Kingston Hydro

December 7, 2010

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

Dear Ms. Walli,

RE: Kingston Hydro Corporation
EB-2010-0136 Cost of Service Rate Application
Responses to School Energy Coalition (SEC) Second Round Interrogatories

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Pursuant to the Board's Procedural Order No. 1, issued on October 12, 2010, please find attached Kingston Hydro Corporation responses to SEC second round interrogatories for this rate proceeding which have been filed electronically through the Board's RESS filing system and emailed to intervenors in the proceeding.

Yours truly,

J.A. Keech, President & CEO
Kingston Hydro Corporation

Copy: Andrew Taylor, Energy Law (by email)
School Energy Coalition, Jay Shepherd (by email)
Vulnerable Energy Consumers Coalition, Michael Buonaguro (by email)
Energy Probe Research Foundation, Randy Aiken (by email)

P.O. Box 790 Kingston, Ontario Canada K7L 4X7 **p.** 613.546.1181 www.kingstonhydro.com

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

AND IN THE MATTER OF an application by Kingston Hydro Corporation for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2011.

SECOND ROUND INTERROGATORIES OF THE SCHOOL ENERGY COALITION

Second Round Interrogatory #1 [SEC #2]

Please provide the average actual or forecast (as the case may be) positive balance in the City's TD Bank accounts for each of the historical, bridge and test years. Please provide the actual or forecast interest on those credit balances paid to the City in each year. If in any year the average balance is not positive, or the positive and negative balances are offset in a concentration account, please provide the interest rate payable by the City on negative balances, and calculate the implicit interest on negative balances saved by the City resulting from the average balances of the Applicant held by the City.

The Applicant has provided the balances and interest amounts in response to SEC # 2 part b).

At no time is the average balance negative.

<u>Second Round Interrogatory #2 [SEC #4]</u>

Please advise who represents the utility in these undocumented Serviceco reviews, and how conflicts of interest are managed in this process.

The Utility is represented by the President CEO and Vice President.

Should conflicts of interest arise, they would be forwarded to the Kingston Hydro Board for ruling or direction by the Board which includes independent members.

To date there have been no conflicts of interest.

Second Round Interrogatory #3 [SEC #5]

Please confirm that uplifts for benefits, indirects and overheads are added to the base wage amounts recoverable. Please confirm that 25% plus 10% uplifts are applied.

With respect to the charges from the City of Kingston to Utilities Kingston which are then further allocated to the Applicant:

> For departments where the cost allocation approach is based on employee time, the allocation is calculated by applying the employee's hourly rate to the applicable time spent and in these situations, a 25% uplift is applied to the wage amounts to recover employee benefit costs and a 10% uplift is applied to both the wage and benefit allocations to recover other non-salary direct costs of the department such as office supplies, training, postage and courier expenses, cellular phones, mileage etc.. There is no additional amount applied to recover any corporate overhead amounts.
>
> For departments where the cost allocation approach involves a cost allocator applied to total department costs, (i.e. number of desktop computers for allocation of information systems costs), there is no further uplift. Benefit costs and departmental direct costs are included in total departmental costs before the allocator is applied. As described above, there is no additional amount applied to recover any corporate overhead amounts.

The one exception to the above is the allocation for legal department support whereby an hourly rate is applied to hours spent on Utility business and that hourly rate does incorporate a 10% corporate overhead charge over and above the legal department's direct costs. This 10% is applied to the legal department's total costs.

With respect to costs that originate in Utilities Kingston and are allocated to the Applicant total costs are allocated and there are no further uplift charges applied.

<u>Second Round Interrogatory #4 [SEC #6]</u>

With respect to the UK financial statements:

a. ***Please provide the CGAAP reference (e.g. CICA Manual) on which the Applicant relies for the non-reporting of the Applicant's results in the UK financial statements.***

   The Applicant does not have any direct influence on how UK prepares its financial statements. However, UK relies on the following references to prepare its financial statements, which receive an unqualified audit report:

   1. CICA Handbook EIC – 123
   2. CICA Handbook Section 3400

b. ***Please confirm that Utilities Kingston acts is trustee for the Applicant with respect to the distribution business beneficially owned and operated by the Applicant.***

   We are unable to confirm this assertion. Utilities Kingston does not hold legal title to the distribution assets of Kingston Hydro. While Utilities Kingston does operate Kingston Hydro's distribution system, it does so pursuant to an operating agreement, not based on a fiduciary obligation resulting from a trustee position.

c. ***Please advise what risks relating to the distribution business are borne by the Applicant, and what risks are borne by UK. By way of example only, if UK were to be sued by a third party for the uninsured actions of an employee whose duties are shared between the UK client utilities, to what extent if any would the risk of loss represented in that lawsuit be borne by the Applicant, and how would the costs of defending that lawsuit be shared, if at all?***

   Kingston Hydro has insurance that covers the actions of UK's employees as it relates to the management of electricity assets of Kingston Hydro. In accordance with the service agreement, Kingston Hydro bears risk for uninsured actions to the extent an employee was working on Kingston Hydro business. These risks are the same as if Kingston Hydro had employed the individual directly.

d. Please provide a numerical example, with accounting entries, to explain the answer to part (c) of the question.

Assuming the employee worked in the billing department (i.e. all 4 utilities) and legal expenses were $10,000.

Entries in Utilities Kingston's accounting records

1)	ELECT	Legal fees	$2,300	
	GASES	Legal fees	$1,700	
	WATER	Legal fees	$3,000	
	SEWER	Legal fees	$3,000	
	UTILK	Accounts Payable		$10,000

To record legal fees payable

2)	Due from City of Kingston	$7,700	
	Due from Kingston Hydro	$2,300	
	Contracted Service Recovery Water		$3,000
	Contracted Service Recovery Sewer		$3,000
	Contracted Service Recovery Gas		$1,700
	Contracted Service Recovery Electric		$2,300

To record recovery of expenses incurred on behalf of City of Kingston and Kingston Hydro

3)	UTILK Accounts Payable	$10,000	
	Due from City of Kingston		$7,700
	Due from Kingston Hydro		$2,300

To record payment of Utilities Kingston invoice paid by City of Kingston

Entries in Kingston Hydro's accounting records

4)	Legal fees expense	$2,300	
	Due to Utilities Kingston		$2,300

To record payable to Utilities Kingston for expense incurred on Kingston Hydro's behalf (see entry 2) above)

5)	Due to Utilities Kingston	$2,300	
	Due to City of Kingston	$2,300	

To record payment to supplier by City of Kingston out of City of Kingston's bank account (see entry 6) below)

<u>Entries in City of Kingston's accounting records</u>

6)	Water legal expense	$3,000	
	Sewer legal expense	$3,000	
	Gas legal expense	$1,700	
	Due from Kingston Hydro	$2,300	
	Cash		$10,000

To record expense of municipally owned utilities and payment of invoice out of bank.

Second Round Interrogatory #5 [SEC #7, Attach. p. 2]

Please advise whether an "independently evaluated competitive bidding process" has ever been carried out. If it has, please provide details including the RFP or similar documents, and the final scoring and selection. If it has not, please advise when such a process is planned or expected.

An "independently evaluated competitive bidding process" has not yet been conducted. This process is planned for 2011/12 in preparation for the renewal of the Services contract between the applicant and Utilities Kingston in September 2012

Second Round Interrogatory #6 [SEC #9, p. 30]

Please confirm that the "contracted services" are expected to increase by 14.5% from 2009 to 2010, and a further 14.3% from 2010 to 2011, and then 2.0% per year thereafter. Please advise the rationale behind that pattern of spending, with details of the material reasons for the result.

Confirmed.

The increase in contracted services are the forecasted increases in operating costs as outlined in Exhibit 4. Please refer to Exhibit 4, tab 2, Schedule 3, pages 12 to 21 for the cost driver explanations of the increases for 2010 and 2011.

Second Round Interrogatory #7 [SEC #10]

Please confirm that the deficiency of $2,651,557 is 27.8% of the $9,540,654 revenue at current rates, with the result that the weighted average increase in rates to recover the deficiency is that same 27.8%.

Kingston Hydro confirms that when one expresses the deficiency of $2,651,557 relative to the revenue at current rates of $9,540,654, that the result is 27.8%, and that the resulting distribution rate change to recover the deficiency is 27.8%.

Second Round Interrogatory #8 [SEC #12]

Please provide, for each of the projects listed, the original project estimate and the final cost.

For the projects noted "To be completed in 2010", final costs are not yet known, while project estimates were provided as referenced in the answer to SEC #12.

For projects completed prior to 2010, the following were the original project estimates:

Transformer Vault 13 .... $450,000
Transformer Vault 2 .... $577,000
Transformer Vault 28 .... $699,000 (for entire Brock, Barrie, University project)

<u>Second Round Interrogatory #9 [SEC #15b]</u>

Please confirm whether the opening rate base has been increased by $403,333 to reflect the adjustment for past years.

Opening rate base was not adjusted for past years.

Second Round Interrogatory #10 [SEC #18]

With respect to Fleet Services:

a. Please provide the rates in effect for 2007 and 2008.

The rates for 2007 and 2008 are provided in dollars per hour.

Vehicle		2007	2008
009	UT - 2001 Ford Mini Van	10	10
016	UT - 1991 Ford 5 TON	26	26
017	UT - 1991 Ford 1 TON	18	18
027	UT - 1992 Ford 5 TON	26	26
038	UT - 1995 Ford 5 TON	26	26
042	CC - GMC Van	18	18
043	CC - GMC Van	18	18
044	UT - 2008 Ford F450	26	26
055	UT-2003 Ford F250 Truck	10	10
056	UT-2003 Ford F250 Truck	10	10
057	UT - 1998 Freightliner 8 TON	26	26
058	UT-2004 FL Bucket Truck	26	26
069	UT - 1997 Freightliner 8 TON	26	26
075	UT - 2005 GMC Cargo Van	10	10
083	UT - 2001 Ford MINI VAN	10	10
093	UT - 2004 E350 Cube Van	10	10
094	UT - 1997 Freightliner 5 TON	26	26
106	UT-2005 Freightliner	16	16

b. Please advise where the adjustments are that "reflect the change in costs for materials".

The rates were adjusted 5% from 2008 to 2009. This increase covered two years; an increase for 2007 to 2008 and an increase for 2008 to 2009. The 5% increase covered inflation increases for both years and an increase to cover the increase in gas prices that were experienced in 2008, and anticipated for 2009.

c. Please show the calculations of at least some of the rates to demonstrate the method of calculation.

Vehicle	2008 rate	Increase	2009 rate
009	10	5%	10.50
016	26	5%	27.30
017	18	5%	18.90

d. Please advise the reason why all of the 2011 rates are exactly half of the 2009 and 2010 rates.

Historically Utilities Kingston paid for the use of the vehicles on an hourly basis, at a charge set to recover both operating costs and replacement capital over all of the hours of use. The rates did not increase for 2010 and 48% of the 2010 rates were budgeted for operating expenses. The 2011 rates also were not projected to increase. It was determined that a reasonable estimate hourly charge for vehicles used exclusively by Kingston Hydro will be set to recover operating costs only, being 50% given the fact that the hourly rates did not change in 2010 or 2011.

e. Please "explain why…the City did not simply refund the $2.4 overpayment to the Applicant".

The City did not refund the money to the applicant as it was determined that Kingston Hydro will utilize the monies within 24 months.

Second Round Interrogatory #11 [SEC #19 and EP #31, page 152]

Please provide the promissory note or loan agreement, referred to in the EP IR response as a "note payable".

Kingston Hydro has provided the documentation related to this long term loan payable at Exhibit 5 Tab 1 Schedule 1 Attachment 3 and Attachment 4.

Second Round Interrogatory #12 [SEC #21]

With respect to the Board presentation:

a. P. 20. Please explain the meaning of "2 FTE (theoretical)".

The theoretical should not have been put in this slide. It was meant to be 2 FTEs. It was presented that way to indicate to the audience that it was not 2 specific employees but the equivalent of the time of two employees

b. P. 22. Please explain the bottom slide on this page.

The slide is to indicate that in 2005 3 plus million dollars worth of operating and capital work was completed in house with 21 employees while in 2009 6 plus million dollars worth of operation and capital work was completed in house with only 18 employees

Second Round Interrogatory #13 [SEC #21]

With respect to the Board approval memo:

a. ***Please provide Appendix A, or provide a reference to where it is in the evidence.***

   This was provided in response to SEC #9 in Round 1 of the interrogatory process.

b. ***Please provide a copy of the succession planning presentation referred to on the last page.***

   This was the presentation provided in response to SEC 21 in Round 1 of the interrogatory process.

c. ***Please provide a copy of the 2010 and 2011 infrastructure investment presentation referred to on the last page. Please explain by the 2010 infrastructure investment is being presented to the Board halfway through the 2010 year.***

   This was the presentation provided in response to SEC 21 in Round 1 of the interrogatory process. The purpose of the presentation to the Board was twofold – to update the Board on the status of 2010 projects and to detail 2011 planned projects.

<u>Second Round Interrogatory #14 [Staff #3]</u>

Please explain the logical connection between lagged FTE data and customer counts. Please advise the "periods" referred to, and the reason for selecting 7 for GS<50 and 2 for GS>50.

The logical connection between lagged FTE data and customer counts is the lagged response to economic conditions with respect to connections and disconnections. The periods referred to are months. The reason for selecting the specific lags, as indicated in response to Board staff IR #3, was to obtain the most accurate within sample forecast.

<u>Second Round Interrogatory #15 [Staff #15]</u>

Please provide similar tables to the two included in this response, but using actuals as of the beginning of 2008.

The previous 10-year forecast was based on the period 2009-2019 for attaining retirement factors. The charts below have been reviewed and adjusted to reflect a 10-year retirement forecast as of the beginning of 2008 for the period 2008-2018 as requested. (Changes are in bolded text.)

Electric Overhead Total # of staff = 14

# of staff attaining earliest possible retirement eligibility without a penalty within 5 yrs (90 factor or 30 yrs service)	3
# of staff attaining earliest possible retirement eligibility without a penalty within 10 yrs (90 factor or 30 yrs service)	8
# of staff attaining 35 yrs maximum contributions in 5 yrs	0
# of staff attaining 35 yrs maximum contributions in 10 yrs	**2**
# of staff attaining normal retirement age in 5 yrs	0
# of staff attaining normal retirement age in 10 yrs	1

Substation Maintenance Total # of staff = 4

# of staff attaining earliest possible retirement eligibility without a penalty within 5 yrs	2
# of staff attaining earliest possible retirement eligibility without a penalty within 10 yrs	**2**
# of staff attaining 35 yrs maximum contributions in 5 yrs	1
# of staff attaining 35 yrs maximum contributions in 10 yrs	**1**
# of staff attaining normal retirement age in 5 yrs	0
# of staff attaining normal retirement age in 10 yrs	1

Second Round Interrogatory #16 [Staff #16]

Please advise how the functions of the "position identified for the operational focus" are being carried out prior to this hiring. Please identify where these costs are currently included in the actuals for 2009 and forecast for 2010.

As noted in the answer to Board Staff #16, some of the functions (e.g. some external civil works construction inspections) simply are not being carried out. Other functions have, when possible, been performed by the Work Planner and Engineering Technologist Intern, however due to their workload, they have not been able to give due consideration to various functional aspects. Work commencement delays and other problems have occurred arising from staff not having adequate time to address such items as, for example:

- ensuring that all materials required for the job are available;
- evaluating field conditions and configurations;
- ensuring all locates have been maintained current and marked;
- coordinating all external contractors;
- notification of customers affected by planned work and arrangement of ancillary work.

In addition, the development and implementation of improved processes, procedures, and record-keeping associated with the operation and maintenance activities, is particularly required both to ensure proper management of the assets and to ensure diligent compliance with Health and Safety regulations, the Electrical Distribution Safety Regulation, ESA and OEB regulatory requirements.

Costs for these functions are allocated to the following accounts in 2010:

5005: Operation Supervision and Engineering - 54% of the cost of the position; $39,000
5105: Maintenance Supervision and Engineering -18% of the cost of the position; $13,000
The remaining 28% of the cost of the position is allocated to Capital and Recoverable work.

In 2009, 88% of the Work Planner and Engineering Technologist costs were allocated to OEB account 5005: Operation Supervision and Engineering. Collectively, approximately 1% ($1,000) was allocated to various other O&M accounts, and the remaining 11% was allocated to Capital and Recoverable work.

Second Round Interrogatory #17 [Staff #17]

Please provide the "expected audit fees" for each of the four years.

Audit fees are expected to be $45,000 for 2011, $90,000 for 2012, $50,000 for 2013 and $52,500 for 2014.

<u>Second Round Interrogatory #18 [Staff #25]</u>

Please advise which of these FTE increases are increases in allocations from the City.

None of the FTE allocations addressed in Staff #25 originate in the City.

Second Round Interrogatory #19 [Staff #41]

For each of the capital contributions to Hydro One in the historical, bridge and test years:

a. Please identify the project, the total of all capital contributions by year (if multiple), and the in-service year of the physical asset, i.e. the point in time at which the contribution will result in an improvement or asset that is "used and useful".

- Gardiner TS Expansion - In-Service Year – 2009
- Capital Contribution First Installment - $175,500 - 2008
- Capital Contribution Second Installment - $175,500 - 2009
- Capital Contribution Final Installment - $609,000 (estimated) - 2010

b. Please show the tax entries related to that contribution, by year.

The tax entries are as detailed in the following sections in the application:

2009 - Exhibit 4 Tab 8 Schedule 1 Attachment 2 – T2 Corporation Income tax Return Schedule 10 - addition of $369,595

2010 - Exhibit 4 Tab 8 Schedule 1 Attachment 3 – Proposed PILS model Schedule 10 CEC Bridge Year – addition of $609,000.

Please refer to our response to Energy Probe 36 (Round 2) for the latest information.

<u>Second Round Interrogatory #20 [EP #5, Attach. p. 2]</u>

Please reconcile the Rate Base of $42.7 million with the rate base of $42.3 million in the presentation to the Board of Directors in July [SEC #21, Attach. p. 10].

There is no reconciliation or information available on the differences. The presentation to the Board of Directors was at a point in time when the Cost of Service Application was a work-in-progress. The makeup of the applied for rate base of $42.7 million is as detailed in the application.

Second Round Interrogatory #21 [EP #6]

With respect to capital expenditures:

a. ***(b) Please advise the amounts of the contributions and grants that have been netted out in each other account, on an account by account basis.***

Net expenditure amounts (capital costs) for the Princess St. Reconstruction project were forecast by USofA account in the Capital Projects Table for 2010 of Exhibit 2 Tab 4 Schedule 7 Attachment 1. The following table summarizes the amounts netted out of the 2010 forecast for the Princess St. Reconstruction project:

Princess St. Reconstruction – 2010 Forecast Expenditures

USofA Account #	Net Amount (as filed)	Gross Amount	Amount Netted Out
1840	$858,000	$1,114,000	$256,000
1845	$297,000	$341,000	$44,000
1995		($300,000)	($300,000)
Total	$1,155,000	$1,155,000	$0

We are not aware of any other forecast amounts that have been netted out in the rate application.

b. ***(c) Please advise when the five new projects were added to the 2010 capital plan.***

The projects were added in September/October.

c. ***Please advise why the Fairway Hills project was accelerated from 2011, and confirm that capital expenditures for 2011 should be reduced by this amount.***

In September, costs on the Princess Street Reconstruction were finalized with a $400,000 surplus variance from budget. This budget room allowed the Applicant to bring another project into 2010, and the Fairway Hills project was selected due to its priority and the relative ease at which it could be completed in the current year. Capital expenditures in 2011 should not be reduced by the $110,000 budgeted amount, as the money will be utilized to fund other priority projects addressing infrastructure deficiencies.

d. ***(d) Please confirm that the net capital expenditures for 2010 are now expected to be $3,733,024, net of contributions and grants.***

2010 net capital expenditures are now expected to be $4,318,000. Please refer to the table in the response to VECC interrogatory #45.

<u>Second Round Interrogatory #22 [EP #7]</u>

With respect to this response:

a. ***(d) Please advise whether the OH and UG services additions forecast is now being revised, and if so provide details.***

   For your reference, the question and answer to EP's original interrogatory (EP#7) was: d) Please explain the significant increase in services (OH & UG) additions from $62,850 in 2009 to $130,000 in 2010 and $150,000 in 2011.

   The increased amount is due to anticipated work in services triggered by deteriorated pole replacement projects, and the predominantly residential areas that are being targeted for inspection.

   The forecast OH and UG services additions for 2010 is now $75,000. Some of the capital budget allocation was utilized in other areas. The complete details of the revised 2010 capital expenditure forecast can be found at VECC 45 a) under "Updated Capital Expenditure Table for 2010".

   There are no revisions to the 2011 forecast.

b. ***(f) Please confirm that the impact of reducing the capitalization threshold was to increase the capitalized amount of Tools, Shop and Garage Equipment by $98,000. Please explain the rationale for the increase. Please confirm that the increase in threshold applied to all of the UK businesses, and advise whether it also applied to the City's internal accounts.***

   The capitalization policy sets the threshold for capital at $1,000, while for previous years, the threshold was $10,000. Consequently, many more items that in previous years would have been charged as an operating expense will now be charged as a capital expenditure.

   Accounts 5025 and 5045 reflect the decrease on the operating expenditures in correlation to the increase on the capital expenditures. Also, the Applicant is planning on increasing the purchasing of tools and equipment for various purposes including improving on-site emergency lighting, addressing ergonomic issues, replacing worn and ineffective tools, improving confined space safety, improving arc-flash safety, etc.

   The change in the capitalization policy was specific to the electric business.

Second Round Interrogatory #23 [EP #9]

Please advise the impact in 2011 of moving the Enterprise Asset Management System from 2010, including rate base, depreciation, PILs, and any other material impacts.

2011 Rate Base will be lower by $43,750 because opening net fixed assets in service are lower by $112,500 ($125,000 capital cost less first year depreciation of $12,500) and closing net fixed assets in service are higher by $25,000 (one full years depreciation). Depreciation expense will be lower in 2011 by $12,500 (the difference between a full year's depreciation and the first year of depreciation). PILs will decrease by $5,600.

<u>Second Round Interrogatory #24 [EP]</u>

With respect to the BDR Study:

a. P. 7. What was the "review as to reasonableness" that was carried out.

The review of reasonableness consisted of consideration of the completeness of the inventory of services, the adequacy of the level of breakdown for purposes of fair cost allocation, and the expected availability of data to support cost allocators, all based on BDR's many years of experience with the operation and administration of electric distribution utilities. As an example related to adequacy of level of breakdown, rather than simply taking construction, operations and maintenance services in aggregate as a cost to be allocated, the analysis looked at separate elements such as third party contracts, the UK labour force, vehicles, and supporting services such as materials procurement and warehousing, each of which receives a different allocation treatment reflecting the manner in which the cost is incurred. As an example of the review of reasonableness of cost allocators, BDR accepted UK management's explanation of the limitations of the call monitoring system, based on BDR's previous experience in using data from such systems.

b. P. 11. What are the collection policies for shared bills? By way of example, in the event that a partial payment is made, how is it applied? In the event that an account is in default, what services are suspended, and in what order? If a customer makes a partial payment, what services are reinstated, and in what order? If there is a written policy dealing with shared bill collections and/or issues such as these, please provide.

The current disconnection policy is attached.

Effective January 1, 2011 the policy will be modified to reflect the introduction of section 2.6.6.2 and 2.6.6.3 of the Distribution System Code will be applied to these circumstances.

c. P. 13. Please confirm that it is intended that Kingston Hydro, the corporate entity, will purchase all new vehicles and hold title to them, as opposed to either Utilities Kingston or the City or any other affiliate.

Confirmed, once the monies in the City's utility equipment reserve fund are exhausted for the benefit of Kingston Hydro.

d. P. 21. Please advise whether legal services are docketed by matter. Please advise the number of "standard hours available" that are assumed for each person providing legal services.

Legal services are not docketed by matter. The time charged is determined by a management analysis of activities and time spent. We use the figure of 1610 standard hours available per FTE.

UTILITY DISCONNECTION DUE TO PAYMENT DEFAULT

General

Disconnection of a utility service as a result of not receiving payments for the service from customers is a serious measure of last resort. So as to mitigate the financial loss resulting from default of payment, it is prudent and responsible for Utilities Kingston to take this action upon exhausting other reasonable means to receive payment. This reduces the financial burden on the remaining ratepayers, from whom, Utilities Kingston must recover the losses.

Legislative Requirements

Any disconnection of a utility service will be conducted in accordance with pertinent legislation. (*Appendix A* lists the current legislative requirements that must be satisfied.)

Steps To Be Taken Prior To Disconnection

Extended Payment Opportunity

Customers are normally permitted twenty-one (21) calendar days beyond their bill statement date, to make payment.

Before collection activity is initiated, we will provide customers with an additional fourteen (14) days beyond their payment due date to make payment.

Written Customer Notification

If, thirty-five (35) calendar days after the bill statement date, payment has not been received or an arrangement has not been made for payment that is acceptable to Utilities Kingston, a *disconnect advisory letter* will be issued to the account holder provided the triggering criteria as set out in *Appendix B* is met. This will be sent by regular mail.

Once at least another seven (7) calendar days have elapsed, a *disconnect letter* will be sent by registered mail. Alternatively, or in addition to, and at the discretion of Utilities Kingston, a *notice of disconnect* may be posted on the property in a conspicuous place.

The *disconnect letter* or *notice of disconnect* will specify which utility service will be terminated, and scheduled disconnection date, which will be at least seven (7) calendar days from the issue date.

Verbal Customer Notification

Following the *disconnect letter*, but before the scheduled date for service disconnection, attempts to contact the customer by telephone will be initiated to facilitate payment arrangements. If possible, messages will be left on answering machines to contact Utilities Kingston immediately. Attempts to contact will be made on more than one (1) day.

If customer contact is not achieved, (or not possible due to unavailable phone listing or service), and satisfactory payment arrangements are not achieved, a service order will be generated to terminate the specified utility service as soon as possible and without further notice.

Provision For Tenant Occupancies

If it is known by us that disconnection of the specified utility will affect other tenants service, then the owner and other tenants will be advised of the pending disconnection.

The tenants will receive at least seven (7) calendar days notice by way of posting *notice of disconnects* in conspicuous places on the property such that all tenants receive notification. Alternatively, where practical and at the discretion of Utilities Kingston, they may be notified by way of letter. Notification will specify which utility service will be terminated, and the date that it is scheduled for.

All letters sent to the owner will warn that the tenants shall be notified pursuant to the above. This will also be reinforced during any verbal contact.

Priority of Service Disconnection

Where an account has more than one type of utility service, the selection of the service to be disconnected will generally be in accordance with the following priorities:

1. Electricity
2. Natural Gas
3. Water

Notwithstanding this, any legislation that prohibits service disconnection of a specific utility will take precedence. (*Appendix A* lists any such legislation.)

Payment Arrangements

If at any point prior to the disconnection, payment arrangements are made that are satisfactory to Utilities Kingston, disconnection and activity leading up to disconnection will cease. However, customers will be advised that if the payment arrangements are not met, disconnection may occur at any time immediately following.

Appendix A: Legislative Requirements

Public Utilities Act

Definition

1. In this Act,

"public utility" means water, artificial or natural gas, steam or hot water. 2001, c. 25, s. 482 (1).

Power to require security from consumer

50.(4) Any corporation before supplying any public utility to any person or to any building or premises, or as a condition of continuing to supply the utility, may require any consumer to give reasonable security for the payment of the proper charges therefor or for carrying the public utility into the building or premises. R.S.O. 1990, c. P.52, s. 50.

Remedy for price of public utility furnished

59. If any person supplied with any public utility neglects to pay rent, rate or charge due to the company at any of the times fixed for the payment thereof, the company, or any person acting under its authority, on giving forty-eight hours previous notice, may stop the supply from entering the premises of the person by cutting off the service pipes or by such other means as the company or its officers consider proper, and the company may recover the rent or charge due up to that time, together with the expenses of cutting off the supply, despite any contract to furnish it for a longer time. R.S.O. 1990, c. P.52, s. 59.

Electricity Act, 1998

Distributor's obligation to connect

28. A distributor shall connect a building to its distribution system if,

(a) the building lies along any of the lines of the distributor's distribution system; and

(b) the owner, occupant or other person in charge of the building requests the connection in writing. 1998, c. 15, Sched. A, s. 28.

Termination of service

31. (1) A distributor may shut off the distribution of electricity to a property if any amount payable by a person for the distribution or retail of electricity to the property pursuant to section 29 is overdue. 1998, c. 15, Sched. A, s. 31 (1).

Notice

(2) A distributor shall provide reasonable notice of the proposed shut-off to the person who is responsible for the overdue amount by personal service or prepaid mail or by posting the notice on the property in a conspicuous place. 1998, c. 15, Sched. A, s. 31 (2).

Recovery of amount

(3) A distributor may recover all amounts payable despite shutting off the distribution of electricity. 1998, c. 15, Sched. A, s. 31 (3).

Ontario Energy Board Electricity Distribution Rate Handbook

9.3.5 Disconnection of Electricity Service

A disconnect notice will be issued in writing not less than seven days after the due date as defined in Section 9.3.2. Notice must be given by hand delivery or by registered mail. Both the customer and tenants of the customer will receive seven days' notice before cut-off.

Prior to the disconnection of the electricity service, a representative of the utility will make reasonable efforts to establish direct contact with the customer. The utility should also, where possible, notify the occupants of each separately occupied unit in the premises. The electricity service will not be disconnected by reason of the non-payment of bills until seven days after a disconnection notice has been given to the customer and as set out in this section.

9.3.6. Reconnection of Electricity Service

Where the electricity service has been disconnected in order to collect the account and then reconnected, a reconnection of service charge may be applied, as outlined in Section 9.3.4.

Ontario Energy Board Distribution System Code

4.2.1 A distributor shall establish a process for disconnection and reconnection that specifies timing and means of notification consistent with the Electricity Act, 1998. In developing physical and business processes for reconnection, a distributor shall consider safety and reliability as a primary requirement. A distributor shall document its business process for disconnection in the distributor's Conditions of Service.

4.2.1.1 Prior to disconnecting a property for non payment, a distributor shall provide to any person that, according to the distributor's conditions of service, receives notice of the disconnection:

a) the Fire Safety Notice of the Office of the Fire Marshal; and

b) any other public safety notices or information bulletins issued by public safety authorities and provided to the distributor, which provide information to consumers respecting dangers associated with the disconnection of the electricity service.

4.2.2 A distributor shall inform a customer responsible for an overdue amount that it may be disconnected in accordance with section 31(2) of the Electricity Act, 1998.

4.2.3 It is recommended that, whenever possible, distributors provide no less than seven calendar days notice before disconnection for non-payment.

Appendix B: Triggering Criteria For Disconnection

For Owners	
Utilities Kingston Assigned Credit Rating	**Minimum Arrears Amount For Trigger**
A	$200.00
B	$150.00
C	$100.00
X	$75.00

For Tenants	
Utilities Kingston Assigned Credit Rating	**Minimum Arrears Amount For Trigger**
A	$100.00
B	$75.00
C	$50.00
X	$50.00

Second Round Interrogatory #25 [VECC #8, p. 27]

Please recalculate this table on the assumption that the fixed and variable charges for GS<50 are increased by the same percentage from the existing rates, but the revenue from the class is otherwise the same.

Below please find the recalculated table [VECC #8, p. 27], based on the assumption that the fixed and variable charges for GS<50 are increased by the same percentage from existing rates, to achieve the GS<50 class base revenue requirement of $2,109,092 allocated in the application. Note the assumption used in the recalculation of the table yields a fixed charge that is above the maximum fixed charge boundary for this rate class.

MODIFIED: Loss Factor not applied to volume used to calculate Debt Retirement Charge

Customer Class: **GS < 50 kW (RPP customer)**

Consumption **2000** **kWh**

		Current Board-Approved			**Proposed**			**Impact**	
	Charge Unit	**Rate ($)**	**Volume**	**Charge ($)**	**Rate ($)**	**Volume**	**Charge ($)**	**$ Change**	**% Change**
Monthly Service Charge	monthly	$ 23.3900	1	$ 23.39	$ 27.2594	1	$ 27.26	$ 3.87	16.54%
Smart Meter Rate Adder	monthly	$ 1.0000	1	$ 1.00	$ 1.0000	1	$ 1.00	$ -	0.00%
Service Charge Rate Adder(s)			1	$ -		1	$ -	$ -	
Service Charge Rate Rider(s)			1	$ -		1	$ -	$ -	
Distribution Volumetric Rate	per kWh	$ 0.0097	2000	$ 19.40	$ 0.0113	2000	$ 22.61	$ 3.21	16.54%
Low Voltage Service Rate	per kWh	$ 0.0002	2000	$ 0.40	$ 0.0006	2000	$ 1.20	$ 0.80	200.00%
Volumetric Rate Adder(s)			2000	$ -		2000	$ -	$ -	
Volumetric Rate Rider(s)			2000	$ -		2000	$ -	$ -	
Smart Meter Disposition Rider			2000	$ -		2000	$ -	$ -	
LRAM Rate Rider (2011)			2000	$ -	$ 0.0004	2000	$ 0.80	$ 0.80	
Deferral/Variance Account Disposition Rate Rider (2010)	per kWh	-$ 0.0020	2000	-$ 4.00	-$ 0.0020	2000	-$ 4.00	$ -	0.00%
Deferral/Variance Account Disposition Rate Rider (2011)	per kWh			$ -	$ 0.0003	2000	$ 0.60	$ 0.60	
Rate Rider Global Adjustment Sub-Acct Disposition (2010) Non-RPP customers only	per kWh	$ 0.0015	0	$ -	$ 0.0015	0	$ -	$ -	
Rate Rider Global Adjustment Sub-Acct Disposition (2011) Non-RPP customers only	per kWh	$ -	0	$ -	$ 0.0012	0	$ -	$ -	
				$ -			$ -	$ -	
Sub-Total A - Distribution				**$ 40.19**			**$ 49.47**	**$ 9.28**	**23.09%**
RTSR - Network	per kWh	$ 0.0050	2075	$ 10.38	$ 0.0052	2068.8	$ 10.76	$ 0.38	3.69%
RTSR - Line and Transformation Connection	per kWh	$ 0.0042	2075	$ 8.72	$ 0.0046	2068.8	$ 9.52	$ 0.80	9.20%
Sub-Total B - Delivery (including Sub-Total A)				**$ 59.28**			**$ 69.74**	**$ 10.46**	**17.65%**
Wholesale Market Service Charge (WMSC)	per kWh	$ 0.0052	2075	$ 10.79	$ 0.0052	2068.8	$ 10.76	-$ 0.03	-0.30%
Rural and Remote Rate Protection (RRRP)	per kWh	$ 0.0013	2075	$ 2.70	$ 0.0013	2068.8	$ 2.69	-$ 0.01	-0.30%
Special Purpose Charge	per kWh	$ 0.0003725	2075	$ 0.77	$ -	2068.8	$ -	-$ 0.77	-100.00%
Standard Supply Service Charge	monthly	$ 0.2500	1	$ 0.25	$ 0.2500	1	$ 0.25	$ -	0.00%
Debt Retirement Charge (DRC)	per kWh	$ 0.0070	2000	$ 14.00	$ 0.0070	2000	$ 14.00	$ -	0.00%
Energy	per kWh	$ 0.0714	2075	$ 148.13	$ 0.0714	2068.8	$ 147.66	-$ 0.46	-0.31%
				$ -			$ -	$ -	
				$ -			$ -	$ -	
Total Bill (before Taxes)				**$ 235.92**			**$ 245.10**	**$ 9.18**	**3.89%**
HST		13%		$ 30.67	13%		$ 31.86	$ 1.19	3.89%
Total Bill (including Sub-total B)				**$ 266.58**			**$ 276.96**	**$ 10.38**	**3.89%**
Loss Factor (%)		3.75%			3.44%				

Notes:

Modified Revenue Requirement Work Form Tab 7B. Bill Impacts GS _LT_50 re: No loss factor applied to Debt Retirement Charge
This bill impact includes SPC and SSS charges whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 detailed bill impact does not include these charges.
Furthermore, this bill impact includes Low Voltage Service Rate in Sub-Total A Distribution whereas Exhibit 8 Tab 4 Schedule 4 Attachment 2 bill impact includes Low Voltage Service Rate in Delivery however not in Distribution.
Existing Total Loss Factor = 1.0375 and Proposed Loss Factor = 1.0344

<u>Second Round Interrogatory #26 [VECC #9c]</u>

Please advise why GS<50 class is not being brought within the Board's target range. Please calculate the rates for GS<50 if the revenue to cost ratio were limited to 120%, and show how such change would impact rates for other classes.

The GS<50 rate class revenue to cost ratio was adjusted to the upper limit of the Board's target range [80-120] for this rate class. The '2011 scaled' revenue to cost ratios in the table provided for VECC #9c response reflect two approaches to calculate revenue to cost ratios for 2011 status quo rates. The proposed rates in the rate application for the GS<50 alter the revenue to cost ratio to 1.20 which is the upper limit of the target range. As provided in Ex 7/Tab 2/Sch 2/Att 1, this 1.20 revenue to cost ratio is based on the 2011 revenue responsibility of the GS<50 rate class of $2,215,789 and the costs allocated to the GS<50 rate class in the 2011 updated cost allocation study of $1,849,251.

<u>Second Round Interrogatory #27 [VECC #25]</u>

Please confirm that the Board minimum service level is the Applicant's annual target level.

The Applicants target is to exceed or meet each of the required service levels established by the Board.

<u>Second Round Interrogatory #28 [VECC #30]</u>

Please provide an FTE chart showing, by year into the future, the FTE reductions expected "as incumbents retire".

This is not possible at this time as it is not know specifically when incumbents will retire.

<u>Second Round Interrogatory #29 [VECC #33]</u>

Please confirm that an amount of 16% of the capital cost of assets owned by the City is included in the rate base of the Applicant in this Application. Please advise the amount of the rate base that is represented by this allocation, and break it down by year commencing with the opening balance in 2006 and additions, depreciation and closing balance each year thereafter.

There are no capital costs of assets owned by the City that are included in the Applicant's gross or net fixed assets. For information systems, the Applicant includes the capital replacement component charged from the City in its operating expenses, and therefore 15% of this amount is included in its rate base.

For 2010, Utilities Kingston was charged with $112,055 related to the capital replacement component. Of this amount, 23% or $25,773 has been included in Kingston Hydro's operating expenses. Of this amount, $3,866 (15%) is included in 2010 rate base.

For 2011, Kingston Hydro included $26,417 in its operating expenses related to the capital replacement component. Of this amount, $3,963 (15%) is included in 2011 rate base.

<u>Second Round Interrogatory #30 [VECC #39]</u>

Please provide an estimate of the full year HST impact related to capital that is being "reinvested" in capital projects.

Kingston Hydro plans to spend $4,513,000 on capital infrastructure reinvestment in 2011 regardless of whether any sales tax paid on capital costs is refundable. The impact of the change in tax rules simply allows Kingston Hydro to be able to do more with the $4,513,000 than if the PST was not refundable. That is Kingston Hydro customers will benefit from more capital works for the $4,513,000 spent than if the PST had still been in effect. For example, if all of the $4,513,000 in planned capital works would previously included PST, the same amount of work could theoretically be done for $4,178,704 ($4,513,000 divided by 1.08) as the PST is now HST and refundable. As Kingston Hydro is re-investing that full HST refund into infrastructure renewal, Kingston Hydro customers benefit from $334,296 more infrastructure replacements than prior to the change in tax law.