**2008 Electricity Distribution Rates**
**Board Staff Interrogatories**
**Erie Thames Powerlines Corporation (Erie Thames or ETPL)**
**EB-2007-0928**

## OM&A EXPENSES

## EMPLOYEE COMPENSATION

1. Ref: Exhibit 4, Tab 2, Schedule 1

On Page 4, Erie Thames Powerlines (ETPL) provides a breakdown of its administrative and general expenses including accounts 5605 Executive Salaries and Expenses and 5610 Management Salaries and Expenses. The 5605 amounts for the 2006 Actual, 2007 Bridge and 2008 Test Year are shown as $125,123, $119, 348 and $119,348 for the three years, while the 5610 amounts are shown as $515, 310, $518,045 and $691,640 respectively. Exhibit 4 Tab 2 Schedule 6 Page 1 states that “Executive Services” costs paid to Erie Thames Power were $503,629, $703,914 and $878,453, respectively.

(a) Please provide a reconciliation between the salary related numbers shown under administrative and general expenses and the executive services costs paid to ETPL, as outlined above.

(b) For non-executive employees, please state how costs charged to ETPL are determined and what types of costs are included, e.g. salaries, pension, benefits, incentives, etc.

(c) For each employee category: Executive, Management, Non-Unionized and Unionized, please state the aggregate costs that ETPL incurred for 2006, including Historical numbers underpinning the 2006 approved revenue requirement ,Historical Actual for 2006, 2007 and 2008.

2. Ref: Exhibit 4, Tab 2

Please provide a breakdown on the total number of employees who work for, or provide services for, ETPL, for each employee category: Executive, Management, Non-Unionized and Unionized, for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year.

## OM&A EXPENSES – OVERALL

3. Ref: Exhibit 4

Please confirm that ETPL 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 the supporting documentation and a discussion highlighting the impact of the changes.

4. Ref: Exhibit 4 Tab 1 Schedule 1 Page 1

Beneath the heading “Income Tax, Large Corporation Tax and Ontario Capital Taxes”, ETPL indicates the following:

“The Income Taxes, Large Corporation Taxes and Ontario Capital Taxes expenditures totaled $452,787 in 2006 Board Approved, $122,234 in 2006 Actual and are forecast to be $781,100 in 2007 and $302,852 in 2008.”

However, on Exhibit 2/Tab 1/Schedule 1/Page 1 ETPL indicates the following:

| | **2006 Board Approved** | **2006 Actual** | **2007 Bridge** | **2008 Test** |
|---|---|---|---|---|
| LCT, OCT and Income Taxes | $ 701,344.00 | $ 89,537.00 | $ 829,751.59 | $ 338,270.08 |

Please state which totals are correct and update the schedules as necessary.

5. Ref: Exhibit 4 Tab 2 Schedule 3 Page 1

The “Variance Analysis on OM&A Costs” on this page states that total net cost is expected to be $36,607,285, $37,363,028 and $38,283,933 for the 2006 Actual, 2007 Bridge Year and 2008 Test Years respectively

Exhibit 4/Tab 1/Schedule 2/Page 1 shows what appear to be equivalent costs as being $36,696,822, $37,236,016.15 and $38,254,647.74 for the 2006 Actual, 2007 Bridge and 2008 Test Years respectively.

Please state which numbers are correct and update the schedules as necessary.

6. Ref: Exhibit 4 Tab 1 Schedule 2 Page 1

In 2006, the Board approved an amount of $701,344 for LCT, OCT and income taxes to be collected from ratepayers. However, the actual amount paid in taxes for 2006 was $89,537.

a) Regarding the LCT, OCT, and income taxes, please explain the variance of $611,807 between the 2006 Board approved amount and 2006 actual.
b) For the 2008 test year, ETPL is requesting Board approval for LCT, OCT, and income taxes in the amount of $338,270. Given that the 2006 Board approved tax recovery amount was much higher than the actual amount paid, please state why the Board should have confidence that a similar situation will not occur with the 2008 approved amount.

7. Ref: Exhibit 4 Tab 1 Schedule 2 Page 1

Board staff Table 1 below was prepared to review ETPL's OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below.

Board staff Table 1

| | 2006 Board Approved | 2006 Actual | 2007 Bridge | 2008 Test |
|---|---|---|---|---|
| **OM&A Expenses** | | | | |
| Operation (Working Capital) | 13,887 | 71,733 | 52,845 | 53,150 |
| Maintenance (Working Capital) | 1,093,343 | 1,266,426 | 1,095,636 | 1,113,402 |
| Billing and Collections | 867,185 | 963,228 | 1,054,982 | 1,073,487 |
| Community Relations | 33,218 | 36,709 | 28,879 | 28,879 |
| Administrative and General Expense | 2,097,378 | 1,867,295 | 1,747,954 | 1,792,285 |
| **Controllable OM&A Expenses** | **4,105,011** | **4,205,391** | **3,980,296** | **4,061,203** |
| Amortization Expenses | 970,610 | 1,023,655 | 890,252 | 935,609 |
| Cost of Power | 26,490,207 | 31,378,239 | 31,535,717 | 32,919,566 |
| Other Operating Costs | - | - | - | - |
| LCT, OCT and Income Taxes | 701,344 | 89,537 | 829,752 | 338,270 |
| **Total Operating Costs** | **32,267,172** | **36,696,822** | **37,236,016** | **38,254,648** |

Board staff Table 2 below was created to review ETPL's OM&A forecasted expenses from the evidence provided in the application's Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Board Staff Table 2

| | 2006 Board Approved | Variance 2006/2006 | 2006 Actual | Variance 2007/2006 | 2007 Bridge | Variance 2008/2007 | 2008 Test | Variance 2008/2006 |
|---|---|---|---|---|---|---|---|---|
| **OM&A Expenses** | | | | | | | | |
| Operation (Working Capital) | 13,887 | 57,846 | 71,733 | (18,888) | 52,845 | 305 | 53,150 | (18,583) |
| | | 1.4% | | -0.5% | | 0.0% | | -0.4% |
| Maintenance (Working Capital) | 1,093,343 | 173,083 | 1,266,426 | (170,790) | 1,095,636 | 17,766 | 1,113,402 | (153,024) |
| | | 4.1% | | -4.3% | | 0.4% | | -3.6% |
| Billing and Collections | 867,185 | 96,043 | 963,228 | 91,754 | 1,054,982 | 18,505 | 1,073,487 | 110,259 |
| | | 2.3% | | 2.3% | | 0.5% | | 2.6% |
| Community Relations | 33,218 | 3,491 | 36,709 | (7,830) | 28,879 | 0 | 28,879 | (7,830) |
| | | 0.1% | | -0.2% | | 0.0% | | -0.2% |
| Administrative and General Expense | 2,097,378 | (230,083) | 1,867,295 | (119,341) | 1,747,954 | 44,331 | 1,792,285 | (75,010) |
| | | -5.5% | | -3.0% | | 1.1% | | -1.8% |
| **Controllable OM&A Expenses** | **4,105,011** | **100,380** | **4,205,391** | **(225,095)** | **3,980,296** | **80,907** | **4,061,203** | **(144,188)** |
| | | 2.4% | | -5.7% | | 2.0% | | -3.4% |

8. Ref: Exhibit 4 Tab 1 Schedule 2 Page 1

a) Please confirm that ETPL agrees with the two tables prepared by Board staff presented above. If ETPL does not agree with any table please state why not. If ETPL determines that the tables require modification due to any inaccuracy, please provide amended tables with full explanation of changes made.

b) Please provide a table identifying the key cost drivers that are contributing to the overall decrease of 3.4% over 2006 Historical relative to 2008. Please provide a detailed explanation for the variance.

9. Ref: Exhibit 4 Tab 1 Schedule 2 Page 1

As per the noted Exhibit, Billing and Collections have increased 11.4% or $110,259 (2008 Test Year vs. 2006 Actual).

Please provide a detailed explanation for the variance.

## GENERAL – REGULATORY COSTS

10. 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 identify if any of the regulatory costs are a “One-time Cost” and therefore not expected to be incurred during the impending two year period when the applicant is subject to the 3rd Generation IRM process. Will any “Ongoing Cost” continue through the 3rd Generation IRM process?

b) Please state the utility’s proposal as to how it intends to recover the “one-time” costs as part of its 2008 rate application.

**PURCHASE OF SERVICES OR PRODUCTS**

11. Ref: Exhibit 4 Tab 2 Schedule 6

On page 1, ETPL discusses its affiliates’ services provisions. Please confirm that ETPL does not incur any expenses through the purchase of any services directly from third parties. If ETPL does incur such expenses, please provide: (i) the identity of each company transacting with the applicant, (ii) a summary of the nature of the activity transacted, (iii) the annual dollar value in aggregate of transactions and (iv) a description of the specific methodology used in determining the price (e.g. summary of tendering process/summary of cost approach).

**SHARED SERVICES**

12. Ref: Exhibit 4 Tab 2 Schedule 4

Please provide ETPL’s definition of a shared service as compared to a purchased service.

13. Ref: Exhibit 4 Tab 2 Schedule 4

On page 1 of this schedule, ETPL discusses its shared services arrangements. Please provide an overview of these arrangements in the following format for each of the 2006 historical, 2007 bridge and 2008 test years: (i) total $ amount of expenses paid to affiliates for services rendered and the percentage amount this represents of total expenses and a breakdown between the relevant services, (ii) total $ amount of revenue received from affiliates for services provided and the percentage amount this represents of total revenue and a breakdown between the relevant services, (iii) total $ amount of expenses incurred related to the provision of services to affiliates and the percentage amount this represents of total expenses and a breakdown between the relevant services.

14. Ref: Exhibit 4 Tab 2 Schedule 4

On page 1 of this schedule, ETPL provides information related to cost allocators for services which it receives from Erie Thames Services Corporation.

The cost allocator for OM&A services received from Erie Thames Service Corporation is described as “Fixed Price per Customer” and the explanation provided is that “As per ETPL’s MSA OM&A expenditures are charged on a fixed price for identified services based on number of customers. Any other services outside these services are billed on a time and materials basis as per the Master Services Agreement. These costs remain relatively unchanged and represent a 2% reduction in per customer costs.”

(a) Please provide a detailed explanation as to how the fixed price is determined

(b) Please include in the explanation what is meant by the reference to a 2% reduction in per customer costs and why this takes place. Please also state why there is an increase in this amount in the 2007 Bridge year in spite of the stated 2% reduction in customer costs.

15. Ref: Exhibit 4 Tab 2 Schedule 4

On page 1 of this schedule, ETPL provides information related to Executive Services received from Erie Thames Power Corporation. The cost allocator is stated to be “Actual Costs/Revenue/Assets.” The explanation provided is that “ETPL is billed for use of its parent company’s executive team based on their utilization. For expenses not tracked by time, costs are allocated by revenue and assets.”

(a) Executive Services costs are shown as increasing from $503,629 in 2006 to $878,453 in 2008, an increase of over 74%. Please provide a detailed explanation for this increase.

(b) Please provide a more detailed explanation as to how ETPL is billed for use of its parent company’s executive team. Please state how utilization is determined and what charge is applied to the utilization level. Please also clarify which expenses are not tracked by time and how costs are allocated by revenue and assets.

16. Ref: Exhibit 4 Tab 2 Schedule 4

On page 1 of this schedule, ETPL provides information related to building rent costs which it pays to Erie Thames Power Corporation. The cost allocator is described as market based pricing. The explanation provided is that "ETPL pays a market based price for each square foot of space it uses. For 2006 some executive services were allocated to rent in error and in 2008 more office space is being utilized by other affiliates thereby decreasing the costs to ETPL."

(a) Please state how the market based price paid by ETPL is determined. Please include an explanation as to how if, as stated, ETPL pays a market-based price for each square foot of space it uses, the fact that in 2008 more office space is being utilized by other affiliates would decrease the price paid by ETPL.

17. Ref: Exhibit 4 Tab 2 Schedule 4

On page 2 of this schedule, ETPL discusses settlement services provided by Utilismart Corporation.

(a) Please provide a more detailed description of the services provided by Utilismart.

(b) Please provide a detailed explanation as to why these costs are increasing from $57,600 in 2006 to $117,504 in 2008, an increase of 104%.

(c) Please state how market based pricing is determined and what is meant by pricing being similar to Utilsmart's other LDC customers

(d) Please provide the expiry date of the current agreement with Utilsmart.

## RATE BASE

18. Ref: General

a) Please provide ETPL'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 dollars, or % where indicated):

i Net income;
ii Actual Return on the Equity portion of the regulated rate base (%);
iii Allowed Return on the Equity portion of the regulated rate base (%);
iv. Retained Earnings;
v. Dividends to Shareholders;
vi. Sustainment Capital Expenditures excluding smart meters;
vii. Development Capital Expenditures excluding smart meters;
viii. Operations Capital Expenditures;
ix. Smart meters Capital Expenditures;

x. Other Capital Expenditures (identify);
xi. Total Capital Expenditures including and excluding smart meters;
xii. Depreciation;
xiii Construction Work in Progress
xiv Number of customer additions by class.
xv Rate Base

19. Ref: Exhibit 2 Tab 1 Schedule 2 Page 1 - Rate Base Summary Table and Associated Detailed Tables

(a) Year 2006: Gross Assets in approved 2006 EDR model versus Actuals:

Please provide a table reconciling the cost differences and provide the reasons for the Gross Asset Value totaling $17,307,356 from the 2006 Board approved EDR model versus the actual of $20,412,048.

(b) Year 2006: Accumulated Depreciation in approved 2006 EDR model versus Actuals:

Please provide a table reconciling the differences and providing the reasons for the difference between the amount of $2,429,563 in the approved 2006 EDR model versus the actual of $4,008,229.

(c) There appear to be some inconsistencies in the Gross Asset Total and Accumulated Depreciation Total in the following references:

| | Source | | 2006 Actual | 2007 Bridge Year | 2008 Test Year |
|---|---|---|---|---|---|
| Gross Asset Total | Exhibit 2/ Tab 1/ Schedule 2/ Page 1 | Rate Base Summary | $ 20,412,048 | $ 21,362,380 | $ 22,388,786 |
| | Exhibit 2/ Tab 2/ Schedule 2/ Page 3 | Gross Asset table | $ 20,412,048 | $ 21,362,380 | $ 22,485,380 |
| | Exhibit 2/ Tab 2/ Schedule 2/ Page 3 | Materiality Analysis Calculation | $ 20,412,047 | $ 22,037,380 | $ 23,660,380 |
| Accumulated Depreciation Total | Exhibit 2/ Tab 1/ Schedule 2/ Page 1 | Rate Base Summary | $ 4,008,229 | $ 4,897,426 | $ 5,831,190 |
| | Exhibit 2/ Tab 2/ Schedule 4/ Page 1 | Accumulated Depreciation Table | $ 4,008,229 | $ 4,897,426 | $ 5,831,190 |
| | Exhibit 2/ Tab 2/ Schedule 2/ Page 3 | Materiality Analysis Calculation | $ 4,008,228 | $ 4,911,980 | $ 5,884,589 |

Please clarify and confirm the correct numbers for the 2007 Bridge Year and 2008 Test Year.

20. Ref: Exhibit 2

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: installation of transformers, replacement of obsolete poles, replacement of aging or low capacity power lines, etc. Please identify the type and amount of any one-time, unusual expenditure that may have occurred in any particular year and caused a change outside the given threshold, as provided in the table. Please exclude any 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 | | | |

21. Ref: Exhibit 2 Tab 3 Schedule 1 Page 1

(a) Please provide the 2006 Capital Expenditures by Project for Year 2006 for Board approved Projects compared to Actual Projects for 2006 with the information and format of the table of the above reference.

(b) Please identify carryover projects where applicable, for the 2006 actual, 2007 bridge year, and 2008 test year. Please provide information on these carryover projects, on an individual basis, i.e., one project at a time, including the dollar amount carried over from one year to another, and present it in the format outlined in the following Table 1.

Table 1 – Identification of Carryover Project

| **Type of the Carryover Project (e.g. power line replacements, pole replacements, smart meters, etc.)** | **$ Carryover from 2005 to 2006** | **% Carryover from 2005 to 2006 to total 2006 Capital expenditure** | **$ Carryover from 2006 to 2007** | **% Carryover from 2006 to 2007 to total 2007 Capital expenditure** | **$ Carryover from 2007 to 2008** | **% Carryover from 2007 to 2008 to total 2007 Capital expenditure** |
|---|---|---|---|---|---|---|
| 1. | | | | | | |
| 2. | | | | | | |
| 3. | | | | | | |
| 4. | | | | | | |
| 5. | | | | | | |

(c) Please provide an explanation for each project as to why the project was carried over, or is expected to be carried over, from one year to another and present it in the format outlined on Table 2 below. Please specify if the project is one-time in nature or an ongoing project.

Table 2 – Reasons for the Carryover Projects

| **Type of the Carryover Project (e.g. Underground cable replacement, smart meters, etc.)** | **One-time or ongoing project?** | **Reasons for the Carry Over** |
|---|---|---|
| 1. | | |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |
| 6. | | |

(d) Please confirm that ETPL has no projects for which a Leave to Construct under section 92 is required, or, if there are such projects, please provide the information about each such project in the format of the above table and any other relevant clarifying information.

22. Ref: Exhibit 2 Tab 3 Schedule 4 Page 1

ETPL's Capitalization Policy, paragraph 5.02 requires a business case for capital projects costing more than $50,000:

(a) Please provide the business case for year 2007's project #1044 for $83,000 related to connection to the new ethanol plant and show the calculation for the Profitability Index (PI) and the capital contribution required.

(b) Please provide the business case for year 2008's project #1105 for $75,000 to serve a new residential area and show the calculation for the Profitability Index (PI) and the capital contribution required.

23. Ref: Exhibit 2 Tab 4 Schedule 1 Page 3,

Under "Cost-of-Power", two of the cost components are a/c "4714, Charges –NW" and a/c "4716, Charges –CN" which change substantially between 2006, 2007,and 2008 (totaling $4.5, 3.6 and $4.6 million respectively) Please explain the reasons for these differences and the assumptions underlying the 2008 projected amounts for these components.

24. Ref Exhibit 2 Tab 3 Schedule 3 Page 1

On this page, descriptions are provided of a number of long term load transfer elimination projects. For each of these projects:

(a) indicate the geographic and physical supplier at present, and the number and nature of customers and the load represented;

(b) state which utility will be the supplier after the elimination including provision of evidence that the proposed solution has the best overall economic justification;

(c) indicate the costs to both distributors to effect the elimination including the cost that is incurred by ETPL for each project;

(d) identify the load transfer projects that are included in Rate Base;

(e) state whether those 2008 load transfer projects listed in part "d" above will be completed in the 2008 test year.

25. Ref: Exhibit 2 Tab 1 Schedule 1

Please state whether or not ETPL has an asset management plan. If so, please:

(a) provide a copy of the asset management plan;

(b) if a plan is not available, please list the details for the development of such plan including scope, timelines, implementation cost, etc.

(c) state whether an asset condition assessment study is a part of the asset management plan. If so, please ensure the results of the most recent asset condition assessment are included in the study;

(d) if the asset condition assessment study is not established, please advise on what basis the asset management plan was developed;

(e) indicate how the results of the asset condition assessment have been applied to influence the projects which have been undertaken.

26. Ref: Exhibit 2 Tab 1 Schedule 1

Please provide the following information on service reliability indicators recorded and used by ETPL:

(a) a listing of all the Service Reliability Indicators maintained and used, and their actual values for each of the years 2002 through 2007;

(b) whether or not ETPL maintained the historical reliability performance achieved for the 2003 to 2005 period in 2006. If not, please state why not. Please identify the drivers that caused the 2006 performance to either improve or deteriorate from the historical performance;

(c) ETPL's reliability improvement targets, if any, for the SAIDI, SAIFI and CAIDI; and

(d) if ETPL has established service reliability improvement targets, a copy of the plan that identifies programs or projects that ETPL will undertake to achieve these targets.

## COST OF CAPITAL

27. Ref: Exhibit 6 Tab 1 Schedule 2 Capital Structure

Board staff has prepared the following tables to replicate the Capital Structure tables shown in Exhibit 6 Tab 1 Schedule 2:

| | **2006 Board-approved** | | | |
|---|---|---|---|---|
| Capital Structure | $ | Ratio | Cost Rate | Return |
| | | | | |
| Long-term debt | 8038524 | 45.5% | 7.25% | 7.25% |
| Short-term Debt | 841294 | 4.8% | | 7.25% |
| **Debt** | 8879818 | 50.2% | | 7.25% |
| | | | | |
| Preference shares | 8038524 | 45.5% | | 9.00% |
| Common equity | 753462 | 4.3% | | 9.00% |
| **Equity** | 8791986 | 49.8% | | 9.00% |
| | | | | |
| **Total** | 17671804 | 100.0% | | 8.12% |
| | | | | |
| | | | | |
| | **2007 Bridge** | | | |
| Capital Structure | $ | Ratio | Cost Rate | Return |
| | | | | |
| Long-term debt | 8038524 | 45.6% | 7.25% | 7.25% |
| Short-term Debt | 786509 | 4.5% | | 7.25% |
| **Debt** | 8825033 | 50.1% | | 7.25% |
| | | | | |
| Preference shares | 8038524 | 45.6% | | 9.00% |
| Common equity | 753462 | 4.3% | | 9.00% |
| **Equity** | 8791986 | 49.9% | | 9.00% |
| | | | | |
| **Total** | 17617019 | 100.0% | | 8.12% |
| | | | | |
| | | | | |
| | **2008 Test** | | | |
| Capital Structure | $ | Ratio | Cost Rate | Return |
| | | | | |
| Long-term debt | 8038524 | 45.76% | 7.25% | 7.25% |
| Short-term Debt | 735291.59 | 4.19% | 4.77% | 4.77% |
| **Debt** | 8773815.59 | 49.95% | | 7.04% |
| | | | | |
| Preference shares | 8038524 | 45.76% | | 8.68% |
| Common equity | 753462 | 4.29% | | 8.68% |

| | | | | |
|---|---|---|---|---|
| **Equity** | 8791986 | 50.05% | | 8.68% |
| | | | | |
| **Total** | 17565801.6 | 100.00% | | 7.86% |

(a) Please confirm that the information shown in these tables corresponds with Exhibit 6 Tab 1 Schedule 2.

(b) Please explain why the debt/equity split shown for 2006 Board-approved does not equate to 50% debt and 50% equity, which was the deemed capital structure for an electricity distributor with a rate base of less than $100 million as documented in Table 5.1 of the 2006 Electricity Distribution Rate Handbook and used for setting ETPL's 2006 revenue requirement and distribution rates, as approved in RP-2005-0020/EB-2005-0361/EB-2006-0197. Please explain what is being shown in this table for 2006 Board-approved.

(c) Please explain why, for the 2008 test year, the total debt is 49.95% and total equity is 50.05%, in contrast to ETPL's statement in Exhibit 6 / Tab 1 / Schedule 1 that "Erie Thames Powerlines is requesting Board approval of a deemed capital structure of 53.33% debt, 46.67% equity including an equity return of 8.68%." Please explain what is being shown in this table for the 2008 test year.

(d) Section 2.1.1 of The Board Report on Cost of Capital and 2nd Generation Incentive Regulation Mechanism for Ontario Electricity Distributors, issued December 20, 2006 (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."

Please explain why ETPL shows a short-term debt component of 4.19% for the 2008 test year.

28. Ref: Exhibit 6 Short-term Debt

In the table shown under "Capital Structure", ETPL has used a short-term debt rate (under "Cost Rate") of 4.77% for the 2008 Test Year.

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

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

For the purposes of distribution rate-setting, the deemed short-term debt rate will be updated whenever a cost of service rate application is filed. The deemed short-term debt rate will be applied to the deemed short-term debt component of a distributor's rate base. Further, consistent with updating of the ROE and deemed long-term rate, the deemed short-term debt rate will be updated using data available three full months in advance of the effective date of the rates."

(a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.

(b) Please confirm whether or not ETPL is proposing that the deemed short-term debt rate would be updated based on the January 2008 Consensus Forecasts and Bank of Canada data, in accordance with the methodology documented in section 2.2.2 of Board Report.

(c) If ETPL is not proposing that the methodology in the Board Report be followed, please provide ETPL's reasons for varying from the methodology in the Board Report.

29. Re: Exhibit 6 Tab 1 Schedule 1 and Exhibit 6 Tab 1 Schedule 4 – Return on Equity

ETPL states that it is requesting a Return on Equity ("ROE") of 8.68% per the Board's formulaic approach as documented in Appendix B of the Board Report, with the final ROE for 2008 rate-setting purposes to be established based on the January 2008 Consensus Forecasts and Bank of Canada data, per the methodology in the Board Report (as stated in Exhibit 1 Tab 2 Schedule 1). The table "Return on Equity" shown on page 4 of Exhibit 6 Tab 1 Schedule 4 provides a summary of the calculation of the 8.68%.

Please provide the source data used in the calculation and identify the specific data series, data sources and the date(s) of the data used in that table.

30. Re: Exhibit 6 Tab 1 Schedule 3 – Long-Term Debt

ETPL provides data on its cost of debt in Exhibit 6 Tab 1 Schedule 3 in the table "Cost of Debt", showing debt to the municipal shareholders of Erie Thames Power Corporation, the corporate parent of ETPL. All debt is shown as attracting an interest rate of 7.25%.

Note 12 of ETPL's 2006 Audited Financial Statements, filed in Appendix H states:

"Related Party Note Payable

The long-term debt represents amounts owing to the municipal shareholders for purchase of the respective Municipality's Hydro Electric Commission's net assets. The debt is convertible to Class B shares at the fair market value of the Class B shares of the Company divided by the number of Class B shares issued and outstanding. The rate of interest is currently 7.25% and is set by the Board of Directors, from time to time. The term of the debt is undefined and no principal amounts are anticipated to be paid over the next twelve months. The loan is secured by a second position General Security Agreement covering accounts receivable, inventory and equipment, including motor vehicles."

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

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

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

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

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

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

(a) Please provide copies of the agreements with the municipal shareholders of Erie Thames Power Corporation for the debt shown in Exhibit 6 Tab 1 Schedule 3 and described in Note 12 of the 2006 Audited Financial Statements.

(b) Please indicate if Note 12 of the 2006 Audited Financial Statements accurately describes ETPL's affiliated debt as of December 31, 2007. Please describe all changes in detail, if applicable.

(c) Please confirm that ETPL has no third-party debt.

(d) Please confirm that ETPL's Board of Directors have not changed the initial debt rate of 7.25%. Under what circumstances would the interest rate for the municipality-owed debt be changed?

(e) Please provide ETPL's views as to how the municipality-owed debt, under its current terms and conditions, complies with section 2.2.1 of the Board Report for the purposes of setting ETPL's revenue requirement and distribution rates.

(f) If necessary, please update the tables labelled "Capital Structure" and "Cost of Debt" in Exhibit 6 / Tab 1 / Schedules 2, 3 and 4 based on ETPL's response to the above.

## REVENUE OFFSETS AND SPECIFIC SERVICE CHARGES

31. Ref: Exhibit 3, Tab 3, Schedule 1, Page 1

**OTHER DISTRIBUTION REVENUE**

| OTHER DISTRIBUTION REVENUE | 2006 Board Approved | 2006 Actual | Variance from 2006 Board Approved | 2006 Actual | 2007 Actual | Variance from 2006 Actual | 2007 Bridge | 2008 Test | Variance from 2007 Actual |
|---|---|---|---|---|---|---|---|---|---|
| | ($'s) | ($'s) | ($'s) | ($'s) | ($'s) | | | | |
| **Other Distribution Revenue** | | | | | | | | | |
| | | | | | | | | | |
| Retail Services Revenues | $9,782 | $13,712 | $3,930 | $13,712 | $18,510 | $4,798 | $18,510 | $19,065 | $555 |
| Service Transaction Requests (STR) Revenues | $5,119 | $8,586 | $3,467 | $8,586 | $10,599 | $2,014 | $10,599 | $10,917 | $318 |
| Electric Services Incidental to Energy Sales | | | $0 | $0 | | $0 | $0 | | $0 |
| Transmission Charges Revenue | | | | | | | | | |
| Transmission Services Revenue | | | | | | | | | |
| Interdepartmental Rents | | | $0 | $0 | | $0 | $0 | | $0 |
| Rent from Electric Property | $72,471 | $85,826 | $13,355 | $85,826 | $85,826 | $0 | $85,826 | $88,401 | $2,575 |
| Other Utility Operating Income | $45,149 | $49,136 | $3,987 | $49,136 | $62,342 | $13,206 | $62,342 | $64,213 | $1,870 |
| Other Electric Revenues | $122,200 | $90,250 | -$31,950 | $90,250 | $89,393 | -$857 | $89,393 | $92,075 | $2,682 |
| Late Payment Charges | $43,528 | $84,570 | $41,042 | $84,570 | $92,667 | $8,098 | $92,667 | $95,447 | $2,780 |
| Sales of Water and Water Power | | | $0 | $0 | | $0 | $0 | | $0 |
| Miscellaneous Service Revenues | $199,604 | $62,910 | -$136,694 | $62,910 | $153,634 | $90,724 | $153,634 | $161,584 | $7,950 |
| Provision for Rate Refunds | | | | | | | | | |
| | | | | | | | | | |
| **TOTAL** | $497,853 | $394,989 | -$102,864 | $394,989 | $512,971 | $117,983 | $512,971 | $531,702 | $18,730 |

a) Please provide an explanation as to why the number for Total Revenue Offsets for 2006 Board Approved ($497,853) is different from the approved 2006 EDR Model, Sheet 5-5, Cell D25 ($792,232).

b) Please provide a detailed explanation of the following variances: (i) 2006 Board Approved versus 2006 Actual; (ii) 2006 Actual versus 2007 Bridge; and (iii) 2007 Bridge versus 2008 Test.

32. Ref: Exhibit 3, Tab 3, Schedule 2, Page 1

The variance in Miscellaneous Service Revenue for the 2007 Test versus 2006 Actual of $90,724 is explained as being due to "The change in specific service charges for 2006 EDR was approved in 2007 resulting in higher revenue in 2007 than 2006 at old rates".

Please provide a breakdown of this variance specifying which specific service charges contributed to the increase. For each such charge, please differentiate the impact between the higher level of the charge and any changes in volume that may also have occurred.

33. The variance in Miscellaneous Service Revenue for the 2006 Actual versus 2006 Approved is attributed to the same factor, yet higher 2007 revenue would not appear to be relevant to this comparison. Please provide a full explanation of this change including which charges contributed to it and the amounts that can be attributed to each charge.

## FORECASTING

34. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 1

On page 1, the Applicant states that the weather normalization that was generated was performed by Hydro One. Please provide the Hydro One report and any spreadsheets containing data supporting the calculation of the normalized historical load.

35. Ref: Exhibit 3/ Tab 2/ Schedule 1/ pages 1 to 5

In pages 1 to 5 the Applicant explains how it developed its 2008 load forecast. While some details appear to be missing, the essential approach used appears to be that the Applicant:

- determined the 2008 forecasted customer count for each customer class,
- determined the weather-normalized retail energy for each customer class for 2004,
- determined the 2004 retail normalized average use per customer ("retail NAC") for each class by dividing each of the weather-normalized retail energy values by the corresponding number of customers/connections in each class existing in 2004,
- applied the 2004 retail NAC for each class to the 2008 Test Year without modification, and
- determined the 2008 Test Year energy forecast for each customer class by multiplying the applicable 2004 retail NAC value for each class by the 2008 forecasted customer count in that class.

Please:

a) confirm that the above is the essence of the Applicant's load forecasting methodology,

b) differentiate the approach used for weather sensitive loads from that used for non-weather sensitive loads, and

c) correct any errors in the above explanation.

36. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 4

The Applicant notes on page 4: “Billed kW is estimated based on a load factor calculated using a ratio of historical billed kW to historical retail kWh, by class.”

Please provide:

a) a detailed description of this process, and

b) supporting values and calculations.

37. Ref: Exhibit 3/ Tab 2/ Schedule 1/ pages 1 to 5

Issue: In pages 1 to 5, the Applicant explains how it determined the 2004 retail normalized average use per customer (“retail NAC”) for each class and apparently used this value for other years also. This does not appear to adequately weather-normalize the energy usage in historical years and does not allow for the possible change in energy usage per customer over the 2002 – 2008 period due, for example, to Conservation and Demand Management. The minimal amount of weather normalization and the constant retail energy assumption could potentially lead to forecasting errors.

a) Please file a data table for the historical years 2002 to 2006 that shows:

i. the actual retail energy (kWh) for each customer class in each year,

ii. the weather normalized retail energy (kWh) for each customer class in each year (where, for the customer classes that the Applicant has identified as weather sensitive, the weather normalization process should, as a minimum, involve the direct conversion of the actual load to the weather normalized load using a multiplier factor for that year and not rely on results for any other year),

iii. the values of the weather conversion factors used,

iv. the customer count for each class in each year,

v. the retail normalized average use per customer for each class in each year based on the weather corrected kWh data in item ii. above, and

vi. as a footnote to the table, the source(s) of the weather correction factors.

b) Please file a data table for the 2002 to 2008 period:

i. utilizing the retail normalized average use per customer values for each class in each year obtained in a) v. above for the historical years 2002 to 2006,

ii. including 2007 and 2008 projections for the retail normalized average use per customer values (where, for each of the weather-sensitive classes, this is based on trends in the data) for each class, and

iii. as a footnote to the table, for each of the weather-sensitive classes describe in detail the trend analysis performed in part ii above.

c) Please file an updated version of the historical/forecast table in Exhibit 3/ Tab 2/ Schedule 1/ page 5, utilizing the weather corrected data determined in b) above.

38. Ref: Exhibit 3/ Tab 2/ Schedule 3/ page 1

The second line on page 1 reads: "(The following are examples which need to be reviewed and revised by the Applicant)". The appearance of the text on this page is that it was drafted by another party (e.g. consultants) and was to be completed by the Applicant; however, it appears the Applicant may never have completed the work.

Please:

a) Explain the contents of page 1, and

b) If page 1 is incomplete, re-file this and any other pages in Exhibit 3 that are incomplete.

## COST ALLOCATION AND RATE DESIGN

### 39. Classification

Exhibit 9 / Tab 1 / Schedule 4
Please provide a brief explanation of the metering changes that have been made and why this necessitates a change in the classification of ETPL's customers.

### 40. LV Costs

Reference: Exhibit 1 / Tab 1 / Schedule 12
Please confirm that ETPL is an embedded distributor, and provide the name of the host distributor.

Reference: Exhibit 5 / Tab 1 / Schedule 3
The approval of the 2006 EDR revenue requirement included a cost of $350,403, which was designed to be recovered by rate adders, ie components within the volumetric rate charged to each customer class. The balance in Account 1550 'LV Variance Account' at Dec 31, 2006 is shown as $348,687. Given that the amount of the variance account is proportionately quite large, and close to the total cost, please confirm that the amounts of the variance account in 2006 and forecast in 2008 are correct. In particular, please confirm that the revenue collected from the customer classes has been credited correctly.

### 41. Revenue Offset – Revenue from the Embedded Distributor

Reference: Exhibit 1 / Tab 1 / Schedule 12

Please provide a history, beginning in 2006 if applicable, of energy delivered and revenue received from Hydro One Networks as an embedded distributor.

Reference: Exhibit 5 / Tab 1 / Schedule 3
From the perspective of the amount of service provided to and revenue received from the embedded distributor during the period that the variance accounts were built up, please confirm the basis for the allocation of Regulatory Asset Recovery to the Embedded Distributor at $21,272.

**42. Cost Allocation**

Reference: Exhibit 8 / Tab 1 / Schedule 1

Is Run 1, 2 or 3 of the Board's Cost Allocation model the source of the ratios listed in the referenced Schedule 1? Please file the "rolled-up" version of the preferred run of the cost allocation model. The hard copy reply needs to include only the Manager's Summary, input tables (Sheet I3 – I8), and output tables Sheets O1 and O2. The electronic reply should include all worksheets.

The approval of the 2006 EDR revenue requirement included a cost of $350,403 for the cost of LV services provided by a host distributor, which was allocated to the rate classes in proportion to the Retail Transmission Service Rate revenue.

a. Please provide information on the actual amount of cost of LV service in 2006, showing the kW billed amounts and the applicable rates of the host distributor.

b. Please provide the total cost amounts for 2007 and 2008.

c. Please confirm that the 2008 cost is allocated in the proposal for 2008 by the same means as in 2006, or if not confirmed please describe how the cost of the LV service is proposed to be recovered from ETPL's customers.

**43. Rate Design**

References: Exhibit 8 / Tab 1 / Schedule 2 / page 3, and Exhibit 9 / Tab 1 / Schedule 7

a. The total revenue requirement in Exhibit 8 is $7,592,989, and the total distribution revenue in Exhibit 9 is $7,631,268. Please explain the reason for this disparity. (If the two amounts ought to be equal, please correct the one that is incorrect.)

b. Noting that the amount in Exhibit 8 is higher than that in Exhibit 9 for some rate classes, and considerably lower for other classes, please provide an explanation of how the adjusted cost allocation results in Exhibit 8 were used to design the rates in Exhibit 9.

c. Please illustrate the previous response with an explanation of the increase for the Large Use class from $302,594 to $466,190, and for the Embedded Distributor class from $179,038 to $283,771.

References: Exhibit 9 / Tab 1 / Schedules 3 and 5

The existing rate schedule includes a “Deferred Revenue Recovery Rate Rider” for each class, and the proposed schedule includes the identical amount for each class (except for the Embedded Distributor class which is new and the item is $0.00)
a. Please explain the purpose of this rate rider
b. Please provide the suggested term for the collection of the rate rider.

**44. Loss Factors:**

1. References:

i. Exhibit 4, Tab 2, Schedule 9, Page 1
ii. Exhibit 1, Tab 2, Schedule 1, Page 7
iii. Exhibit 1, Tab 1, Schedule 11, Page 2

• The 1st reference provides a calculation of actual loss factors for 2002 to 2006 and an average for the 5-year period. This reference further provides the Supply Facilities Loss Factor (1.0045) and proposed 2008 total loss factors (TLF) for secondary and primary metered customers < and > 5,000 kW plus corresponding distribution loss factors (DLF).

• The 2nd reference replicates the proposed total loss factors (TLF) for 2008 and also provides approved TLF for 2007. The 2008 proposed TLFs are higher than the approved TLFs for 2007.

• The 3rd reference describes ETP’s situation as an embedded distributor served by the host distributor Hydro One Networks Inc. (HONI).

a. The loss factor calculation in rows A to H in the 1st reference follows the framework of the 2006 EDR Handbook Schedule 10-5, wherein the factor calculated customarily corresponds to DLF for secondary metered customer < 5,000 kW. As row H titled “Distribution Loss Adjustment Factor” is blank, please confirm whether the loss factor shown in row G titled “Loss Factor [(C/(F)]” is TLF or DLF.

- If it is the former, please further confirm that kWh values shown in row A titled “Wholesale kWh (IESO)” correspond to the defined meter point on the primary or high voltage side of the transformer and not the metering installation on the secondary or low voltage side of the transformer.

- If it is the latter, please correct the DLF and TLF values provided in the reference.

b. Please provide an explanation for the increase in the actual loss factor from 2003 to 2004 (1.0388 to 1.0521) and from 2005 to 2006 (1.0313 to 1.0579).

c. Please explain the rationale for proposing that the loss factor for 2008 be an average of the loss factors for the 5-year period (1.0436) rather than a lower value such as the actual loss factor in 2005 of 1.0313.

d. Please describe any steps that are contemplated to decrease ETP's loss factor during the test year (2008) and/or during a longer planning period.

e. Given that ETP is embedded in the HONI distribution systems (3rd reference), please confirm if the DLF values provided include losses that occur in the HONI distribution system.

- If this is correct, please provide a breakdown of losses that occur in the ETP and HONI distribution systems.

- If this is not correct, please confirm how losses that occur in the HONI distribution system are accounted for.

## DEFERRAL AND VARIANCE ACCOUNTS

45. Ref: Exh2/Tab3/Sch4

a. Is the ETPL 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(s) has ETPL been using for CWIP?

c. If ETPL is not using the Board-prescribed interest rates, please calculate the impact on rate base, revenue requirement, and CWIP of the prescribed interest rates.

46. Ref: Exh5/Tab1/Sch1/Pg1 &2

Except for account 1588, please provide a description of all deferral and variance accounts used by ETPL.

47. Ref: Exh5/Tab1/Sch2/Pg1

Does ETPL have a business relationship and/or service agreement with any energy retailers? If yes, please explain why there is a zero balance in 1518 RCVA Retail and 1548 RCVA STR?

48. Ref: Exh5/Tab1/Sch3, Exh5/Tab1/Sch2/P1, & Exh1/Tab1/Sch8/P1

On Ex1/Tab1/Sch8/P1, ETPL is requesting an accounting order to dispose of its December 31, 2006 regulatory account balances. This request is different from ETPL's request in Exh5/Tab1/Sch2/P1 and Exh5/Tab1/Sch3 which is based on April 30, 2008 balances.

Please confirm the correct disposition date.

If the date is December 31, 2006, please provide the revised rate rider calculations and provide a rationale for the departure from usual Board practice to forecast interest up to the start of the new rate year from the last audited year-end balance.

49. Ref: Exh5/Tab1/Sch3

The applicant is requesting disposition of regulatory variance accounts in Exh5/Tab1/Sch3. Most of the totals do not agree to totals reported to the Board under S.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 for regulatory assets (excel spreadsheet) and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Ex5/Tab1/Sch3. (Please note that forecasting principal transactions beyond December 31, 2006, and the accrued interest on these forecasted balances, is optional)

50. Ref: Exh5/Tab1/Sch3

Please advise as to where the costs associated with administering the $75 cheque rebate are recorded. Why is there a departure from the APH which states that they should be recorded in 1525?

**PILs**

51. 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 Erie Thames 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.

52. Reference Exhibits: E4/T3/S1/P1 Tax Calculations

a) This exhibit shows an income tax rate of 38% for 2006 Actual and 28.77% for 2008. Please show how the Applicant calculated these income tax rates. Please also describe the factors that support why these are the correct income tax rates to use.

b) The audited financial statements show net income before tax for 2006 as a loss of ($3,151) with PILs expense of $75,866. For 2006 Actual, the Tax Calculation exhibit shows net income before tax of $17,588 and PILs expense of $103,229. Please explain how the exhibit can produce different results than the audited financial statements. Please provide the calculations.

c) Net income before tax for 2006 is shown as $17,588; for 2007 it is $2,033,460, and for 2008 it is $897,742. Please explain the drivers of and the reasons for the significant increase in net income before tax in 2007 when compared to 2006. Please explain the large decrease from 2007 to 2008.

d) Given that 2007 year end is over, is the net income number shown for 2007 still valid?

e) On December 14, 2007 federal Bill C-28 received Royal Assent. The federal income tax rates were further reduced for 2008 and beyond. The 2008 federal rate for larger companies is 19.5%, and 11% for companies eligible for the small business credit. Please provide a revised calculation of the 2008 PILs expense using the new combined tax rate of 16.5%, 33.5%, or another rate that might be applicable. Please explain why the applicant chose the selected rate and how it was calculated.

f) Please provide a table that shows how the depreciation and amortization amounts of $1,023,654 (2006), $890,252 (2007), and $935,609 (2008) were calculated. The table provided in E4/T1/S8/P1 does not provide this information.

g) Please provide a table to explain the Other Additions $792,352 and Other Deductions $732,617 in 2008.

53. Reference Exhibits: E4/T3/S3/P1-4 Capital Cost Allowance (CCA)

a) Please explain why in 2006 the applicant used Class 1, 4% rate, for qualifying capital expenditures of $1,860,475, instead of Class 47, 8% rate, that has been available since February 23, 2005.

b) Please provide a table that shows the total capital expenditure budget for 2007 and 2008 in appropriate categories plus the total for each year, any movements in the CWIP account, and how the expenditures were assigned to the CCA classes.

## SMART METERS

<u>Context</u>
ETPL 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 ETPL's 2007 IRM application (EB-2007-0524), the Board confirmed its understanding that ETPL would not be undertaking any smart metering activity (i.e. discretionary metering activity) in 2007.

Ref: Exhibit 1 /Tab 1 /Schedule 6

On page 1, ETPL states that it "has not included any costs with respect to smart metering in this rate application. In its current rates ETPL has approval for $0.26 per customer per month to cover the costs for Smart Metering. ETPL was unsure of how these costs were to be handled in this rate process and requests that the Board approve the appropriate change in rates for this initiative."

Ref: Erie Thames Power[lines] Corporation Annual Report 2006

The section "update: smart meter" of the above mentioned annual report (attached to "Appendix H: Proforma Financial Statements for 2008") states: "Erie Thames Powerlines is moving forward with smart metering and has begun to implement a system that can quickly be scaled from targeted installations to full-scale deployments. In addition, the system can be expanded to handle water metering." Then, in the same section, ETPL outlines the following smart meter plan:

I. "PHASE ONE, 2007 – Installation of 500 smart meters. This past April, 268 meters were deployed in residential areas throughout Ingersoll. An additional 238 meters will be installed on an as needed basis in locations where single-phase meters are due for reverification.

II. PHASE TWO, 2008 – Installation of 5,000 Smart Meters (location to be determined).

III. PHASE THREE, 2009 - Installation of 5,000 Smart Meters (location to be determined).

IV. PHASE FOUR, 2010 – Installation of the remaining meters, approximately 3,500 (location to be determined)."

54. Please clarify whether "This past April, 268 meters were deployed in residential areas throughout Ingersoll" means that these meters were deployed in April, 2006 or April, 2007.

55. Please confirm whether "PHASE ONE, 2007 – Installation of 500 smart meters" and "PHASE TWO, 2008 – Installation of 5,000 Smart Meters" is the official smart meter plan of ETPL for 2007 and 2008. If so, please explain, in light of its "un-named" status,

under what authority ETPL has decided to undertake smart meter activity in 2007 and 2008. Please provide copies of all directives and regulations ETPL has received from the Ontario Government directing or allowing the utility to undertake smart meter activities.

56. Please confirm whether any costs were incurred by ETPL with respect to Smart Metering up to 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.

57. Please confirm whether ETPL has included any capital costs with respect to smart metering in this application. If so:

i. Please confirm whether the investment amount for smart meters in any of the "Phases" described above will meet or exceed the "minimum functionality" criteria which formed the basis in the Board's August 8, 2007 Decision with Reasons in EB-2007-0063 to allow the recovery of smart meter costs. In that Decision, the Board determined that there were fourteen cost categories in relation to "minimum functionality" that were set out in Appendix "A". If any of the investment costs are outside of these fourteen cost categories please describe these costs and why ETPL is seeking to recover them. If any of ETPL's proposed smart meter expenditure items are beyond the "minimum functionality" criteria, please provide the 2008 investment cost breakdown for both the "minimum functionality" and the "beyond minimum functionality" cost categories;

iii. Please confirm whether, in Test Year 2008, ETPL is going to maintain its current rate adder which was approved by the Board in the April 12, 2007 Decision and Order (EB-2007-0524). If not, what is the Smart Meter Rate Adder ETPL is intending to implement in Test Year 2008? 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 arrived at.

58. Ref: Exhibit 2 /Tab 3 /Schedule 3

On page 1, ETPL indicates that it will incur capital expenditures of $30,000 in year 2008 for "Project 1113 – C&I Meter Changes" under USoA Account 1860 which is described as "enhancement".

Please confirm whether this expenditure is related in any way to smart metering; if so, please describe the nature of this expenditure.