributions rates. Note some difference may occur due to rounding.

## Revenue Requirement - 2006 OEB Approved

Sioux Lookout Hydro Inc  
 EB-2005-0415

	2006 EDR Model Reference		2006 OEB Approved	
<b>Applicants Rate Base</b>				
Net Fixed Assets	3-1 RATE BASE	F12	\$ 4,901,028	A
Working Capital Allowance Base			\$ 6,686,234	B
Working Capital Allowance	3-1 RATE BASE	F16	15% C	D
<b>Rate Base</b>	3-1 RATE BASE	F21	<b>\$ 5,903,963</b>	E
<b>Return on Rate Base</b>				
Deemed Debt %	3-2 COST OF CAPITAL (Input)	C18	50.0% F	H
Deemed Equity %	3-2 COST OF CAPITAL (Input)	C19	50.0% G	I
Interest	3-2 COST OF CAPITAL (Input)	C25	4.00% J	M
Return on Equity	3-2 COST OF CAPITAL (Input)	E32	9.00% K	N
<b>Return on Rate Base</b>	5-1 SERVICE REVENUE REQUIREMENT	F15	<b>6.50% L</b>	O
<b>Distribution Expenses</b>				
OM&A Expenses	See Note 1 below		\$ 929,085	P
Transformer Allowance	6-3 Trfmr Ownership (Input)	R120	\$ 30,437	Q
Amortization	See Note 1 below		\$ 223,151	R
PILs	5-1 SERVICE REVENUE REQUIREMENT	F21	\$ 54,184	S
			<b>\$ 1,236,856</b>	T
<b>Variance / Deferral Account Rate Adders</b>				
Low Voltage	7-2 ALLOCATION - LV-Wheeling	L120	\$ -	U
Smart Meters	See Note 2 Below		\$ 8,208	V
Incremental CDM	5-1 SERVICE REVENUE REQUIREMENT	F17	\$ -	W
			<b>\$ 8,208</b>	X
<b>Revenue Offsets</b>				
Specific Service Charges	5-5 BASE REVENUE REQUIREMENT	D19	-\$ 50,231	Y
Late Payment Charges	5-5 BASE REVENUE REQUIREMENT	D20	-\$ 50,517	Z
Other Distribution Income	5-5 BASE REVENUE REQUIREMENT	D21	-\$ 16,367	AA
Other Income and Deductions	5-5 BASE REVENUE REQUIREMENT	D22	-\$ 31,846	AB
			<b>\$ 148,961</b>	AC
<b>Revenue Requirement from Distribution Rates</b>			<b>\$ 1,479,861</b>	AD
<b>Variance / Deferral Account Rate Riders</b>				
Regulatory Assets	Reg Asset Model 2. Rate Riders Calculation	C53	\$ 927,574	AE
LRAM & SSM			\$ -	AF
<b>Revenue Requirement from Rate Riders</b>			<b>\$ 927,574</b>	AG
Revenue Requirement from Distribution Rates			N/A	
2008 Forecast Billing Determinants Time Current Rates			N/A	
<b>Revenue Sufficiency/Deficiency</b>			<b>N/A</b>	

**Note 1: Proof Distribution Expenses**

OM&A Expenses	P	\$ 929,085
Amortization	R	\$ 223,151
Low Voltage	U	\$ -
<b>5-1 SERVICE REVENUE REQUIREMENT</b>	<b>F17</b>	<b>\$ 1,152,235</b>

**Note 2: Proof Smart Meters**

2006 EDR Metered Customers	2,736
Monthly Smart Meter Rate	\$ 0.25
Months	12
<b>Smart Meter Rate Adder</b>	<b>\$ 8,208</b>

- a) Please confirm that Sioux Lookout agrees with the values in the table above. If Sioux Lookout does not agree please prepare an amended schedule with supporting details.
- b) Please use the following format from the table below as a guide for preparing a similar schedule for Sioux Lookout's 2008 application. Please ensure that application references are accurate. Note the values entered are for example purposes only and may or may not be correct for this application.

## Revenue Requirement - 2008 EDR Application

Sioux Lookout Hydro Inc  
 EB-2007-0785

	2008 Application Reference	2008 Application Amount
<b>Applicants Rate Base</b>		
2007 Net Fixed Assets	\$ 4,737,444	A
2008 Net Fixed Assets	\$ 5,066,230	B
Average Net Fixed Assets <i>(2007 Plus 2008 Divided by 2)</i>		\$ 4,901,837 C
Working Capital Allowance Base	\$ 9,764,765	D
Working Capital Allowance	15%	E \$ 1,464,715 F
<b>Rate Base</b>		<b>\$ 6,366,552 G</b>
<b>Return on Rate Base</b>		
Deemed ShortTerm Debt %	4.00%	H \$ - K
Deemed Long Term Debt %	49.00%	I \$ 3,119,610 L
Deemed Equity %	46.70%	J \$ 2,973,180 M
Short Term Interest	6.00%	N \$ - Q
Long Term Interest	4.77%	O \$ 148,805 R
Return on Equity	8.68%	P \$ 258,072 S
<b>Return on Rate Base</b>		<b>\$ 406,877 T</b>
<b>Distribution Expenses</b>		
OM&A Expenses	\$ 1,145,527	U
Transformer Allowance	-	V
Amortization	\$ 257,984	W
PILs	\$ 52,134	X \$ 1,455,645 Y
<b>Variance / Deferral Account Rate Adders</b>		
Low Voltage	\$ 340,456	Z
Smart Meters	-	AA
Incremental CDM	-	AB \$ 340,456 AC
<b>Revenue Offsets</b>		
Specific Service Charges		AD
Late Payment Charges	-\$ 54,000	AE
Other Distribution Income	-\$ 120,553	AF
Other Income and Deductions	\$ 825	AG -\$ 173,728 AH
<b>Revenue Requirement from Distribution Rates</b>		<b>\$ 2,029,250 AI</b>
<b>Variance / Deferral Account Rate Riders</b>		
Regulatory Assets		- AJ
LRAM & SSM		- AK
		- AL
		- AM
<b>Revenue Requirement from Rate Riders</b>		<b>\$ - AN</b>
Revenue Requirement from Distribution Rates		\$ 2,029,250 AO
2008 Forecast Billing Determinants Time Current Rates		-\$ 1,532,447 AP
<b>Revenue Sufficiency/Deficiency</b>		<b>\$ 496,803 AR</b>

c) Using the applicant prepared 2008 Revenue Requirement schedule as requested above please compare and contrast the 2008 Test Year application values to the OEB Approved 2006 values in the Board staff table. Please identify application references that exist in the application where 2006 values have been compared to 2006 actual results (i.e. OM&A expenses). If no comparison schedule exists in the application please prepare complete supporting schedules in the format required by the minimum filing guidelines.

- d) Please compare the prepared schedule from b. above to Sioux Lookout's Revenue Sufficiency or Deficiency values as calculated on Exhibit 7/Tab 1/Schedule 1. If Revenue Sufficiency or Deficiency values are different please prepare a reconciliation to explain differences.

## 5 SMART METERS

Sioux Lookout Hydro is not one of the thirteen licensed distributors authorized by Ontario Regulation 427/06 to conduct discretionary metering activities with respect to smart meters. In its decision on Sioux Lookout's 2007 IRM application (EB-2007-0576), the Board confirmed its understanding that Sioux Lookout would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

### 5.1 Ref: Exhibit(s) Exhibit 1 /Tab 1 /Schedule 7

On page 2, Sioux Lookout states that it "has not included any costs related to Smart Metering. In decision EB-2007-0576 dated April 12, 2007, the Board approved \$0.25 per month per metered customer. At the present time, it is unclear how Smart Metering costs will be recovered and therefore Sioux Lookout Hydro Inc. requests to be included in any provincial mandate of Smart Metering Costs recovery."

- a) Please confirm if any costs have been incurred by Sioux Lookout with respect to Smart Metering until the date of the filing of this application; if so, please provide:
- vii An itemized cost breakdown; and
  - viii Associated number of smart meter installations.
- b) Please confirm that, in Test Year 2008, Sioux Lookout is going to maintain its current rate adder which was approved by the Board in the April 12, 2007 Decision and Order (EB-2007-0576). If not,:
- i What is the Smart Meter Rate Adder Sioux Lookout is intending to implement in Test Year 2008?
  - ii Please provide justification for the amount of this Smart Meter Rate Adder.

## 6 LOSS FACTORS

- 6.1 Ref: Exhibit(s) Exhibit 1, Tab 1, Schedule 6, Page 4  
Exhibit 4, Tab 2, Schedule 8, Page 1  
Exhibit 9, Tab 1, Schedule 4, Page 2  
Exhibit 9, Tab 1, Schedule 6, Page 2

The table titled "Loss Factors" in the 1<sup>st</sup> reference shows % change in the total loss factors (TLF) for secondary and primary customers <5,000 kW for 2007 and the test year 2008. The 2<sup>nd</sup> reference shows TLF for secondary and primary customers for customers <5,000 kW and >5,000kW for 2006, a table titled "Determination of Loss Adjustment Factor" and a table titled "Total Utility Loss Adjustment Factor". The 3<sup>rd</sup> reference provides TLF for secondary and primary customers <5,000 kW for 2007. The 4<sup>th</sup> reference provides TLF for secondary and primary customers for customers <5,000 kW and >5,000kW for 2008.

- a) Please confirm that the various factors provided in the table titled "Determination of Loss Adjustment Factor" in the 2<sup>nd</sup> reference pertain to the test year 2008.
- b) The references indicate that the TLF is constant for 2006 and 2007 and the proposal for 2008 reflects an increase of 0.9%. Please provide an explanation for this increase.
- c) The 2<sup>nd</sup>, 4<sup>th</sup> and 3<sup>rd</sup> references respectively provide TLF for secondary and primary customers for customers <5,000 kW and >5,000kW for 2006 and 2008, and only for customers <5,000 kW for 2007. Please indicate the reason for omitting customers >5,000kW in 2007.
- d) In the table titled "Determination of Loss Adjustment Factor" in the 2<sup>nd</sup> reference:
  - i Please explain the calculation method used to obtain 1.06418 as "Distribution Loss Adjustment Factor" (row H) in the 2006 column.
  - ii Please confirm that "Loss Factor [(C)/(F)]" (row G) in the 2002-2004 columns computes to 1.0586, 1.0614 and 1.0765 respectively rather than 1.0600, 1.0600 and 1.0760 as indicated.

## 7 REVENUE OFFSETS

### 7.1 Ref: Exhibit(s) Exhibit 9, Tab 1, Schedule 1

Please confirm the amount shown for Revenue Offsets for the 2008 test year. If not confirmed, please provide the correct amount and reconcile that amount with the information provided in Exhibit 3, Tab 1, Schedule 2.

## 8 COST ALLOCATION

### 8.1 Ref: Exhibit(s) Board Report on the Application of Cost Allocation for Electricity Distributors, EB-2007-0667.

On November 28, 2007, the Board released its report on the application of allocated costs to specific matters in rate design. In chapter 5, it states: *"The cost allocation policies reflected in this Report should be followed by distributors whenever they apply for rates on a cost of service basis."* Please explain any adjustments to the proposed rates that you would make to implement this policy.

### 8.2 Ref: Exhibit(s) Cost Allocation Informational Filing EB-2007-0003

Does Run 1 or Run 2 of the Informational Filing more closely represent the customer classification in the Application? Please file it as part of the record in this PROCEEDING.

### 8.3 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 9/[page 1

In the table titled "Cost Allocation Comparison – Dollar Impact", the cost share of the residential class is 57.95%.

- i Is this revenue to cost ratio consistent with Sioux Lookout's informational filing?
- ii If yes, please identify the reference.
- iii If not please explain.

### 8.4 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 9/[page 1

It would appear that "column F / column D", or "Rate Application / Cost Allocation" would yield a result that is analogous to a "revenue to cost" ratio.

- i Please confirm that this is a reasonable interpretation of this calculation.
- ii Please identify whether for each class, the calculated amount of this ratio is further away from 100% than it was in the Informational Filing

8.5 Ref: Exhibit(s) Informational Filing EB-2007-0003, Sheet I6 'Customer Data', Sheet I8 'Demand Data', and Sheet O3.1 'Line Transformers Unit Cost Worksheet'

- a) In Sheet I8, GS>50, the amount for LTNCP4 is lower than DNCP4, but the amount for LTNCP12 is identical to DNCP12. Please provide a revised value for LTNCP12, if appropriate, or alternatively provide an explanation for why DNCP12 and LTNCP12 should be identical for the GS>50 customer class.
- b) Please reconcile the load data inputs for customers in the GS>50 class receiving the transformer allowance in Sheet I6 row 23 (input: 50,728 kW), Sheet O3.1 row 25 (input: 59,769 kW), and Sheet I8 (row 67 less row 69, including any revision made in part a).

8.6 Ref: Exhibit(s) Informational Filing EB-2007-0003, Manager's Summary, Page 6, and Exhibit 9 / Tab 1 / Schedule 1 / Page 7

Please reconcile the conclusion in the Manager's Summary that \$0.37 per kW would be a reasonable transformer allowance with the Application for approval of \$0.305 per kW.

8.7 Ref: Exhibit(s) Exhibit 1 / Tab 1 / Schedule 11 / Page 3

In its Decision on 2007 Electricity Distribution Rates, the Board directed that the Applicant would file a report on Low Voltage charge recoveries and account balances. Please indicate where such a report is found in this Application, if other than the second paragraph in Exhibit 1 / Tab 1 / Schedule 13 / Page 1, and the data for Account # 1550, LV Variance in Exhibit 5 / Tab 1 / Schedule 3 / Page 1.

8.8 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 3 / Page 1

Please provide information on the balances in Account # 1550, LV Variance:

- a) What are the costs and revenues that have resulted and/or are forecast to result in the balance moving from \$435,959 in December 2006 to \$384,051 in April 2008?
- b) Are the amounts that are allocated to the rate classes proportional to the allocation of transmission connection charges (per the 2006 EDR Handbook, Chapter 10.7), or on some other basis such as energy consumption. If not allocated according to the Handbook methodology, please provide the amounts that would be the outcome of that methodology.

8.9 Ref: Exhibit(s) Exhibit 9 / Tab 1 / Schedule 1 / Page 6

- a) Please confirm that in the table 'Variable Distribution Charge Calculation', the seventh column which totals \$340,000 refers to Low Voltage Charges, and not to the Transformer Ownership Allowance.
- b) It would appear from Exhibit 2 / Tab 4 / Schedule 1 / Page 4, Account 4750 that the amount of \$340,000 applies to the bridge year 2007, and that a larger amount \$340,456 should apply to the test year. Please state which of these amounts is correct.
- c) Are the amounts of the Low Voltage Charges allocated to each class consistent with the methodology in the 2006 EDR Handbook, Chapter 10.7? If not, what would these amounts be?
- d) If necessary as a result of part b) and /or part c), please provide an updated version of the table in Exhibit 9 / Tab 1 / Schedule 1 / Page 6.

## **9 RATE DESIGN:**

9.1 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 9

- a) Please confirm that the increase in the proposed distribution rates for Streetlighting is approximately 14% (net of the effect of the LV charge on the volumetric rates), and that this is approximately the same percentage as for all other classes.
- b) Please provide a justification for increasing the rates to Streetlights by this uniform percentage, in light of the low revenue to cost ratio of less than 11% in the Cost Allocation Informational Filing.

9.2 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 9

The proposed monthly service charge is \$41.32 in Exhibit 9 / Tab 1 / Schedule 1 Table 11, and also in Exhibit 9 / Tab 6 / Schedule 6 / Page 1. It is \$41.12 in Exhibit 9 / Tab 1 / Schedule 1 / Page 6, and also in Exhibit 9 / Tab 1 / Schedule 1 / Table 14. Please state which of these values is correct, or provide an explanation of the apparent discrepancy.

9.3 Ref: Exhibit(s) Exhibit 9/Tab 1/Schedule 9

Please provide a justification for increasing the rates to the GS>50 kW class by approximately the same percentage as all other classes, in light of the comparatively high revenue to cost ratio of approximately 137% (after adjusting for transformer ownership) in the Cost Allocation Informational Filing.

9.4 Ref: Exhibit(s) Ref: Exhibit 9 / Tab 1 / Schedule 1 / Page 6, and Cost Allocation Informational Filing Manager's Summary / Page 6

Please provide a justification for decreasing the transformer ownership allowance from \$0.60 per kW to \$0.305 per kW, in light of the calculation in the Cost Allocation Informational Filing that an allowance of \$0.37 would be appropriate.

## **10 DEFERRAL, VARIANCE ACCOUNTS AND PILS**

10.1 Ref: Exhibit(s) Exhibit 1/Tab3/Sch1, Ex1/Tab3/Sch2/Pg1,

Sioux Lookout Hydro's Accumulated Depreciation decreased from \$1,669,498 in 2006 (Audited Financial Statements Exhibit 1 Tab 3 Schedule 1 Note 4) to \$385,743 in 2007 and 576,947 in 2008. Please explain.

10.2 Ref: Exhibit(s) Exhibit 1 Tab 3 Schedule 2 Page 1,

Sioux Lookout is projecting that it will pay \$0 Income Taxes on a profit of \$122,522 (Ex1/Tab4/Sch3/Pg1) despite paying \$13,100 Income Taxes on a profit of \$61,802 (Exhibit 1 Tab 3 Schedule 2 Page 1). Please explain.

10.3 Ref: Exhibit(s) Exhibit 1 Tab 3 Schedule 2 Page 1,

Shareholders' Equity increased by \$425,017 between 2007 and 2008 in the Pro-Forma Balance Sheets while net income was only \$122,522 in 2008. Please explain.

10.4 Ref: Exhibit(s) Ex1/Tab3/Sch1, Ex1/Tab 3/Sch2/Pg1,

- a) Long-Term Debt increased by \$4,353,157 in the 2007 Pro-Forma Balance Sheet when compared to 2006 audited financial statements. Please explain.
- b) Long-Term Debt decreased by \$1,640,834 in the 2008 Pro-Forma Balance Sheet when compared to 2007 Pro-Forma Balance Sheet. Please explain.

10.5 Ref: Exhibit(s) Exhibit: 2 Tab: 4 Schedule: 1

- a) Is Sioux Lookout using the Board-prescribed interest rate, as per the Board's letter to LDC's dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?
- b) If not, what interest rate has Sioux Lookout been using for CWIP?
- c) If not using the Board-prescribed interest rates, what would the impact on ratebase, revenue requirement, and CWIP be if Sioux Lookout did use the prescribed interest rates?

10.6 Ref: Exhibit(s) Ex1/Tab1/Sch13/Pg1, Ex5/Tab1/Sch2, Ex5/Tab1/Sch3

In Ex1/Tab1/Sch13/Pg1, Sioux Lookout stated an amount of \$384,051 has been included in the application for Recovery of Regulatory Asset balances under account 1550, LV Variance. This amount includes a credit of \$1,822,785 to record the amount approved to be recovered in the 2006 EDR that was transferred to account 1590 Recover of Regulatory Asset Balances, plus the January 2007 to April 2007 regulatory asset payments made to Hydro One of \$260,424 (net entry of \$1,562,361 on Ex5/Tab1/Sch2/Pg1).

Please note that the following guidance has been provided by the Board, with respect to accounting for LV charges.

As per the Accounting Procedures Handbook (APH), account 1550, LV Variance is effective May 1, 2006 to record the variance between LV

charges from a host transmitter including Hydro One and LV charges approved in the distribution rates of a distributor.

The Board's decision on regulatory assets Phase II and previous accounting guidance stated that Account 1586, , RSVAC<sub>N</sub> shall be used to record LV charges approved for historic amounts included in the distributor's regulatory asset rate riders in relation to Hydro One's LV charges approved for the periods ended December 31, 2003 and April 30, 2006.

- a) As noted above, there was a credit of \$1,822,785 to record the amount approved to be recovered in the 2006 EDR that was transferred to account 1590 Recover of Regulatory Asset Balances.
  - i Please explain what period(s) the \$1,822,785 relates to.
  - ii Does the \$1,822,785 represent LV charges incurred prior to May 1, 2006 that were subsequently transferred to 1590?
- b) Please provide the LV charges amount recorded in account 1586, RSVAC<sub>N</sub> that was approved for disposition by the Board as part of the regulatory assets in the 2006 EDR application. Please indicate whether the approved amount was recovered in rates or whether rates were mitigated and therefore the amount was left to be recovered in a future period?
- c) please provide the transmission connection variance amount (i.e., non LV charge amount) recorded in account 1586, RSVAC<sub>N</sub> that was approved for disposition by the Board as part of the regulatory assets in the 2006 EDR application. Please indicate whether the approved amount was recovered or refunded in rates or whether rates were mitigated and therefore the amount was left to be recovered or refunded in a future period?
- d) Please provide each of the LV charges and transmission connection amounts, which were transferred to account 1590 Recovery of Regulatory Asset Balances on May 1, 2006, as per the Board's accounting requirements.
- e) For the entry made to 1590 Recovery of Regulatory Asset Balances on May 1, 2006, what accounts did the offsetting entry go to for each of the amounts identified in part d) above?
- f) If the offsetting entry for the LV charges identified in part e) above was recorded in account 1550, LV Variance Account instead of 1586, RSVAC<sub>N</sub> , please make an adjustment to 1550, LV Variance and 1586, RSVAC<sub>N</sub> to reflect the correct accounting. If an adjustment is

required, please submit a revised Ex5/Tab1/Schedule 2 and Ex5/Tab1/Schedule 3 to reflect the adjustment.

- g) Please explain why a balance of \$384,051 is included in the application for the recovery of regulatory asset balances under account 1550, LV Variance in Ex1/Tab1/Sch13 whereas a balance of \$421,214 in account 1550, LV Variance is included in Ex5/Tab1/Schedule2.  
Also:
- i) Please indicate which balance is correct for recovery.
  - ii) Was account 1550, LV Variance used to record LV charges related to periods prior to May 1, 2006?
- h) Please show the derivation of the balances in 1550, LV Variance of \$520,848 for the period May 1 to December 31, 2007 and \$1,026,768 for the period January 1 to April 30, 2008 as shown at Ex5/Tab1/Sch2/Pg1. Please explain why these were the only "other" accruals of all of the deferral and variance accounts for these periods.
- i) Please confirm that Sioux Lookout has requested LV charges of \$340,000 in the application for inclusion in its revenue requirement. If this amount is incorrect, provide the correct amount.

10.7 Ref: Exhibit(s) Ex5/Tab1/Sch2, Ex5/Tab1/Sch3

Please explain why the April 30, 2008 individual accounts with balances at Ex5/Tab1/Sch2 do not correspond to the April 30, 2008 individual account balances at Ex5/Tab 1/Sch3, with the exception of account 1525 and 1571.

10.8 Ref: Exhibit(s) Ex5/Tab1/Sch1

Please state where amounts incurred relating to retail transmission network charges and retail transmission connection charges are being recorded after May 1, 2006.

10.9 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Please explain why there is a zero balance in account 1548.

10.10 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Please detail the cause of the following adjustments made in the table "Calculation of Balances by Account" in the column "Other" for January 01,

2007 to April 30<sup>th</sup>, 2007 for the following accounts: 1518 (\$2,668 credit), 1520 (\$14,098 credit), 570 (\$14,486 credit), 1571 (276,745 credit), 1572 (6,540 credit), 1580 (\$107,535 credit), 1584 (\$14,583 debit), 1586, RSVACN (\$313,944 debit), and 1588 (449,634 credit)

10.11 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Please provide the interest rates used to calculate carrying charges for each regulatory deferral and variance account for the period from January 1, 2005 to present.

10.12 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

- a) Why do the following accounts have no accumulated interest?
- i 1525 Misc. Deferred Debits – including Rebate Cheques
  - ii 1562, Deferred Payments in Lieu of Taxes and 1563, PILs Contra Account
  - iii 1570 Qualifying Transition Costs
  - iv 1571 Pre-Market Opening Energy Variance Total
  - v 1572 Extra-Ordinary Event Losses
- b) Why is there no interest accrued on all regulatory asset and liability balances after December 31, 2006?

10.13 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

- a) Did the utility transfer previous Board-approved amounts for regulatory asset recovery to 1590 Recover of Regulatory Asset Balances with offsetting entries into the individual regulatory accounts being disposed in 2007, instead of May 1, 2006, as per the Board's accounting requirements?
- b) If no, when did Sioux Lookout do this transfer. Please update Exhibit 5, Tab 1, Schedule 2.

10.14 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Sioux Lookout is applying for disposition of regulatory variance accounts as per schedule Exhibit 5/Tab1/Sch3/spreadsheet. These totals do not correspond to totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31st, 2006 plus interest accrued on those balances to April 30th 2008. Please

provide the information as shown in the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Ex5/Tab1/Sch2/. In the continuity schedule, please breakout the sub-accounts for 1508. Please note that forecasting principal transactions beyond December 31, 2006 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.

10.15 Ref: Exhibit(s)      Exhibit 5 / Tab 1 / Schedule 2

Please confirm that Sioux Lookout is using PILs method three in calculating the balances in account 1562 Deferred Payments in Lieu of Taxes and 1563 Contra Asset – Deferred Payments in Payments in Lieu of Taxes by reference to the Board's FAQs dated April 2003.

10.16 Ref: Exhibit(s)      Exhibit 5 / Tab 1 / Schedule 2

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

10.17 Ref: Exhibit(s)      Exhibit 5 / Tab 1 / Schedule 2

Please provide a continuity schedule that shows how the transaction amounts in the PILs account 1562 Deferred Payments in Lieu of Taxes and 1563 Contra Asset – Deferred Payments in Payments in Lieu of Taxes were recorded in the general ledger as at each year end since the period beginning October 1, 2001. Please separate the PILs proxy or allowance in rates, amounts billed or collected, adjustments, and interest. Please explain any adjustments.

10.18 Ref: Exhibit(s)      Exhibit 5 / Tab 1 / Schedule 2

Please provide an analysis for account 1562 Deferred Payments in Lieu of Taxes and 1563 Contra Asset – Deferred Payments in Payments in Lieu of Taxes for each year end from October 1, 2001 through December 31, 2006. The schedule should show:

- a) The PILs proxy or allowance approved in rates;
- b) The amounts billed to or collected from customers;
- c) Adjustments calculated by the Board's methodology for true-up and deferral account entries;

- d) Any other adjustments recorded by Sioux Lookout;
- e) The interest carrying charge calculations and an explanation of how the interest amounts were calculated;
- f) Excess interest claw-back, if applicable.

10.19 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Please explain any differences between the two analyses requested above.

10.20 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Where Sioux Lookout deviated from the Board's PILs and SIMPIL methodology, please provide a description of each deviation and the reasons for each.

10.21 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

What assumptions did Sioux Lookout make for the following items in calculating its account 1562 Deferred Payments in Lieu of Taxes and 1563 Contra Asset – Deferred Payments in Payments in Lieu of Taxes balance to be disposed:

- a) Interest and penalties on unpaid or under-paid taxes;
- b) Non-deductible expenses like: meals, club dues, car expenses;
- c) Donations paid to registered charities or municipal owners;
- d) Joint ventures, subsidiary companies, equity income;
- e) Costs disallowed by the Board in any proceeding;
- f) Profit or losses on disposals of fixed assets for accounting purposes;
- g) Capital gains or capital losses on disposals of capital assets for tax purposes;
- h) Regulatory asset write-offs and recoveries for tax purposes.

10.22 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Are there Board precedents on which Sioux Lookout has relied in disposition of account 1562 Deferred Payments in Lieu of Taxes and 1563 Contra Asset – Deferred Payments in Payments in Lieu of Taxes? Please provide the proceeding case docket references.

10.23 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

Should the expensing or recovery of regulatory assets be included in the calculation of regulatory PILs taxes? If yes, what Board precedents are being relied on in making this assertion? Please describe how Sioux Lookout processed these transactions in the PILs calculations to determine the balance in account 1562 Deferred Payments in Lieu of Taxes.

10.24 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

If a regulatory asset amount is denied collection by the Board, how should the denial be treated in the PILs tax calculations and reconciliation of the 1562 Deferred Payments in Lieu of Taxes account?

10.25 Ref: Exhibit(s) Exhibit 5 / Tab 1 / Schedule 2

What assumptions has Sioux Lookout made in recording transactions in 1562 Deferred Payments in Lieu of Taxes subsequent to April 30, 2006?

10.26 Ref: Exhibit(s) Exhibit E4/T3/S1/P1 Tax Calculations

- a) Please provide the calculations for each year for the regulatory net income numbers shown on the schedule.
- b) Please provide the exhibit references for the amortization numbers shown for each year. Please provide a table of amortization for each year if there are no exhibit references.
- c) Please provide the calculations for each year for the cumulative eligible capital deduction.
- d) Why is there an assumption that the utility will sell fixed assets, and make a capital gain in 2008?
- e) Please confirm that the income tax rate used for 2007 was 18.62% and that the rate shown of 0.19 is a rounding error.

10.27 Ref: Exhibit(s) Exhibit E4/T3/S2/P2-4 Capital Cost Allowance (CCA)

- a) Please provide a table that shows the total capital expenditures for each year 2006, 2007, 2008, and how these numbers tie in with the additions column information in the CCA tables. The table in E2/T3/S2/P2 does not agree with the CCA tables.

- b) Please explain why the additions for distribution system for 2006, 2007 and 2008 have been shown under Class 1, 4% CCA rate, instead of under Class 47, 8% CCA rate.

10.28 Ref: Exhibit(s)      Exhibit 5 / Tab 1 / Schedule 2

Please provide the following tax-related documents for each tax year from 2001 through 2006:

- a) Federal T2 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
- b) Ontario CT 23 tax return and supporting schedules – original and any returns that were subsequently amended and re-filed.
- c) Financial statements for each year that were submitted with the tax returns.
- d) Notice of Assessment received from the Ontario Ministry of Finance, Corporations Tax Branch.
- e) Notice of Reassessment from the Ontario Ministry of Finance Corporations Tax Branch.
- f) Correspondence between Sioux Lookout and the Ministry of Finance concerning disputes or disagreements regarding the calculations of PILs income tax, Large Corporation Tax and Ontario Capital Tax in any tax return for any year.