

**2008 Electricity Distribution Rates
Rideau St Lawrence Distribution Inc.
EB-2007-0762**

OM&A EXPENSES

1. General – Accounting policies

Please confirm that Rideau St. Lawrence 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. General – Regulatory Costs

- (i) 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 table format shown below.
- (ii) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are "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.
- (iii) Please state the utility's proposal on how it intends to recover the "One-time" costs as part of its 2008 rate application.

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
OEB Annual Assessment							
OEB Hearing Assessments (applicant initiated)							
OEB Section 30 Costs (OEB initiated)							
Expert Witness cost for regulatory matters							
Legal costs for regulatory matters							
Consultants costs for regulatory matters							
Operating expenses associated with staff resources allocated to regulatory matters							
Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)							
Other regulatory agency fees or assessments							
Any other costs for regulatory matters (please define)							

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

Board staff prepared Table 1 below to review Rideau St. Lawrence's OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below. This table removes Low Voltage costs from the 2006 Board approved controllable expenses. This allows for a better analysis of Rideau St. Lawrence's controllable expenses over the reporting period.

Board Staff Table 1

OM&A Expenses	2006 Board Approved	2006 Actual	2007 Bridge	2008 Test
Operations	245,294	145,283	185,080	189,708
Maintenance	91,951	197,528	291,216	401,986
Billing & Collecting	357,668	374,843	354,708	363,576
Community Relations	270	242	248	254
Administrative and General Expenses	463,851	643,356	595,662	631,102
Total OM & A Costs	1,159,034	1,361,252	1,426,914	1,586,626
LV Charges	166,396	-	-	-
Taxes Other Than Income	21,246	21,345	21,879	22,426
Dist. Expenses before Amort. /Taxes	1,346,676	1,382,597	1,448,793	1,609,052
Amortization Expense	156,359	192,403	217,414	253,818
Total Distribution Expenses	1,503,035	1,575,000	1,666,207	1,862,870
LCT, OCT & Income Taxes	39,438	25,909	-	32,968
TOTAL OPERATING COSTS	1,542,473	1,600,909	1,666,207	1,895,838

Board staff created Table 2 below to review Rideau St. Lawrence's OM&A forecasted expenses from the evidence provided in the application's Exhibit 4/ Tab 1/Schedule 2. Note rounding differences may occur, but are immaterial to the following questions. Board staff notes that Rideau St. Lawrence is forecasting increases to 2008 Controllable OM&A Expenses by \$225,374 or 16.6% from Actual 2006.

Board Staff Table 2

OM&A Expenses	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Bridge	Variance 2008/2007	2008 Test	Variance 2008/2006 Act
Operations	245,294	-100,011 -8.6%	145,283	39,797 2.9%	185,080	4,628 0.3%	189,708	44,425 3.3%
Maintenance	91,951	105,577 9.1%	197,528	93,688 6.9%	291,216	110,770 7.8%	401,986	204,458 15.0%
Billing & Collecting	357,668	17,175 1.5%	374,843	20,135 -1.5%	354,708	8,868 0.6%	363,576	11,267 -0.8%
Community Relations	270	- 28 0.0%	242	6 0.0%	248	6 0.0%	254	12 0.0%
Administrative and General Expenses	463,851	179,505 15.5%	643,356	47,694 -3.5%	595,662	35,440 2.5%	631,102	12,254 -0.9%
Total OM & A Costs	1,159,034	202,218 17.4%	1,361,252	65,662 4.8%	1,426,914	159,712 11.2%	1,586,626	225,374 16.6%

Table 3 below was started by Board staff to review Rideau St. Lawrence's OM&A actual and forecasted expenses from the evidence provided in OM&A Cost Table in Exhibit 4/ Tab 1/Schedule 3. Note rounding differences may occur, but are immaterial to the following questions.

Board Staff Table 3

OM&A Expense Drivers

		2006	2007	2008
Account	Opening Balance Jan 1	1,159,034	1,361,252	1,426,914
Table 4	O M & A Wages & Benefits	53,006	70,534	34,847
5012	Operations Supervision		37,329	
5085	Book to Physical Inventory	- 10,050		
5160	PCB Testing and removal		20,403	
5335	Bad Debt Expense	28,486 -	28,486	
5615	GA Salaries -OMERS	47,000		
5615	GA Salaries -Increases	14,400		
5615	GA Salaries -Benefits	11,825		
5615	Travel and Meeting costs	6,502		
5615	Other GA Salaries and Expenses	8,183	2,940	8,249
5625	Admin Expense Transferred Credit	54,940 -	64,779 -	2,239
5630	Outside IT Services	15,291 -	15,291	
5630	Hydro One Load Shape - CA Project	10,200 -	10,200	
5630	Other Outside services	1,693	11,934	1,778
5635/5640	Property Insurance	9,714	9,087	914
5655	Regulatory Expenses	- 1,806	194	23,531
Unexplained Difference		- 47,166	31,997	92,632
Closing Balance Dec 31		1,361,252	1,426,914	1,586,626

Board staff created Table 4 below to review Rideau St. Lawrence's O&M Wage and Benefit actual and forecasted expenses from the evidence provided in the application. Note rounding differences may occur, but are immaterial to the following questions. The increases calculated have been included in Board staff Table 3 above.

O M & A Wages & Benefits		2006 Approved	2006	2007	2008
Total O M & A - net costs	A	1,325,430	1,361,252	1,426,914	1,586,626
% Wages & Benefits	B	75%	71%	75%	70%
O M & A Wages & Benefits	C = A * B	994,073	966,489	1,070,186	1,110,638
Increases O & M Wages & Benefits		-	27,584	103,697	40,453
Percentage Change			-2.8%	10.7%	3.8%
Compensation Salary and Wages	D	627,504	623,024	692,126	728,992
Benefits	E	143,521	156,896	179,869	188,862
Total Compensation	F = D + E	771,025	779,920	871,995	917,854
Increases Wages & Benefits			8,895	92,075	45,859
Percentage Change			1.2%	11.8%	5.3%
Total Cost charged to O M & A	G	470,610	523,616	594,150	628,997
Increases Wages & Benefits			53,006	70,534	34,847
Percentage Change			11.3%	13.5%	5.9%
Percentage of Total Wages	H = G / F	61.0%	67.1%	68.1%	68.5%
Percent of Total O M & A -Net Costs	I = G / A	35.5%	38.5%	41.6%	39.6%

A & B - Exhibit 4/Tab 2/Schedule 2 Pages 9 & 10

D, E & G - Exhibit 4/Tab 2/Schedule 7 Pages 24 & 25

- a) Please confirm that Rideau St. Lawrence agrees with the four tables prepared by Board staff presented above. If Rideau St. Lawrence does not agree with any table, please advise why not.
- b) Please complete a Cost Drivers by Year analysis table similar to the Board staff Table 3 above identifying the cost drivers that make up the changes to Rideau St. Lawrence's annual controllable expenses. The objective is to identify all significant expense cost drivers that reduces the "Unexplained Difference" to an amount no greater than plus or minus Rideau St. Lawrence's calculated OM&A materiality limits as found on Exhibit 4/Tab 2/ Schedule 3.

Please separate changes to current employee salary increases from capitalization or new staff changes and list separately. You may report these values on a consolidated company basis as opposed to by department or USoA account similar to the O&M Wages and Benefits line where the values include multiple USoA amounts.

Board staff have extracted drivers identified in the application for example purposes only but Rideau St. Lawrence is free to change the descriptions and values presented to provide a more meaningful document. Some transactions entered appear to be one time charges, which may not be repeated in the following year. An example is Hydro One Load Shape - CA Project. Please ensure that one time charges are identified.

- c) Exhibit 4/Tab 2/Schedule 2/pages 9 & 10 provides a variance analysis, identifying the percentage for net wages and salaries over total net costs. Exhibit 4/Tab 2/Schedule 7/ Pages 24 & 25 identifies compensation and wages and the total of costs charged to O&M. Board staff Table 4 presents a summary of both sets of data. Please provide an explanation for the differences as reported between the two schedules and identify which values are the true values included in the Total OM&A costs.
- d) Please confirm that Rideau St. Lawrence is proposing to include the value of \$23,333 for regulatory cost associated to the 2008 Rate Application. Rideau St. Lawrence identifies this as one third of the cost and is proposing to collect this over the next three years.
 - 1. Please confirm that Rideau St. Lawrence's forecast for the total cost for the 2008 rate application is \$70,000.
 - 2. Please provide a breakdown of this cost estimate.
 - 3. Please explain how Rideau St. Lawrence proposes to account for this transaction over the three years.

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

Please prepare a comprehensive listing of all operational costs by work unit for smart meter costs included in the 2008 budget. Include in this listing 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 Rideau St. Lawrence considers the cost to be a component of minimum functionality, or if the amount is incidental/incremental to minimum functionality.

In addition, please provide the breakdown of the budget for operating versus capital expenditure for the smart meters.

PURCHASE OF SERVICES OR PRODUCTS

5. Ref: Exhibit 4/ Tab 2/ Schedule 6/ Page 23

Please explain in detail Rideau St. Lawrence's procurement policy in regards to purchase of services or products.

6. Ref: Exhibit 4/Tab 2/Schedule 6/Page 23

- (i) Please provide a definition of the “cost approach”.
- (ii) For the non-affiliate transactions, where the cost approach methodology was used to determine the price, please explain the rationale for using the cost approach methodology and why a tendering/RFP process was not used.

SHARED SERVICES

7. Ref: Exhibit 4/ Tab 2/ Schedule 4/ Page 20

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 service:

- i. Type of service
- ii. Total annual expense by service
- iii. The rationale and cost allocators used for each type of service.

8. Ref: Exhibit 4/ Tab 2/ Schedule 4/ Page 21

It is stated that “Ten percent is added to Utilities costs for the time/cost of the executive working on Utilities issues.”

Please state how the “ten percent” was determined.

EMPLOYEE COMPENSATION

9. Ref: Exhibit 4 / Tab 2 / Schedule 7

Please explain and provide the reason for the increase in total salary and wages from 2006 to 2007 which amounts to an 11% increase.

10. Ref: Exhibit 4 / Tab 2 / Schedule 7

Page 24 provides a comparison of total benefits from 2006 to 2008. Please explain the 11% increase in average employee benefits, from \$12,808 in 2006 to \$14,254 in 2008.

11. Ref: Exhibit 4 / Tab 2 / Schedule 7

On Page 24, Rideau St. Lawrence provides a breakdown of employee compensation from 2006 to 2007. Please confirm whether or not Rideau St. Lawrence has overtime compensation. If so, please provide a breakdown of overtime amounts for 2006, including Historical Board Approved and Historical Actual, 2007 and 2008.

12. Ref: Exhibit 4 / Tab 2 / Schedule 7

Page 25, provides a breakdown of "Total of Costs charged to O&M" from 2006 to 2008.

- (i) On average, Rideau St. Lawrence has only charged 61%, 67%, 68%, and 69% of its total employee compensation costs to O&M for the 2006 Board approved year, 2006 actual year, 2007 bridge, and 2008 test year respectively. Please explain where the remaining amount of total compensation costs was charged in 2006, 2007 and 2008.
- (ii) Please provide the amount and the percentage of total compensation costs that is allocated from Rideau St. Lawrence Distribution to: (1) Rideau St. Lawrence Holdings Inc. (2) Rideau St. Lawrence Utilities (3) Rideau St. Lawrence Services, if applicable. Please provide a detailed description of any staff sharing between Rideau St. Lawrence Distribution and its affiliate companies: Rideau St. Lawrence Holdings Inc., Rideau St. Lawrence Utilities, Rideau St. Lawrence Services.

CAPITAL EXPENDITURES

13. Ref: General

Please provide Rideau St. Lawrence's Code of Business Conduct.

14. Ref: Exhibit 2/ Tab 1/Schedule 1/Page 2/Line 4

- i. Please confirm that Rideau St. Lawrence's description of Rate Base is derived as shown arithmetically below and is consistent with the calculations of fixed assets as they relate to Capital Contributions and Grants as shown at Exhibit 2/Tab 2/ Schedule 1/ Page 13:

Rate Base = Gross Assets in Service – (Accumulated Depreciation + Contributed Capital) + Working Capital

- ii. Please confirm that Rideau St. Lawrence's capital project estimates for 2008 contain capital overheads and interest during construction. Please provide the total figure for interest during construction used in the 2008 capital project estimates.

15.Ref: Exhibit 2/ Rate Base Summary Table/ Page 2

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. Number of customer additions by class.

16.Ref: Exhibit 2/ Rate Base Summary Table/ Page 3

- a. 2006 Year: Please clarify why the Gross Asset Value at Cost was increased from a Board-approved \$3,905,421 to the Actual of \$4,473,933. Please also provide a continuity statement.
- b. 2006 Year: Please clarify why the Accumulated Depreciation was increased from a Board-approved \$518,349 to the Actual of \$935,940 and provide a schedule with a list of the differences that explains the increase.

17.Ref: Exhibit 2/ Tab 1/ Schedule 3/ Page 5

- i. Please provide the background and rationale for transferring wholesale meter service costs of \$62,700 from unbundled transmission rates to distribution expenses. Please explain why these costs should be included in rate base.
- ii. Please provide a quantitative breakdown of the components that constitute "wholesale meter service costs". Does this item include maintenance, administration and installation costs as well as the material costs of the meters?

18.Ref: Exhibit 2/ Tab 3/ Schedule 2/ Capital Budget by Project

Please confirm that Rideau St. Lawrence 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 referenced Schedule 2.

19. Ref: Exhibit 2/ Tab 3/ Schedule 3/ Capital Budget by Project

- a. Please confirm that all the 2008 test year capital projects will be in service by the end of that test year. For those that will not, please estimate the total carryover dollars to the year following 2008.
- b. Please list all carry-over projects from 2007 to 2008 in a table format with actual costs and reasons why they were not in-service at the end of 2007.

COST OF CAPITAL

20. Ref: Exhibit 6 / Tab 1 / Schedule 1 – Capital Structure and Exhibit 6 / Tab 1 / Schedule 4 – Weighted Average Cost of Capital

Rideau St. Lawrence is proposing to stay with the current 50:50 deemed capital structure rather than adhering with the transition to a deemed capital structure of 60% debt and 40% equity as documented in the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario's Electricity Distributors (the "Board Report"), issued December 20, 2006. Rideau St. Lawrence states that "[it] does not to move farther away from its deemed capital structure, as that reflects what [Rideau St. Lawrence's] forecast capital structure will be for the 2008 Test Year."

Rideau St. Lawrence states that its current capital structure is 29% debt and 71% equity, and that, if and when it receives permission to implement Smart Meter deployment, debt financing of projected capital costs of \$1.754M will give Rideau St. Lawrence an actual debt:equity split close to 50:50.

- a) In section 2.1 of the Board Report, the Board acknowledged "that some distributors may face materially different risks for the reasons identified by Dr. Cannon" but stated "it is incumbent upon the distributor to provide evidence of those risks". Please provide further explanation of why Rideau St. Lawrence's current actual capital structure is about 29% debt and 71% equity, including any environmental or business conditions or risks that it is exposed to, relative to those of other Ontario electricity distributors, including distributors similar in size and other characteristics. Rideau St. Lawrence's explanation should take into account and address the discussion in section 2.1 of the Board Report.
- b) Please provide a detailed explanation of why Rideau St. Lawrence believes that a 50:50 capital structure should be used for setting its 2008 distribution

rates rather than the transitional capital structure of 53.3:46.7 for 2008 and for a distributor with a rate base less than \$100 million, as documented in the Board Report. Rideau St. Lawrence should explain any benefits arising or risks (financial, etc.) or problems that would be avoided by Rideau St. Lawrence's proposal to stay with the 50:50 capital structure.

- c) Please provide a calculation of the Weighted Average Cost of Capital as shown in the table at the bottom of Exhibit 6 / Tab 1/ Schedule 4, assuming a long-term debt component of 49.3%, short-term debt component of 4% and an equity component of 46.7%, per the 2008 transitional capital structure for a distributor with a rate base less than \$100M, as documented in the Board Report.

21. Ref: Exhibit 6 / Tab 1 / Schedule 1 – Short-term Debt

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

The Board Report states the following in section 2.2.2:

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

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

- a) Please provide the derivation of the 4.77% short-term debt rate estimate showing the calculations, data used and identifying data sources.
- b) Please confirm if Rideau St. Lawrence 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 Rideau St. Lawrence is not proposing that the methodology in the Board Report be followed, please provide Rideau St. Lawrence's reasons for varying from the methodology in the Board Report.

22.Ref: Exhibit 6 / Tab 1 / Schedule 1 and Exhibit 6 / Tab 1 / Schedule 4 –
Return on Equity

Rideau St. Lawrence 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 January 2008 Consensus Forecasts and Bank of Canada data per the methodology in the Board Report. The table “Return on Equity Calculation” shown in Exhibit 6 / Tab 1 / Schedule 4 shows a summary of the data upon which the 8.68% is provided. Please provide the source data and identify the specific data series, data sources and the date(s) of the data used to derive that table.

23.Ref: Exhibit 6 / Tab 1 / Schedule 2, Exhibit 6 / Tab 1/ Schedule 4 and
Exhibit 1 / Tab 3 / Schedule 1 – Long-Term Debt

Rideau St. Lawrence provides data on its cost of debt in Exhibit 6 / Tab 1 / Schedule 3, and forecasts it at 4.99%. Under Note 5 of Rideau St. Lawrence’s 2006 Audited Financial Statements provided in Exhibit 1 / Tab 3 / Schedule 1, it is stated that “The promissory notes bear interest at a rate determined by the Board of Directors not to exceed 7.25% per annum and are unsecured. Principal and interest shall be payable at the discretion of the Board of Directors. Interest rate at December 31, 2006 was 4.99%.”

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

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

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

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

For new affiliated debt, the Board has determined that the allowed rate will be the lower of the contracted rate and the deemed long-term debt rate. This deemed long-term debt rate will be calculated as the Long Canada Bond Forecast plus an average spread with “A/BBB” rate corporate bond yields. The Long Canada Bond Forecast is comprised of the 10-year Government of Canada bond yield forecast (Consensus Forecast) plus the actual

spread between 10-year and 30-year bond yields observed in Bank of Canada data. The average spread with “A/BBB” rate corporate bond yields is calculated from the observed spread between Government of Canada Bonds and “A/BBB” corporate bond yield data of the same term from Scotia Capital Inc., both available from the Bank of Canada.

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

- a) Please provide Rideau St. Lawrence’s explanation of how it decides on the debt rate that the promissory notes will attract. How often is the debt rate determined? For what reasons or external events would Rideau St. Lawrence decide that a change in the rate of the promissory notes is warranted?
- b) Please provide an explanation of whether the ability of Rideau St. Lawrence to determine the rate of the promissory notes to the municipal shareholders means that these are a form of variable-rate affiliated debt, and hence that the methodology in the Board Report should apply.
- c) Please confirm whether Rideau St. Lawrence’s proposed rate of 4.99% complies with the debt rate methodology as documented in the Board Report. If it does not comply, please provide Rideau St. Lawrence’s justification for deviating from the methodology in the Board Report.

REVENUE OFFSETS

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

Please provide an explanation of each variance from 2006 Board Approved versus 2006 Actual, 2006 Actual versus 2007 Bridge and 2007 Bridge versus 2008 Test respectively.

FORECASTING

25.General - Hydro One Weather Normalization Model

Please provide the Hydro One report and any spreadsheets containing data supporting the calculations of the normalized historical load.

26. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 5

In Schedule 1, page 5, the Applicant very briefly explains how it developed its 2008 load forecast. While parts of the explanation are missing, the Applicant appears to have used a similar approach to some other applicants. Hence, the 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 (NAC) for each class by dividing each of these weather-normalized retail energy values by the number of customers/connections in each class existing in 2004,
- applied the 2004 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 NAC for each class by the 2008 forecasted customer count in that class.

Please:

- a) Verify that the above is the essence of the Applicant's load forecasting methodology, and,
- b) Correct any errors in the above explanation.

27. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 6

In Schedule 1, page 6, Table 1, the Applicant presents the historical customer count from 2002 to 2006, and the expected customer count from 2006 to 2008. The expected customer count is somewhat less than the customer count historically experienced.

Please:

- a) Verify that the annual average increase in total customers in the 2002-2006 period is about 0.5%,
- b) Verify that the annual average increase in total customers in the 2006-2008 period is about 0.2%, and
- c) Describe the economic forces within the Applicant's service area that are driving the observed customer count change.

28. Ref: Exhibit 3/ Tab 2/ Schedule 1/ page 5 & Exhibit 3/ Tab 2/ Schedule 5/ page 13

In Schedule 1, page 5, the Applicant explains how it determined the 2004 retail normalized average use per customer (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. It also appears to contradict the statement made in Schedule 5, page 13: "...our average consumption per customer has been declining." 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. for each of the weather-sensitive classes, describe in detail the trend analysis performed in ii. above.

c) Please file an updated version of the Schedule 1, page 8, Weather Normalized Forecasting Methodology table, utilizing the weather corrected data determined in b) above.

COST ALLOCATION AND RATE DESIGN

29. Informational Filing

Please file the "rolled-up" version of Run 3 of the Informational filing EB-2007-0003 as an official part of the record of this Application. (The hard copy reply needs to include only the input tables Sheet I3 – I8, and output tables Sheets O1 and O2.)

Customer Re-classification

30. Ref: Exhibit 3 / Tab 2 / Schedule 6 / page 14

A history of consumption is provided for the General Service 50 – 4999 kW class, starting at 2002, and projected forward to 2008. Does this history include the consumption of the Westport Sewage Treatment Plant customer?

31. Ref: Exhibit 9 / Tab 1 / Schedule 3 / pages 5 and 10; and Informational Filing Run 1 / Sheet I8 'Demand Data'

The description given for the Westport Sewage Treatment Plant customer class at page 5 states that the load is forecast to be less than 50 kW. The Informational Filing shows the sum of twelve monthly non-coincident peaks at 916 kW, i.e. approximately 75 kW per month. However, the load data at page 10 shows the average monthly demand in 2006 at 199.18 kW, which in turn is considerably lower than the load in previous years.

- a. Please explain why there is such a wide margin between the several sources of information on the size of this customer's load.
- b. Please describe whether there are any components of the Applicant's distribution system that are sized to accommodate the peak load of this customer.
- c. Please describe whether the Westport Sewage Treatment Plant is one of the Applicant's delivery points from the host distributor.

Low Voltage Wheeling Cost

32. Ref: Exhibit 9 / Tab 1 / Schedule 8 / page 19

The fourth from last line in the table shows Low Voltage cost proposed to be recovered in the test year to be \$168,161.

- a. Please provide a table showing the annual class totals of Retail Transmission Connection Revenue in 2006, and a calculation of the share of each class in this revenue. (Include the revenue from the Westport Sewage Treatment Plant with the GS>50 class.)
- b. Please confirm whether the cost of the Low Voltage Charges is included in the proposed charges shown in the first part of the table "Reconciliation of Rate Class Revenue to Total Revenue Requirement", and if so please show the derivation of this component of the rate for each class.
- c. If the cost proposed to be recovered from each class differs from the proportion based on the Retail Transmission Connection revenue in part a), please describe how the proportions were derived.

- d. Please provide information on the amount of cost incurred from or settlements with the host distributor for LV Wheeling over a period of several years, e.g. back to 2002, and explain how the total cost of \$168,161 has been derived.

Rate Design

Impacts

33.Ref: Exhibit 9 / Tab 1 / Schedule 7 / page 15

Please provide a table showing the impact of the change from the existing Westport Sewage Treatment Plant rate to the Proposed General Service > 50 kW rate, for a customer with demand and consumption approximately equal to the load of the customer that is being moved from the separate rate class.

All classes

34.Ref: Exhibit 9 / Tab 1 / Schedule 1 / page 3

The Board Report on the Application of Cost Allocation for Electricity Distributors, EB-2007-0667, was published on November 28, 2007. The Application refers to the Board Staff recommended ranges for Revenue to Cost ratios. Please describe any adjustments that you would make to the proposed rates in order to implement the policies in the Board Report.

Loss Factors:

35. References:

- i. Exhibit 4, Tab 2, Schedule 9, Page 27
 - ii. Exhibit 4, Tab 2, Schedule 10, Page 28
 - iii. Exhibit 1, Tab 1, Schedule 5, Page 35
 - iv. Exhibit 1, Tab 1, Schedule 12, Page 49
 - v. Tariff of Rates and Charges Effective May 1, 2007, Page 4 of 4; EB-2007-0575
- The 1st reference provides a calculation of actual distribution loss factors (DLF) for 2003 to 2006 and an average for the 4-year period. This includes losses that occur in the Hydro One Networks Inc. (HONI) distribution system, stated to be a constant 3.4% across the 4-year period. Losses that occur in the RSL distribution system are provided as the difference between the calculated DLF and the HONI DLF (3.4%). This reference further provides the Supply Facilities Loss Factor (1.0045) and proposed 2008 TLFs for secondary and primary metered customers < 5,000 kW of 1.0774 and 1.0667 respectively. These are higher than the

approved TLFs for 2007 shown in the 5th reference (1.0772 and 1.0665 respectively).

- The 2nd reference provides a narrative on distribution losses.
- The 3rd reference replicates the proposed total loss factors (TLF) for 2008.
- The 4th reference describes RSL's situation as an embedded distributor served by the host distributor HONI.
- The 5th reference provides approved TLF for 2007.

a) With respect to the 1st reference:

- i. Please explain the rationale for proposing that the DLF for 2008 be an average of the DLFs for the 4-year period (7.25% comprised of 3.4% and 3.85% as the HONI and RSL components respectively) rather than a lower value such as the actual 2006 DLF of 6.28%.
- ii. Please describe any steps that are contemplated to decrease RSL's component of DLF during the test year (2008) and/or during a longer planning period.

b) Please confirm that the first of the two lines in the 1st and 3rd references that refer to "Total Loss Factor – Secondary Metered Customer" relate to "< 5,000 kW" rather than "> 5,000 kW" as stated.

c) In the 2nd reference, please confirm that the statement "The Loss Adjustment Factor Calculation Table has been adjusted to show the effect of the IESO's applied loss factor of 3.4%" refers to the DLF of 3.4% reflecting losses that occur in the HONI distribution system.

DEFERRAL AND VARIANCE ACCOUNTS

36.Ref: Exhibit 1/Tab1/Schedule 5/Page 31, Exhibit 1/Tab1/Schedule8/Page 38, Exhibit 5/Tab1/Schedule1/Page 7

Rideau St. Lawrence is requesting a deferral account to track capital works. The purpose of this account would be to collect the costs of capital expenditures incurred during non-rebasing years for consideration for disposal by the Board at the time of the next rebasing.

a. What is the regulatory precedent for the collection of these costs in this proposed deferral account?

- b. What is the justification for this account?
- c. What are the types of capital expenditures costs to be recorded in this account?
- d. What are the journal entries to be recorded?
- e. How will these capital expenditures be financed?
- f. How does Rideau St. Lawrence plan to allocate this amount by rate class at the time of disposition?
- g. Rideau St. Lawrence has identified new capital spending for the 2008 test year. If Rideau St. Lawrence under-forecasts or over-forecasts the 2008 capital costs, should Rideau St. Lawrence be required to record the difference in this deferral account? If not, please explain the rationale for not doing this?
- h. Please confirm whether Rideau St. Lawrence will record the total capital costs in this account or just the amounts related to the annual cost of service associated with the new assets (i.e. depreciation, return, PILs, etc.). If the latter, please provide an example showing all the relevant calculations and amounts. If the former, please confirm that Rideau St. Lawrence is proposing to recover the total capital costs outside of rate base in the future (i.e. via a rate rider), and therefore these amounts will not be included in rate base in the future.

37.Ref: Exhibit Exhibit 5/Tab1/Schedule 2/Page 8

Please explain the composition of the balance in Account 1508.

38.Ref: Exhibit 5/Tab1/Schedule 2/Page 8

For low voltage costs charged by Hydro One, please identify the account that Rideau St. Lawrence used before May 1, 2006 and after May 1, 2006.

39.Ref: Exhibit 5/Tab1/Schedules 2&3

What are the interest rates being used to calculate carrying charges for each deferral and variance account from January 1, 2005 to April 30, 2008?

40.Ref: Exhibit 1/Tab3/Schedule 4/Page 181

- a. Is Rideau St. Lawrence 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 Rideau St. Lawrence been using for CWIP?
- c. If Rideau St. Lawrence was not using the Board-prescribed interest rates, what would the impact on ratebase, revenue requirement, and CWIP be if Rideau St. Lawrence did use the prescribed interest rates?

41.Ref: Exhibit 5/Tab1/Schedules 2&3

Rideau St. Lawrence is requesting disposition of regulatory variance accounts in Exhibit 5/Tab1/Schedule 2. The totals in the exhibit do not agree with the 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 for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition on Exhibit 5/Tab1/Schedule 2 and Exhibit 5/Tab1/Schedule 3. 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.

42. Ref: Exhibit 5/Tab1/Schedule 2/Page 8

Is there a balance in Account 1508 sub-account OMERS that represents costs paid to OMERS by an affiliate of the LDC?

- i. If yes, what is the balance?
- ii. If yes, have the billings by the affiliate to the LDC reflected an increase in OMERS pension costs beginning in the period that costs were collected in 1508? If so, what has been the increase in burden beginning in this period? What is the period?
- iii. If yes, why should Rideau St. Lawrence get approval for recovery of these OMERS costs as they were not allowed in the 2006 EDR decision RP-2005-0020 / EB-2005-0414?
- iv. If no, what does the balance in Account 1508 sub-account OMERS represent?

43. Ref: Exhibit 5/Tab1/Schedule 2/Page 8 and Exhibit 5/Tab1/Schedule 3/Page 10

- a) Account 1562 has a credit adjustment of \$3,282 and represents a correction to an error to the 2006 year end PILs calculation. Please explain the nature of this error.
- b) Why is Rideau St. Lawrence using Account 1562 for the PILs variance costs subsequent to April 30, 2006 considering the guidance provided in the Accounting Procedures Handbook which states "Account 1562 relates to the rate periods that ended on or before April 30, 2006."
- c) What would the balances be in Accounts 1562 and 1563 if Rideau St. Lawrence was following the guidance provided in the Accounting Procedures Handbook?

44. Ref: Exhibit 5/Tab1/Schedule 2/Pages 8 & 9 & Exhibit 5/Tab1/Schedule 3/Page 11

- a. Is Rideau St. Lawrence currently using Account 1590?
- b. If not, please explain why Rideau St. Lawrence is not using Account 1590.

- c. If so, has Rideau St. Lawrence transferred previous 2006 EDR Board-approved amounts for regulatory asset recovery to Account 1590 as instructed in the Board's letter to LDCs on November 28, 2006? When did Rideau St. Lawrence do this transfer?
- d. If not, please identify the impact that Account 1590 would have on the remaining balances if it was used according to the Board's instructions.

PILs

45. Ref: Exhibit 5/Tab1/Schedule 2

Please indicate what PILs method the Applicant followed in calculating the balances in Account 1562 (and 1563 if applicable) by reference to the Board's FAQs dated April 2003.

46. Ref: Exhibit 5/Tab1/Schedule 2

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

47. Ref: Exhibit 5/Tab1/Schedule 2

Please provide a continuity schedule that shows how the transaction amounts in the PILs Account 1562 (and 1563 if applicable) were recorded in the general ledger as at each year end since the period beginning October 1, 2001. Please separate the PILs proxy or allowance in rates, amounts billed or collected, adjustments, and interest. Please explain any adjustments.

48. Ref: Exhibit 5/Tab1/Schedule 2

Please provide an analysis for each year end for Accounts 1562 and 1563 from October 1, 2001 through December 31, 2006. The schedule should show:

- The PILs proxy or allowance approved in rates;
- The amounts billed to or collected from customers;
- Adjustments calculated by the Board's methodology for true-up and deferral account entries;
- Any other adjustments recorded by the Applicant;
- The interest carrying charge calculations and an explanation of how the interest amounts were calculated;
- Excess interest claw-back, if applicable.

49. Ref: Exhibit 5/Tab1/Schedule 2

Please explain any differences between the two analyses requested above.

50. Ref: Exhibit 5/Tab1/Schedule 2

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

51. Ref: Exhibit 5/Tab1/Schedule 2

What assumptions did the Applicant make for the following items in calculating its Accounts 1562 and 1563 balances to be disposed:

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

52. Ref: Exhibit 5/Tab1/Schedule 2

Are there Board precedents on which the Applicant has relied in disposition of Accounts 1562 and 1563? Please provide the proceeding case docket references.

53. Ref: Exhibit 5/Tab1/Schedule 2

Should the expensing or recovery of regulatory assets be included in the calculation of regulatory PILs taxes? If so, what Board precedents are being relied on in making this assertion? Please describe how the Applicant processed these transactions in the PILs calculations to determine the balance in Account 1562.

54. Ref: Exhibit 5/Tab1/Schedule 2

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

55. Ref: Exhibit 5/Tab1/Schedule 2

What assumptions has the Applicant made in recording transactions in Account 1562 subsequent to April 30, 2006?

56. Ref: Exhibit 5/Tab1/Schedule 2

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

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

January 18, 2008