Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

BY EMAIL ONLY

January 28, 2008

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Chapleau Public Utilities Corporation
2008 Electricity Distribution Rates Application
Board File Number EB-2007-0755

Dear Ms. Walli:

Please see attached Board Staff Interrogatories for the above proceeding. Please forward the attached to Chapleau Public Utilities Corporation and all intervenors in this proceeding.

Yours truly,

Original Signed By

Harold Thiessen
Case Manager, EB-2007-0755

Board Staff Interrogatories
2008 Electricity Distribution Rates
Chapleau Public Utilities Corporation
EB-2007-0755

Operations, Maintenance and Administration
General

1. Ref: Exhibit 4
Please confirm that Chapleau Public Utilities Corporation (CPUC) 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 2004. If any accounting policy changes or any significant changes in accounting estimates have been made post 2004 fiscal year end, please provide all supporting documentation and a discussion highlighting the impact of the changes.

2. Ref: Exhibit 4
Table 1 below was prepared to review CPUC's OM&A expenses: (Rounding differences may occur, but are immaterial to the questions following)

Table 1

	Approved	Historical Yr.	Bridge Year	Test Year
Operations and Maintenance	263,311	274,181	296,913	302,585
Billing & Collecting	65,879	60,018	66,539	64,112
Community Relations	2,607	1,707	1,063	1,200
Executive Salaries and Expense	59,881	59,331	62,672	64,552
Office Supplies and Expense	22,176	19,432	21,661	22,248
Outside Services Employed	38,352	47,795	109,238	60,820
Property Insurance	13,601	12,119	13,000	13,500
Regulatory Expenses	5,734	4,584	5,769	6,000
Misc. General Expenses	6,546	10,612	15,000	12,000
Bank Charges	8,247	8,941	9,883	9,200
Controllable OM&A Expenses	486,334	498,720	601,738	556,217
Low Voltage Charges (8 Months Only)	0	0	0	24,631
Depreciation	37,890	37,370	36,273	36,563
TOTAL OPERATING COSTS	524,224	536,090	638,011	617,411

Table 2 below was prepared to assist in the review of CPUC's forecast OM&A expenses from the evidence provided in Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions. Board staff notes that CPUC is forecasting increases in 2008 Controllable OM&A Expenses of $57,497 or 11.5% from Historical 2006.

Table 2

	Approved	Variance Historical/ Approved	Historical Yr.	Variance Bridge/Historical	Bridge Year	Variance Test/Bridge	Test Year	Variance Test/Historical
Operations and Maintenance	263,311	10,870	274,181	22,732	296,913	5,672	302,585	28,404
		2.2%		4.6%		0.9%		5.7%
Billing & Collecting	65,879	-5,861	60,018	6,521	66,539	-2,427	64,112	4,094
		-1.2%		1.3%		-0.4%		0.8%
Community Relations	2,607	-900	1,707	-644	1,063	137	1,200	-507
		-0.2%		-0.1%		0.0%		-0.1%
Executive Salaries and Expense	59,881	-550	59,331	3,341	62,672	1,880	64,552	5,221
		-0.1%		0.7%		0.3%		1.0%
Office Supplies and Expense	22,176	-2,744	19,432	2,229	21,661	587	22,248	2,816
		-0.6%		0.4%		0.1%		0.6%
Outside Services Employed	38,352	9,443	47,795	61,443	109,238	-48,418	60,820	13,025
		1.9%		12.3%		-8.0%		2.6%
Property Insurance	13,601	-1,482	12,119	881	13,000	500	13,500	1,381
		-0.3%		0.2%		0.1%		0.3%
Regulatory Expenses	5,734	-1,150	4,584	1,185	5,769	231	6,000	1,416
		-0.2%		0.2%		0.0%		0.3%
Misc. General Expenses	6,546	4,066	10,612	4,388	15,000	-3,000	12,000	1,388
		0.8%		0.9%		-0.5%		0.3%
Bank Charges	8,247	694	8,941	942	9,883	-683	9,200	259
		0.1%		0.2%		-0.1%		0.1%
Controllable OM&A Expenses	486,334	12,386	498,720	103,018	601,738	-45,521	556,217	57,497
		2.5%		20.7%		-7.6%		11.5%

Table 3 below was prepared to assist in the review of CPUC's OM&A actual and forecast expenses from the OM&A Cost Table in Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Table 3

Cost Drivers	2006	2007	2008
Opening Balance (Previous Year)	486,334	498,720	601,738
Office supplies		2200	
Travel - Industry meetings		4400	-3000
Bad Debt		4250	-3000
Additional Repairs and Maintenance		22732	
Regulatory Filing Costs	3878	35797	-21675
KPMG - Review of 3Yr Business Plan		21715	-21715
ESA Audit		1702	
OMERS Pension		4568	
Unexplained Difference	8,508	5,654	3,869
Closing Balance (Current Year)	498,720	601,738	556,217

a) Please confirm that CPUC agrees with the three tables as presented above. If CPUC does not agree with any element in the tables please advise why not. If CPUC determines that the tables require modification due to the reconciliation resulting from Table 1 above, please provide amended tables with full explanation of changes made.

b) Please complete Table 3 to identify the key cost drivers that are contributing to the overall increase of 11.5% over the 2006 Historic Year.

c) Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Please include the work unit where the smart meter cost is accounted for in the budget, description of activity, and amount budgeted. In particular, please identify for each of the reported budget amounts whether CPUC considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

Regulatory Costs

3. Ref. Exhibit 4
Please provide the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 actual, 2007 bridge year, and 2008 test year regarding the following regulatory costs and present it in the following table format:

Regulatory Cost Category	**Ongoing or One-time Cost?**	**2006 Board Approved**	**2006 Actual**	**2007 (as of Dec 07)**	**% Change in 2007 vs. 2006**	**2008 Forecast**	**% Change in 2008 vs. 2007**
1. OEB Annual Assessment							
2. OEB Hearing Assessments (applicant initiated)							
3. OEB Section 30 Costs (OEB initiated)							
4. Expert Witness cost for regulatory matters							
5. Legal costs for regulatory matters							
6. Consultants costs for regulatory matters							
7. Operating expenses associated with staff resources allocated to regulatory matters							
8. Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)							
9. Other regulatory agency fees or assessments							
10. Any other costs for regulatory matters (please define)							

a) Under "Ongoing or One-time Cost", please identity and state if any of the regulatory cost is "One-time Cost" and not expected to be incurred by the applicant during the impending two year period when the applicant is subject to 3rd Generation IRM process or it is "Ongoing Cost" and will continue throughout the 3rd Generation of IRM process.

b) Please state the utility's proposal on how it intends to recover the "One-time" costs as a part of its 2008 rate application.

Purchase of Services or Products

4. Ref: Exh4/Tab2/Sch3
Pursuant to section 2.5 (Exhibit 4 Operating & Maintenance and Other Costs) of the Filing Requirements for Transmission and Distribution Applications, distribution expenses incurred through the purchase of services or products must be documented and justified if they are to be recovered as part of the revenue requirement:

Please provide the following information:
i. Identity of each company transacting with the applicant.
ii. Summary of the nature of the activity transacted.
iii. Annual aggregate dollar value of transactions for the 2006, 2007, and 2008 rate years.
iv. Descriptions of the specific methodologies used in determining the price (ie: summary of tendering process/summary of cost approach).

Shared Services

5. Ref: Exhibit 4
To comply with section 2.5 (Exhibit 1 Operating & Maintenance and Other Costs) of the Filing Requirements for Transmission and Distribution Applications, please file the following information for each shared services for the 2006, 2007, and 2008 rate years:

i. type of service
ii. total annual expense by service
iii. Rationale and cost allocators used for shared costs for each type of service.

Corporate Cost Allocation

6. Ref: Exhibit 4
Pursuant to section 2.5 (Exhibit 4 Part D) of the Filing Requirements for Transmission and Distribution Applications, Applicants are to file detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please provide the documentation described above for any corporate cost allocations between CPUC and the Township of Chapleau.

<u>Employee Compensation</u>

7. Ref: Exhibit 4, page 27
On Page 27, CPUC provides the number of employees by employee type. Please confirm that the number of employees has remained unchanged for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year, or, if not, please provide the numbers for each of these years.

8. Ref: Exhibit 4, page 27
On Page 27, CPUC provides a comparison of total employee compensation and total employee benefits for the 2006 actual year, 2007 bridge, and 2008 test year. Please provide a similar breakdown of total employee compensation and total employee benefits for the 2006 Board approved year.

9. Ref: Exhibit 4, page 27
On Page 27, CPUC provides a comparison of employee compensation from 2006 to 2008. Based on the percentage of compensation costs charged to CPUC, this table indicates that total employee compensation has increased from $141,138 in 2006 to $164,098 in 2008. Please confirm that this is the case and, if so, please provide the rationale and justification for this two-year increase of 16%. If not, please provide the appropriate numbers and similar justification

10. Ref: Exhibit 4, page 27
On Page 27, CPUC provides a comparison of total employee compensation from 2006 to 2008. Please state whether or not CPUC has overtime compensation. If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

11. Ref: Exhibit 4, page 27
On Page 27, CPUC provides a comparison of total employee benefits from 2006 to 2008. Based on the percentage of benefit costs charged to CPUC, this table indicates that total employee benefits have increased from $53,293 in 2006 to $63,491 in 2008. Please confirm that this is the case and, if so, provide the rationale and justification for this two-year increase of 19%. If not, please provide the correct numbers and equivalent rationale and justification.

12. Ref: Exhibit 4, page 27
    On Page 27, CPUC provides a comparison of total employee compensation amounts from 2006 to 2008. Please indicate whether or not CPUC has an employee incentive program and if so, provide a breakdown of amounts paid for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

13. Ref: Exhibit 4, page 27
    Please provide a breakdown of total employee compensation costs, including salary, wages, and benefits, charged to O&M for the 2006 Board approved year, 2006 actual year, 2007 bridge year and 2008 test year.

Rate Base

14. Ref: General
    a) Please provide Chapleau's Code of Business Conduct.

    b) For the years 2002 to 2008 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected, or % where indicated):
       i Smart Meter Capital Expenditures;
       ii. Capital Expenditures excluding smart meters;
       iii. Total Capital Expenditures including and excluding smart meters;
       iv. Depreciation;
       v. Construction Work in Progress
       vi. Number of customer additions by class

15. Ref: Exh 2/Rate Base Summary Table, Page 24
    a) There appear to be some minor inconsistencies in the summary data when compared to data in Appendix E (see Table below)

	Historic Year 2006 Summary/ Appendix E $	Bridge Year 2007 Summary/ Appendix E $	Test Year 2008 Summary/ Appendix E $
Net Fixed Assets	909, 160	881,309/882,289	908,647/909,588
Working Capital	309,108/389,108	427,090/415,715	412,747/402,243
Rate Base	1,298, 268	1,308,399/1,298,005	1,321,394/1,311,831

Please clarify and confirm the correct numbers.

16. Ref: Exh2/Appendix E/Assets and Depreciation and Capital Expenditures
    a) Net Assets Decline: for 2006 to 2008 these declined from $915,699 to $895,938. Please provide an explanation for this decline.

    b) 2008 Capital Expenditure Increase: Capital Expenditures for 2006, 2007 and 2008 total $24,292, $9,402 and $34,500 respectively excluding smart meter projects. This is a 105% increase in the 2008 projected capital expenditure as compared to the average 2006 and 2007. Please provide an explanation for this increase.

        i. Please identify if any 2006 capital projects were carried over to the 2007.

        ii. Please identify if any 2007 capital projects are carried over to the 2008 test year.

        iii. Please elaborate on utility's plan and capability in completing all proposed 2008 capital expenditures in the 2008 test year.

17. Ref: Exh2/Appendix E, Rate Base
    a) For the years 2002 to 2006 inclusive, please complete the following table including actual dollars and % where indicated. Please identify the cost drivers, as indicated in the table. Examples of cost drivers are: building new transformer station, replacement of obsolete poles, replacement of aging underground cables, etc. Please identify the type and amount of any one-time, unusual expenditure occurred in any particular year that caused the change outside the given threshold, as provided in the table. Please exclude the smart meters from the $ amount for the capital expenditure figures used in the table.

A	B	$ Change (A-B)	% Change (A/B)	Cost Drivers for the change (increase or decrease) if the % change is either less than zero or more than 10%
2003	2002			
2004	2003			
2005	2004			
2006 Actual	2005			
2006 Actual	2006 Board Approved			
2007 Bridge Year	2006 Actual			
2008 Test Year	2007 Bridge Year			

18. Ref: Exh2/Working Capital/Appendix E
    Electricity Supply Expense and 15% thereof for Working Capital: 2006 & 2007 compared to 2008 projected:

    Based on the reduced economy and closures of industry and commerce mentioned on page 18, how is that expectation of lower electricity consumption reflected in the figure of $2,681,620, a figure close to those of 2006 and 2007? Please explain the assumptions leading to the 2008 forecast of electricity supply costs.

Cost of Capital

19. Ref: Exhibit 6 – Short-term Debt
In the table shown under Item 2 "Capital Structure", CPUC has not included a short-term debt component in the proposed capital structure for the 2008 Test Year.

Section 2.1.1 of the *Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors* (the "Board Report") states that:

"The Board has determined that short-term debt should be factored into rate setting, and that a deemed amount should be included in the capital structures of electricity distributors. **The short-term debt amount will be fixed at 4% of rate base**." [Emphasis in Original]

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) If CPUC is proposing to <u>not</u> include a short term debt component in the 2008 Test Year for the purposes of setting its revenue requirement and distribution rates, please provide the reasons that CPUC is proposing to deviate from the Board Report.
b) If CPUC is proposing to comply with the Board Report, please provide CPUC's estimate of the short-term debt rate, showing the calculations, data used and identifying in detail the sources of the data used.

c) Please identify if CPUC 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 CPUC is not proposing to follow the methodology in the Board Report, please provide CPUC's reasons for varying from the methodology in the Board Report.

20. Ref: Exhibit 6 and 2006 Audited Financial Statements – Long-Term Debt
In a Note at the bottom of the table labelled "Cost of Capital and Rate of Return", CPUC states that "Long Term Debt is payable to the Township of Chapleau for an unspecified term at a debt rate cost of 7.25%". CPUC has used the 7.25% as its long-term debt cost in its Application.

Note 7 of CPUC's 2006 Audited Financial Statements notes that "The loan is repayable to the Corporation of the Township of Chapleau (the "Township"). The loan bears interest at 7.25%, is unsecured and has no specified terms of repayment. Payment of interest has been postponed indefinitely and the Township has indicated that they will not demand repayment within the next twelve months."

The Board Report, in section 2.2.1, documents the following policy for setting the long-term 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 provide a copy of the current loan agreement between CPUC and the Township of Chapleau.
b) Please explain how the terms of the loan comply with the Board's guidelines for long-term debt treatment for rate-setting as documented in section 2.2.1 of the Board Report.
c) Is CPUC paying interest on the loan principal, or is interest payment still postponed as stated in Note 7 of the 2006 Audited Financial Statements?
d) If interest payments on the loan are still being postponed:
   i. Please explain, in detail, the reasons for why interest payment was postponed.
   ii. Please explain how the postponed interest is being treated with respect to the loan. Were the terms for the postponement negotiated between CPUC and the Township of Chapleau?
   iii. When does CPUC expect that it will be able to resume interest payment on the loan to the Township of Chapleau? If CPUC does not believe that it will be able to resume interest payment as a result of approved distribution rates resulting from its application, please explain why it does not believe that it will be able to pay its interest expense.

21. Ref: Exhibit 6 – Return on Equity
CPUC shows a Return on Equity of 9.00% under the proposed Capital Structure for the 2008 Test Year and in the table labelled "Cost of Capital and Rate of Return".

a) Please provide the derivation of the proposed ROE of 9.00%, showing all calculations, the data used, and identifying in detail the sources of all data used.
b) Please confirm if CPUC is seeking a fixed return of 9.00%, or is proposing that, for purposes of finalizing CPUC's revenue requirement for the 2008 rate year, the ROE be updated using January 2008 *Consensus Forecasts* and Bank of Canada data when these become available as documented in Appendix A of the Board Report. If CPUC is

proposing a fixed ROE of 9.00%, please provide a detailed explanation for CPUC's proposal to vary from the Board's Cost of Capital guidelines as documented in section 2.3 and Appendix B of the Board Report.

22. Ref: Exhibit 6 – Capital Structure
In the table labelled "Cost of Capital and Rate of Return", CPUC provides the capital structure for the Board Approved 2006, Historical Year 2006 and Test Year 2006.

a) Please confirm if the Historical Year 2006 is actuals for the 2006 calendar/fiscal year. If the Historical Year 2006 data are not actuals, please explain what these data represent.
b) Please explain why the Total Rate Base for the Historical Year 2006 and Test Year 2008 match at $2,243,060.
c) Please update the table below, taking into account any updated information provided in response to interrogatories, showing the following information for each of the years:
   i. 2006 Board-approved;
   ii. 2006 Actual;
   iii. 2007 Bridge; and
   iv. 2008 Test.

	Dollars ($)	Ratio (%)	Rate (%)	Rate X Ratio /100 (%)
Debt				
Long-term				
Short-term				
Total Debt				
Equity				
Common Equity				
Preference shares				
Total Equity				
Weighted Average Cost of Capital		100%		

23. Ref: Exhibit 6 and Exhibit 7 – Weighted Average Cost of Capital
In Exhibit 6, in the table labelled "Calculation of Return on Equity and Debt", CPUC shows a Weighted Average Cost of Capital ("WACC") of 8.07%. In Exhibit 7, "Calculation of Revenue Deficiency or Surplus", CPUC shows the WACC as a "Required Return", but also shows an entry "Actual Return 10.08%". In a note at the bottom of the table, CPUC states "The Company requests that Net Utility Income be $132,222 or 10.8%".

a) Please confirm what WACC – 8.07%, 10.08% or 10.8% - CPUC is requesting in its Application.
b) If CPUC is requesting a WACC other than that calculated in Exhibit 6, taking into account any updated information provided in response to interrogatories:
   i) Please provide CPUC's detailed explanation for deviating from the Cost of Capital guidelines in the Board Report; and
   ii) Please calculate the Return on Equity that CPUC is proposing in order to achieve the proposed WACC. Please reconcile this ROE calculation with CPUC's response of interrogatory #22 above.
   iii) Please re-calculate the table in Exhibit 7 taking into account any updated information provide in response to interrogatories.

Load Forecasts

24. Ref: Exhibit 3/page 26 of 184
On page 26, CPUC provides a description for the development of its forecast: "Load Forecast was developed using actual consumption data. Normalization Methodology (weather) has not been applied to the data." No other textual information regarding the development of the forecast is provided. An Excel spreadsheet containing the forecasting calculations is presented without description.

Ensuring that number of customers, kWh and kW forecasts are addressed, please provide a comprehensive description of the methodology and model CPUC employed to develop its forecast, identifying and rationalizing all assumptions made, explaining why no weather normalization was utilized, and referencing all data sources.

25. Ref: Exhibit 3 (a)
In the Excel spreadsheet that forms Exhibit 3 (a), the Applicant presents a spreadsheet containing the forecasting calculations.

a) At cells C-E59 it states: "2008 estimates are the average of 2005/6/7" whereas at cell I-P109 it states: "2008 Forecast of Data is the average consumption level for 2006 and 2007 for all classes". Please clarify this apparent contradiction.
b) Cells B56 and B73 identify "Adjustments". Please explain what these adjustments are, how they are determined and the rationale for including them.

c) The number of customers forecasted for 2008 (e.g. cell C99) is calculated as the average number of customers for the two preceding years. Please provide the rationale for this assumption.
d) Cells R85-S99 presents the historical and forecast values for number of customers and kWh load.
   i. Please confirm that the 2002-2006 historical customer growth is about zero per annum,
   ii. Please confirm that the 2006-2008 forecasted customer growth is about -0.3% per annum,
   iii. Please confirm that the 2002-2006 historical kWh load growth is about -4.2% per annum,
   iv. Please confirm that the 2006-2008 forecast kWh load growth is about 0.4% per annum,
   v. Please rationalize how a historic zero customer growth drove a negative load growth whereas a forecast negative customer growth is expected to drive a positive load growth, and
   vi. Please identify the anticipated events that are expected to drive the reversal noted in v. above.

Loss Factors

26. Refs:
   i. Exhibit following Exhibit 8 (b), Excel file tab “2008 Tariff Sheet”, Tariff of Rates and Charges - Effective May 1, 2008
   ii. EB-2007-0515, Tariff of Rates and Charges - Effective May 1, 2007
   iii. EB-2005-0349, Tariff of Rates and Charges - Effective May 1, 2006
   iv. Exhibit 3 (a), Excel file tab “Exhibit 3 (a) Op. Rev.”, Section on “Loss Factor Calculation” and “Notes to this Page”

The 1st, 2nd and 3rd references respectively provide total loss factors (TLF) for 2008 (proposed), 2007 (approved) and 2006 (approved). The 4th reference provides loss factor calculations and info on mitigating measures.

With respect to CPUC’s proposal of a TLF for Secondary Metered Customer < 5,000 kW of 1.0613 for 2008 in the 1st reference:

a) Please provide the distribution loss factor (DLF) and corresponding Supply Facility Loss Factor (SFLF).
b) Please provide details of the calculation used to obtain the DLF value, for example by showing data for each year 2004 – 2006 in the framework of the 2006 EDR Handbook Schedule 10-5.
c) Please explain why the proposed TLF is significantly higher than the TLF of 1.0497 in both the 2nd and 3rd references for 2006 and 2007 respectively.

d) Pease provide information on measures (other than the planned investment of $23,500 for the replacement of conductors in 2007 mentioned in the 4th reference) that CPUC intends to take to bring about a reduction in losses.

Low Voltage Wheeling Cost

27. Ref: Exhibit 9/Section 5 (page 43), and Exhibit 1/Pro Forma Operating Statements (page 145 of 184)
Low Voltage Revenue and Charges are shown as $0 for 2006 and 2007, with the forecast for 2008 as $36,947 in Exhibit 1.
b) Please explain how the forecast amount for 2008 has been derived, and if possible please provide the billing quantities and amounts that have been paid to the host distributor for each LV service (eg. Shared Line, Shared DS, etc) during 2006 and 2007.
c) Please provide the amounts that are allocated to each rate class in 2008, including an explanation of the basis for these amounts.

Cost Allocation

28. Please file the “rolled-up” version of Run 2 of the Informational Filing EB-2007-0001 as an official part of the record of this Application. (The hard copy reply needs to include only the input tables Sheets I3 – I 8 and output tables O1 and O2.)

To calculate revenue to cost ratios that would be applicable to the test year,
a) Please provide a table that shows
- Column a), the proposed customer rate classes,
- Column b), the class revenue requirements in the informational filing, (Worksheet O1, row 35), expressed as a percentage of the total revenue requirement,
- Column c), a calculation of the 2008 revenue requirements from distribution rates (e.g. revenue requirement net of revenue from specific service charges times the percentages calculated in column b),
- Column d), the proposed revenue at proposed rates per Exhibit 9 / page 43 / second column in the second table
- Column e), the ratio of column c) to column d)

b) Please provide any comments on whether the ratios calculated in column e) are reasonably valid indications of class revenue to cost ratios that the Board could use with reference to the Board report “Cost Allocation for Electricity Distributors”, November 28, 2007. If any of the calculated ratios are not reasonable, please explain why they are too high or too low.

29. Ref: Exhibit 8/page 35-36
The Informational Filing showed (first table, p. 35) that five classes were under-contributing. In the proposed changes (first table, p. 36) it is proposed that two of the classes would be adjusted by an amount more than their respective under-contribution, whereas three of the classes are adjusted by an amount less than their under-contribution. Notably, streetlights are shown as under-contributing by $27,226 and the adjustment upward is only $3500. Please provide the rationale for the different treatment of the various rate classes.

Rate Design

30. Ref: Exhibit 9/section 5 (page 43), and section 6 (pages 43 – 46)
Volumetric Rates: In section 5 (second table, final column) the percentage increase in revenue from volumetric charges is shown as 17.4%. However, in the detailed tables in section 6, the percentage increases in the volumetric charges range from 21.0% for Residential up to 102% for GS>50 kW and 103.9% for Streetlighting. Since the overall percentage should be a weighted average of the detailed percentages, it is apparent that some cost component(s) are missing from the overall figure.
    a) Please confirm whether the rate adder for LV costs is included in both percentages, or only the detailed percentages.
    b) Please provide information on any other cost components that contribute to the discrepancy.

31. Ref: Exhibit 9/Existing Rate Schedule (page 38) and Proposed Rate Schedule (page 41)
Retail Transmission Service Rates: In light of the relatively small decrease in the wholesale rate for Line and Transformation Connection and also in the decrease being proposed by the host distributor HONI, please explain why the Applicant is proposing such large decreases in the Retail Transmission Service Rate (eg from $0.0050 to $0.0019 per kWh for the Residential class).

Considering the decrease in the proposed Retail Transmission Service rates and the decreases in the regulatory asset rate rider for all classes, please confirm that the proposed decreases are correct, eg that there is no double counting of a variance account or a forecast decrease in some element of cost.

32. Ref: Exhibit 9/section 6 (pages 43-46)
Wholesale Market Service Rates: Please provide the cost basis for proposing to decrease the Wholesale Market Service Rate from $0.0052 to $0.0041 per kWh for each class.

Deferral and Variance Accounts

33. Ref: Exh 3/Sch 1 & 2
    a. Please explain why the net income related to the 2006 historical actual shown in the pro forma operating statements differs from the 2006 net income shown in the 2006 audited financial statements.
    b. Explain why there is a decrease in net income for 2007 as shown in the 2007 pro forma operating statements.
    c. Are there any reconciling items pertaining between the audited financial statements and the Reporting and Record-Keeping Requirements? If so, please provide a schedule detailing and explaining these differences.

34. Ref: Exh 5/Tab 1/Sch 1/Exh 5(c)
CPUC is requesting disposition of regulatory variance accounts in Exhibit 5 (c). The totals in the exhibit do not agree to totals reported to the Board as per 2.1.1 of the Reporting and Record Keeping Requirements for the period ending December 31, 2006. Please provide the information as shown in the attached continuity schedule [2008 Regulatory Assets Recovery Worksheet] for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit 5 (c). 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.

35. Ref: Exh 5/Tab 1/Sch 2
In this exhibit, the account numbers do not match the appropriate account names (e.g. account 1586 is identified as RSVA Power). Please provide a brief description of each of the deferral and variance accounts used by CPUC with the correct account number.

36. Ref: Exhibit 2
    a. Is CPUC using the Board-prescribed interest rate, as per the Board's letter to LDCs dated November 28, 2006, for construction work in progress (CWIP) since May 1, 2006?
    b. If not, what interest rate has LDC been using for CWIP?

c. If not using the Board-prescribed interest rates, what would the impact on rate base, revenue requirement, and CWIP be if the LDC did use the prescribed interest rates?

37. Ref: Exh 5/Tab1/Sch2/Pg1&2
   a. Is CPUC currently using account 1590?
   b. If not, why?
   c. If so, has CPUC transferred previous 2006 EDR Board-approved amounts for regulatory asset recovery to 1590, as instructed in the Board's letter dated November 28, 2006? When did CPUC do this transfer?
   d. Please update Exhibits 5 (a, b, c) if necessary, to reflect the appropriate transfers and include account 1590.

38. Ref: Exh5 (a), (b) & (c), Exh 5/Tab1/Sch3
   a. For low voltage costs from Hydro One, what account did CPUC use before May 1, 2006? After May 1, 2006?
   b. LV charges were applied to the 2006 EDR rates as per the 2006 EDR final model at Tab 7-2 Allocation LV Wheeling. This means that part of the revenue collected from customers should be allocated to account 4075 LV Charges instead of 4080 Distribution Revenue. Why did CPUC not allocate part of its distribution revenue to account 4075, LV Charges which would impact account 1550?
   c. In its 2006 EDR decision for CPUC, the Board approved LV charges. Why does CPUC indicate that LV charges were not applied to the 2006 EDR rates as per Exhibit 5/Tab1/Schedule 3?

39. Ref: Exh5/Tab1/Sch6
   CPUC is proposing to refund the deferral and variance accounts to customers over a period of 4 years, beginning May 1, 2008 and ending April 30, 2012.
   a) What is the regulatory precedent for having a greater than three year period for the rate riders, seeing the company will be rebased in 2011?
   b) Why is the company suggesting that refunding deferral and variance accounts over less than four year period will place the company in financial risk when it is projecting to hold more than $400,000 in cash as per Exhibit 1, Pro Forma Operating Statements, page 23?
   c) What would be the impact the company refunding the balance over a three year period?
   d) Please provide a schedule showing the calculation of the rate riders assuming that the deferral and variance accounts are refunded over a three year period.

40. Ref: Exh 5 c)

Usual practise in the electricity sector is to use audited numbers for the last fiscal year as the basis for balances in the deferral and variance accounts for disposition, with interest forecasted up to the start of the new rate year. Please provide the rationale for principal transactions being forecast beyond December 31, 2006.

Specific Service Charges

41. Ref: Exhibit 3, Other Revenue
Page 24 states as follows:

> "Specific Service Charges for 2006 and part of 2007 were not always collected. As of August 2007 the Board of Directors of the Company authorized staff to collect all Specific Service Charges. For the 2007 Test Year, full collection of fees beginning in August will be made except for Arrears Certificate."

a) Please explain why Specific Service Charges for 2006 and 2007 were not always collected.

b) Please provide a more detailed explanation as to why collection of the Arrears Certificate charge did not begin in August 2007. Please state whether CPUC intends to apply for the discontinuance of this charge and if not, why not.

42. Ref: Exhibit 9, Pages 39 & 42
In the 2006 Board Approved Tariff of Rates and Charges, it is shown that the "Disconnect/Reconnect at meter – during regular hours" charge is $65.00. In the 2008 Proposed Rate Schedule page 42, the charge is $60.00. Please state whether CPUC is applying to amend this charge and if so, please provide the rationale for the proposal to reduce this charge.

Smart Meters

CPUC 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 CPUC's 2007 IRM application (EB-2007-0515), the Board confirmed its understanding that CPUC would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

43. Ref: Exhibit 1/Tab 1/Sch 6

    On page 13, CPUC states that it "has not included in the application any costs related to Smart Metering because the Company has not yet filed with the Board its application for the Smart Metering Investment Program. At the present time Chapleau Public Utilities Corporation has approval to charge $0.26 per metered customer. At the present time, it is unclear how Smart Metering costs will be recovered and therefore we request to be included in any provincial mandate of Smart Metering Costs recovery."

    a) Please confirm if any costs have been incurred by CPUC with respect to Smart Metering until the date of the filing of this application; if so, please provide:
        i. An itemized cost breakdown; and
        ii. Associated number of smart meter installations.

    b) Please confirm that, in Test Year 2008, CPUC is applying to maintain its current rate adder which was approved by the Board in the April 12, 2007 Decision and Order (EB-2007-0515). If not,
        i. What is the Smart Meter Rate Adder CPUC is intending to implement in Test Year 2008?
        ii. Please provide justification for the amount of this Smart Meter Rate Adder and explain fully how the new amount for Smart Meter Rate Adder was determined.

Conservation and Demand Management (CDM)

44. Ref: Exhibit 4 and Appendix D
CPUC is requesting $10,000 as part of its CDM plan to install capacitors to reduce line losses.

    a) Please provide a detailed discussion on what plans were in place to reduce line losses prior to the decision to install the capacitors.

    b) Why does CPUC consider the installation of capacitors to be a CDM program, as opposed to being part of overall infrastructure investment?

    c) In addition to the $10,000 under the CDM program, CPUC has requested $23,500 in capital expenditures to improve voltages. On what basis has CPUC made this distinction between capital expenditures, and CDM expenditures?

    d) What differential rate treatment does CPUC expect between the $10,000 requested under the CDM program for capacitor installation, and the $23,500 requested as capital expenditures for voltage improvement?

    e) Appendix D refers to Appendices 1 – 4, however these appendices do not appear to be included as part of CPUC's application. Please provide Appendices 1 – 4.

45. Ref: Exhibit 4, page 29
CPUC indicates that the cost of purchasing and installing 3 regulators is $23,500, however in Appendix D CPUC cites the cost as $25,400. Please clarify the cost of purchasing and installing the 3 regulators.

Payments in Lieu of Taxes (PILs)

46. Ref: Exhibit 3, page 29

    For the 2006 tax year, please provide the following:

    i. Actual federal T2 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;
    ii. Actual Ontario CT23 tax return and supporting schedules – signed original and any returns that were subsequently amended and re-filed;
    iii. Financial statements that were submitted with the tax returns to the Ministry of Finance;
    iv. Notices of Assessment, and any Notice(s) of Re-assessment, including Statement of Adjustments, received from the Ministry of Finance for the 2006 tax year; and
    v. Any correspondence between the Ministry of Finance and CPUC regarding any tax items, or tax filing positions that may be in dispute, or under consideration or review, that may affect the tax situation of the utility for 2006 or future years.

47. Ref: Exhibit 3, page 29

    Using the applied-for 2008 regulatory net income, and forecasting forward, will CPUC be able to utilize the non-capital tax loss carry-forwards shown before these losses expire? In what year does CPUC expect to have to pay PILs income tax?