



January 22, 2008

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

55 Taunton Road East
Ajax, ON L1T 3V3
TEL (905) 427-9870
TEL 1-888-420-0070
FAX (905) 619-0210
www.veridian.on.ca

Dear Ms. Walli:

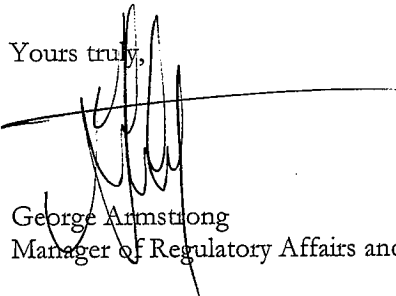
**Re: Board File Number EB-2007-0879
Veridian Connections Inc. 2008 Incentive Regulation Mechanism Rate Application Responses
to Interrogatories and Errata 1 Submission**

Please find accompanying this letter, two copies and an electronic version of Veridian's responses to Board staff Interrogatories on its 2008IRM Application.

In responding to the Interrogatories, a number of required changes to Veridian's original rate application were identified. An errata document has been prepared to update the application to reflect these changes. It is appended to the Interrogatory responses under Exhibit A and is printed on green paper.

Should you have any questions or require further information, please do not hesitate to contact me.

Yours truly,



George Armstrong
Manager of Regulatory Affairs and Key Projects

cc Laurie Stickwood
Dave Clark
Michael Angemeer
Axel Starck
Rob Scarffe

The power to make your community better.

Veridian Connections is a wholly owned subsidiary of Veridian Corporation



VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Board's Question #1

Harmonization of Distribution Rates

Please provide the advantages and disadvantages of proposing rate harmonization now taking into account that: rebasing will reflect in rates the effects of the merger on the revenue requirement; and where applicable, rates will be adjusted to follow the cost allocation policy set by the Board's on November 28, 2007 (EB-2007-0667).

Veridian Connections Inc. Answer to Question #1

Veridian submits that the Board's approval of its 2008IRM rate harmonization proposal will provide the following advantages:

- **Consistent with Cost Allocation Informational Filing**

Veridian submitted two Cost Allocation Informational Filings with the Board's on March 16th 2007 (EB-2007-0002). The filings were prepared in accordance with the Board's Cost Allocation model and guidelines. One filing was based on a load profile for Veridian's service area in the community of Gravenhurst and the other on a single harmonized load profile for all other service areas combined, including that in Scugog.

Veridian's revenue to cost ratios under both its Veridian and Veridian_Scugog distribution rate schedules are largely within the acceptable ranges established by the Board's Report on Cost Allocation. The only minor exceptions relate to street and sentinel light rates and large use rates. Veridian's harmonization proposal would not cause any further deviations from the acceptable revenue to cost ratios established by the Board's.

Harmonization of Veridian and Veridian_Scugog distribution rates in 2008 will level the impact of any subsequent rate adjustments associated with the adoption of the harmonized cost allocation study.

**Veridian Connections Inc. 2008 Incentive Regulation Mechanism Rate Application
Responses to Interrogatories and Errata 1 Submission**

- **Fulfills a Provision of Veridian's Scugog Hydro Purchase Agreement**

The 2005 purchase and sale agreement between Veridian and the Township of Scugog was based on the premise of rate harmonization in 2007. This intent was confirmed in the Board's June 20th 2005 Decision and Order granting leave for the sale of shares of Scugog Hydro to Veridian (EB-2005-0256).

- **Reduces Cross Subsidization In Advance of Rebasing in 2010**

As explained in response to Board's staff interrogatory number 2, Veridian submits that its harmonization proposal will reduce current levels of cross subsidization between customers covered under its Veridian and Veridian_Scugog tariff schedules. If rate harmonization were to be deferred until rebasing, this cross subsidization would perpetuate until 2010, as Veridian is not currently scheduled for rebasing until that time.

- **Harmonization Impacts Mitigated by Overall Rate Decreases**

As detailed in Addendum 1 to Veridian's 2008IRM application (filed on November 23rd 2007), the proposed distribution and retail transmission rates provide for total bill reductions for all customer classes covered by Veridian and Veridian_Scugog tariff schedules. Veridian submits that it is in its customers' interests to implement harmonization of distribution rates concurrent with the proposed reductions in retail transmission rates, as this will mitigate any harmonization impacts.

- **Consistent with Prior Adoption of Harmonized Net System Load Shape**

By adopting harmonized distribution rates and loss factors for customers currently covered by Veridian and Veridian_Scugog tariff schedules, all affected customers would have both their distribution and commodity related charges assessed on a consistent basis. Veridian adopted a common net system load shape for these customers in 2005 as provided for in the Board's Retail Settlement Code. Board's notice of this decision was filed on June 30th 2005.

Veridian submits that there are no obvious or compelling disadvantages to the adoption of its rate harmonization proposals at this time.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Harmonization of Distribution Rates

Ref.: Manager's Summary

Section 3 of the Manager's summary states: "harmonization of Veridian and Veridian Scugog service distribution rates will more fairly reflect cost of service to customers within this homogeneous service area and will serve to eliminate cross-subsidization across service areas".

Board's Question #2

Please explain how cross-subsidization across service areas will be eliminated with the proposed rate harmonization methodology.

Veridian Connections Inc. Answer to Question #2

The most recent updates to distribution rates for Veridian_Scugog to reflect current costs of service took place in 2006. Under the 2006EDR process rates were established using 2004 cost data, at which time Scugog Hydro Electric Corporation operated on a standalone basis prior to its amalgamation with Veridian. Amalgamation with Veridian took place in mid-2005.

The 2004 cost data underpinning Veridian_Scugog rates do not accurately reflect the current delivery of service by Veridian. For example:

- Veridian customers in Scugog are supported by a local Operations Centre located in Beaverton, which also serves customers in the communities of Uxbridge, Sunderland and Cannington. The characteristics of the service area in Scugog are very similar to the other areas supported by this Operations Centre, and service delivery costs are therefore also similar.
- Most Veridian operations, maintenance and administration functions for Veridian and Veridian_Scugog customers are centralized, resulting in a common cost structure related to services such as billing, collections, finance, engineering, control room and emergency response support.
- Since the time that Veridian and Scugog Hydro amalgamated in 2005, distribution customers in Scugog have been the beneficiaries of higher levels of service related to a twenty-four hour per day control centre and Veridian's Supervisory Control and Data Acquisition (SCADA) system. The costs of these services are not currently reflected in Veridian_Scugog rates.

Veridian submits that the establishment of rates based on a harmonized revenue requirement for Veridian and Veridian_Scugog will more fairly assess costs to customers in these areas.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Requirement Calculation

Ref.: Appendix C – Harmonized Veridian Connections Inc and Veridian Scugog 2006 EDR model

Board's Question #3

In worksheet 2-2 Unadjusted Accounting data, for the calculation of the Working Capital, the Administrative and General Expenses in 2004 were reduced by \$43,449 while charitable contributions were increased by the same amount. Please explain:

- a. The reason for this redefinition of charges
- b. Are there tax implications related to this change? If so please provide the new tax calculation and how it was considered in the model

Veridian Connections Inc. Answer to Question #3

- a. Veridian confirms that in worksheet 2-2 Unadjusted Accounting data, \$43,449 was re-allocated from Administrative and General Expenses to Charitable Contributions. Although neither Veridian Connections Inc. nor Veridian_Scugog made direct charitable contributions in 2004, these amounts represent charitable contributions made by Veridian Connections Inc.'s affiliate. The review of charitable contribution expenses was extended to the applicant's affiliates to ensure that disallowed expenses incurred under cost-based affiliate transactions were deducted from the revenue requirement.

The re-allocation was made in order to clarify the adjustment to distribution expenses made in worksheet ADJ 5 (Specific Distrib Exp), Cells G49 and G51. On worksheet ADJ 5 (Specific Distrib Exp), an adjustment is made to calculate the non-recoverable portion of Charitable Contributions. The amounts calculated for Charitable Contributions on worksheet ADJ 5 (Specific Distrib Exp) balance to those submitted and approved in the OEB Approved 2006 Veridian EDR Model.

- b. There is no tax implications related to this change as the Charitable Contribution amounts were made, not by Veridian Connections, but by Veridian's affiliate. No amounts were claimed in 2004 by Veridian Connections for Charitable Contributions.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Requirement Calculation

Ref.: Appendix C — Harmonized Veridian Connections Inc and Veridian Scugog 2006 OEB Tax model

Board's Question #4

In the Test Year Tier 1&2 UCC and CEC worksheet, the value of the addition related to Tier 1 Adjustment for Meters excludes the addition for Scugog approved in 2006 (i.e. \$122,600). Please explain the reason for this exclusion.

Veridian Connections Inc. Answer to Question #4

The value of \$122,600 for the Tier 1 Adjustment for Meters in the filed Scugog 2006 EDR Model was an adjustment for post 3rd tranche Smart Meter investment. In the final Decision 2006 EDR Model this amount was removed from the Tier 1 Adjustments as per the Board's decision in EB-2005-0426 dated April 12, 2006. In applying consequences of the Board's Generic Issues Proceeding (EB-2005-0529) and Generic Decision dated March 21st, 2006, any amounts for smart metering investment and associated amortization were removed from the Model and replaced with an amount in accordance with the Generic Decision to be collected through a rate rider and subject to variance account.

Upon review of the final Decision Scugog 2006 Tax Model, the applicant considered that the omission of removal of the Tier 1 adjustment for meters had been an error and should not be carried forward into the VCI-Scugog Harmonized 2006 OEB Tax Model.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Requirement Calculation

Ref.: Appendix C — Harmonized Veridian Connections Inc and Veridian Scugog 2006 OEB Tax model

Board's Question #5

In the worksheet "Test Year Schedule 8 CAA" no value for the Leasehold Improvement #1 was inputted in the test year CCA. Instead, the total amount of \$16,471 was imputed as UCC End of Test Year. Please explain why 20% of this value was not included in the Test Year CCA, as it was done in the 2006 Veridian Inc approved Tax model.

Veridian Connections Inc. Answer to Question #5

Veridian confirms that 20% of the UCC End of Test Year value for Leasehold Improvement #1 should have been included in the Test Year CCA value. This amount was missed in error. This error has been corrected in an update filing of Appendix "D" – Harmonized 2006 Tax Model within the ERRATA filing attached to these interrogatory responses. The amount of \$3,294 has been included in the Test Year CCA calculation.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Requirement Calculation

Ref.: Appendix C — Harmonized Veridian Connections Inc and Veridian Scugog 2006 OEB Tax model

Board's Question #6

Why is the company applying to use the full \$192,799 non-capital loss carry-forward of December 31, 2004 to reduce taxable income in 2005, instead of using the 2006 Board's approved schedule that resulted in zero taxable income in the test year of 2006 and therefore in zero PILs to be included in the 2006 revenue requirement?

Veridian Connections Inc. Answer to Question #6

Throughout its approach to harmonization the applicant has applied the rate setting and tax principles that would have applied to the amalgamated utility had 2006 rates been calculated on an amalgamated basis, including deemed capital structure and interest rates and tax rates. Application of the total non-capital loss carry-forward of December 31st, 2004 is consistent with this approach as the amalgamated utility would have sufficient 2005 earnings to which the non-capital loss carry-forward would be applied.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Requirement Calculation

Ref.: Appendix C — Harmonized Veridian Connections Inc and Veridian Scugog 2006 OEB Tax model

Board's Question #7

For each of the years 2005 and 2006, please provide the following:

- a. Actual signed Federal T2 tax returns and supporting schedules;
- b. Actual signed Ontario CT23 tax returns and supporting schedules;
- c. Financial statements that were submitted together with tax returns for each tax year to the Ministry of Finance;
- d. Notices of Assessment and notices of Re-assessment, including Statements of Adjustments received from the Ministry of Finance for each tax year

Veridian Connections Inc. Answer to Question #7

- a. Actual signed Federal T2 tax returns and supporting schedules for Veridian Connections Inc. and Scugog Hydro Inc. for years 2005 and 2006 are attached under Tab A.
- b. Actual signed Ontario CT23 tax returns and supporting schedules for Veridian Connections Inc. and Scugog Hydro Inc. for years 2005 and 2006 are attached under Tab A.
- c. Financial statements that were submitted together with tax returns for the tax years 2005 and 2006 for Veridian Connections Inc. and Scugog Hydro Inc. are attached under Tab A.
- d. Any and all Notices of Assessment and Re-assessment received from the Ministry of Finance for each of the tax years 2005 and 2006 are attached under Tab A.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Revenue Allocation and Calculation of Fixed and Variable Charges

Ref: Appendix C – Harmonized Veridian Connections Inc. and Veridian Scugog 2006 Model

Board's Question #8

In worksheet 6-2 Demand, rates (input), the applicant inputted combined rates of 2004 and 2005 that were used in worksheet 7-1 Allocation Base Revenue Requirement to determine the allocation of revenue and fixed and variable charges. Please provide the details (Excel spreadsheet) of the calculation of these combined rates for 2004 and 2005.

Veridian Connections Inc. Answer to Question #8

The Excel spreadsheet used for the calculation of the weighted rates for 2004 and 2005 is attached here under Tab B.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Calculation of 2007 Harmonized Rates

Ref.: 2007 model

Board's Question #9

Please confirm that the model used in the calculation of 2007 harmonized rates was the final decision model and not the initial version that was sent to distributors on January 29, 2007.

Veridian Connections Inc. Answer to Question #9

The model used in the calculation of the 2007 harmonized rates was not the final decision model.

Veridian used the 2007 IRM Model originally issued to distributors with adjustments made for the calculation of the amounts on Sheet 7. LCT Adjustment.

Upon reviewing the instructions within the 2007 IRM Model on sheet "7. LCT Adjustment", Veridian identified that the input cell references for both the 2006 OEB-approved LCT allowance and the 2006 OEB-approved base revenue requirement were incorrect.

Following dialogue with OEB Staff on this issue, Veridian was provided with instructions from Board's Staff containing updated input references, as outlined below:

Enter your 2006 Approved LCT allowance	
Enter your 2006 Base Revenue Requirement	
Rate Reduction Ratio	-

Amount For LCT Removal	2006 PILs model Sheet	Cell Reference
LCT (grossed-up)	Test Year PILs, Tax Provision	D 31

The 2006 Base Revenue amount should be the Base Revenue Amount plus the Transformer Ownership.

Revenue Requirement For LCT Removal	Sheet	Cell Reference
Base Revenue Requirement	5-5 BASE REVENUE REQUIREMENT	F 27 A
Transformer Ownership	6-3 Trfmr Ownership (Input)	R 120 B
Revenue Requirement For LCT Removal		<u>D = A + B</u>

Enter this amount On
Sheet 7. LCT
Adjustment Cell D 17

**Veridian Connections Inc. 2008 Incentive Regulation Mechanism Rate Application
Responses to Interrogatories and Errata 1 Submission**

The 2007 IRM Model has been completed using the above input instructions as received from Board's Staff, rather than those outlined within the Model.

Veridian has submitted an ERRATA filing attached where the 2007 Final Decision Model is used in calculating the 2007 harmonized rates. Use of this 2007 Final Decision Model corrects the error noted in Interrogatory 10 below where the inflation escalator of 1.92% was used, rather than the final approved amount of 1.90%.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Connections Inc & Veridian Scugog

Calculation of 2007 Harmonized Rates

Ref.: 2007 model

Board's Question #10

Why was the inflation escalator of 1.92% used, instead of the final approved amount of 1.90%?

Veridian Connections Inc. Answer to Question #10

As noted in response to Interrogatory 9. above, the inflation escalator of 1.92% was used, instead of the final approved amount of 1.90% in error. Veridian has filed an Addendum to its application where the approved inflation escalator of 1.90% is used.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Gravenhurst

Ref.: 2008 Model, Sheet 3 (2007 Tariff Sheet)

Board's Question #11

A review of your current 2007 Board's approved Tariff of Rates and Charges indicates that the "Service Charge" for the Street Lighting class is applied on a "(per connection)" basis, however your 2008 model does not reflect this.

Veridian Connections Inc. Answer to Question #11

Veridian confirms that on Tab 3. 2007 Tariff Sheet of the Veridian Gravenhurst 2008 Model, the "Service Charge" for the Street Lighting class should be amended to read "Service Charge (per connection)". The notation of (per connection) was missed due to a clerical error.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Gravenhurst

Ref.: 2008 Model, Sheet 3 (2007 Tariff Sheet)

Board's Question #12

A review of your current 2007 Board's approved Tariff of Rates and Charges indicates that the three Non-Payment of Account Charges of "Collection of account charge - no disconnection", "Disconnect/Reconnect at meter - during regular hours", and "Disconnect/Reconnect at meter - after regular hours" are applied on a "\$" basis, however your 2008 model does not reflect this.

Veridian Connections Inc. Answer to Question #12:

Veridian confirms that on Tab 3. 2007 Tariff Sheet of the Veridian Gravenhurst 2008 Model, the three Non-Payment of Account Charges of "Collection of account charge - no disconnection", "Disconnect/Reconnect at meter - during regular hours", and "Disconnect/Reconnect at meter - after regular hours" charges should indicate to be applied on a "\$" basis. The notation of (\$) on these charges was missed due to a clerical error.

VERIDIAN CONNECTION RESPONSES TO BOARD STAFF INTERROGATORIES

Veridian Gravenhurst

Ref.: 2008 Model, Sheet 3 (2007 Tariff Sheet)

Board's Question #13

A review of your current 2007 Board's approved Tariff of Rates and Charges indicates that for Non-Payment of Account Charges there is a \$185, "Disconnect/Reconnect at meter - after regular hours" charge, however, your 2008 model does not reflect this. Instead, your 2008 model has selected "Collection of account charge - no disconnection - after regular hours" which does not appear in your 2007 Board's approved Tariff of Rates and Charges.

Veridian Connections Inc. Answer to Question #13

Veridian confirms the description of "Collection of account charge – no disconnection – after regular hours" on Tab 3. 2007 Tariff Sheet of the Veridian Gravenhurst 2008 Model is in error and should be replaced with "Dsiconnect/Reconnect at meter – after regular hours". This error in descriptor occurred due to a clerical error.