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Ontario

BY E-MAIL

January 4, 2013

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Tillsonburg Hydro Inc.
2013 Cost of Service Rate Application
Board Staff Interrogatories
Board File No. EB-2012-0168

In accordance with the procedure documented in the Notice of Application and Hearing, please find attached Board staff's interrogatories in the above proceeding with respect to Tillsonburg Hydro Inc.'s 2013 Cost of Service Rate Application.

Yours truly,

Stephen Vetsis
Analyst – Applications & Regulatory Audit

Encl.

Board Staff Interrogatories
2013 Electricity Distribution Rates
Tillsonburg Hydro Inc. ("THI")
EB-2012-0168
January 4, 2013

GENERAL

0.0-Staff-1

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. Please state whether or not the applicant's proposed pension costs include this increase. If so, please provide the forecasted increase by years and the documentation to support the increases. If not, please state how the applicant proposes to deal with this increase.

0.0-Staff-2

Please identify whether or not the applicant has included any charitable or political donations as part of its forecast OM&A expense for the Test Year. If yes, please identify the amounts and the account in which the donations are recorded, and whether the amounts are compliant with Section 2.7.2.5 of the Filing Requirements.

0.0-Staff-3

a) Please confirm whether or not the applicant has followed Article 490, Retail Services and Settlement Variances of the Accounting Procedures Handbook for Account 1518 and Account 1548. Please explain if the applicant has not followed Article 490.

b) Please confirm that all costs incorporated into the variances reported in Account 1518 and Account 1548 are incremental costs of providing retail services.

0.0-Staff-4

Please identify the increases (decreases) in OM&A expense for the test year, arising from other than from a decrease (increase) in capitalized overhead.

0.0-Staff-5

Upon completing all interrogatories from Board staff and intervenors, please provide an updated RRWF with any corrections or adjustments that the applicant wishes to make to the amounts in the previous version of the RRWF included in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

0.0-Staff-6

Upon completing all interrogatories from Board staff and intervenors, please provide an updated Appendix 2-W for all classes at the typical consumption / demand levels (i.e. 800 kWh for residential, 2,000 kWh for GS<50).

0.0-Staff-7

Upon completion of responses to all interrogatories, please identify any adjustments to the proposed service revenue requirement that the applicant wishes to make relative to the original application.

0.0-Staff-8

a) Please identify any rates and charges that are included in the applicant's conditions of service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered.

b) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2012 bridge and 2013 test years.

c) Please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.

EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

1.0-Staff-1

Ref: Ex. 1/T. 2/Sch. 1/page 2, line 22

On line 22 of page 2 of Ex. 1/T. 2/Sch. 1, THI states that it is requesting approval to use the Board approved accounts to capture costs in connection with the Green Energy and Green Economy Act ("GEGEA"). Please state if THI is aware of any planned GEGEA expenditures, at this time?

1.0-Staff-2

Ref: Ex. 1/T. 2/Sch. 3/page 2

On page 2 of Ex. 1/T.2/Sch. 3, THI states that it has assumed cost of living adjustments of 2% for wages, increases in fleet rates of 2% and a 3% increase for operating and maintenance, billing and collecting and general administration costs. Please provide the basis for these assumptions including any relevant documentation.

EXHIBIT 2 – RATE BASE

2.0-Staff-1

Ref: Ex. 2/T. 1/Sch. 1/pages 6 and 12

On page 6 of Ex. 2/T. 1/Sch. 1 of the Application, THI states that under the terms of the Master Services Agreement ("MSA"), THI has the use of Town owned Information Technology ("IT") and telecommunications assets.

On page 12 of Ex. 2/T. 1/Sch. 1 of the Application, THI states:

> THI is required to upgrade its customer information system ("CIS") to Windows 7 at an estimated cost of $65k. This upgrade is required since the existing CIS system runs on Windows XP which is no longer supported.

a) Please provide further details regarding the nature of THI's proposed CIS upgrade.
b) Please provide a breakdown of the estimated $65k CIS upgrade costs including a brief description of each item.
c) Please confirm whether or not the planned upgrade is limited to Town-owned IT-assets typically used for THI related activities. If so, please describe what approach was used.

2.0-Staff-2

Ref: Ex. 2/T. 4/Sch. 4/Att. 1, page 1
Ref: Decision and Order, EB-2008-0246 – page 25
Ref: Ex. 2/T. 4/Sch. 4/page 9

In Appendix 2-A, show in Ex. 2/T. 4/Sch. 4/Att. 1 of the Application, THI shows $296,643 in capital spending for "Project 24 CIS System" in 2009. In the Board's Decision and Order from THI's prior cost of service application (EB-2008-0246), the Board ordered a reduction in the allocation of the purchase costs for THI's proposed CIS system. The Board approved a 71.7% ($221,176) share of the capital costs for the new CIS system to be allocated to THI. On page 9 of Ex. 2/T. 4/Sch. 4, THI shows 65k in capital costs for upgrades to its CIS system.

a) Please confirm the purchase price of THI's CIS system.
b) Please confirm the amortization period used for CIS purchase in 2009. If a residual value for the capital assets remains in the 2013 rate year, please state the amount present in THI's proposed rate base.
c) Please confirm that the $65k in proposed capital expenditures in 2013 for upgrades to THI's CIS system reflect the Board approved allocation of 71.7% from THI's prior cost of service application.

2.0-Staff-3

Ref: Ex. 2/T. 1/Sch. 1/page 6

In the application, THI indicated that it's "capital is understated versus that of other electricity distributors who own such assets. From an accounting perspective, THI rents these assets from the Town."

a) Please indicate if THI has considered IAS 17 and IFRIC 4 in relations to the IFRS accounting treatment of such rental agreements and whether these arrangements contain a finance lease.
b) If yes, please explain the analysis performed and what the conclusion of the analysis was.
c) Please indicate if IFRS 1 optional exemptions have been applied to the issue.

2.0-Staff-4

Ref: Ex. 2/T. 2/Sch. 1/Att. 1, Appendix 2-D

In Appendix 2-D, provided at Ex. 2/T. 2/Sch. 1/Att. 1 of the Application, costs are indicated as directly attributable in the first table. Administration and Other General Overhead Costs and Engineering and Project Management are indicated as directly attributable in the first table. There is also $119,240 included as no longer capitalized under MIFRS.

a) Please provide the amounts of overhead costs that are currently capitalized on self-constructed assets under MIFRS
b) Please confirm that a portion of these costs are still currently capitalized under MIFRS.

2.0-Staff-5

Ref: Ex. 2/T. 2/Sch. 2/page 1

In the Capitalization Policy provided, THI discusses the treatment of indirect costs in 2013. IAS 16 requires that significant parts or components of an asset that are significant in relation to the total cost of an asset be depreciated separately.

a) Please also indicate if THI has performed the componentization analysis.
b) Please indicate what were the results of the analysis.

2.0-Staff-6

Ref: Ex. 2/T. 4/Sch. 4/page 5
Ref: Ex. 2/T. 3/Sch. 3/Att. 2, Appendix 2-B for 2013

On page 5 of Ex. 2/T. 4/Sch. 4 of the Application, 2013 Capital Additions include $11k for Account 1920 Computer Hardware, and $54k for Account 1611 Computer Software. In the Fixed Asset Continuity Schedule Appendix 2-B, 2013 Additions for Account 1920 is $19,263 and Account 1611 is $310,656. Please reconcile the difference between these amounts.

2.0-Staff-7

Ref: Tillsonburg_2013 Chapter 2 Appendix 2-CE/CF 2011/2012
Ref: Exhibit 2, Tab 3, Schedule 3, Attachment 2

For 2011 CGAAP and 2012 CGAAP schedules in Chapter Appendix 2-CE and 2CF, the column "Depreciation Expense per Appendix 2-B Fixed Assets Column K" differs from the 2011 CGAAP and 2012 CGAAP "Accumulated Depreciation Additions" column in the Fixed Asset Continuity Schedule Appendix 2-B, respectively. Please explain the variances between the depreciation as shown on Appendix 2-CE and Appendix 2-B.

2.0-Staff-8

Ref: Ex. 2/T. 6/Sch. 2/Att. 1

The tables, in Ex. 2/T. 6/Sch. 2/Att. 1 of the application, show THI's reported reliability performance measures. THI's SAIDI, SAIFI and CAIDI metrics show significant fluctuations in 2009 through 2011.

a) Please explain the causes of the fluctuations in the reported reliability performance measures (SAIDI, SAIFI and CAIDI) from year to year.
b) Please describe how THI derived the 2012 estimate of its reliability performance measures, given the fluctuations shown over the prior years.

2.0-Staff-9

Ref: Ex. 2/T. 7/Sch. 1 – Basic GEA Plan

THI has provided its Basic GEA Plan in Ex. 2/T. 7/Sch. 1 of the application.

a) On Ex. 2/T. 7.3/Sch. 3 of the Basic GEA Plan (referenced above), THI discusses limitations of its distribution system and its upstream transmitter regarding the connection of renewable generation. Please confirm if any plans have

materialized such that upstream limitations will be reached and upgrades will be required.

b) On page 2 of Ex.2/T. 7.3/Sch. 1 of the Basic GEA Plan, THI provided tables showing microFIT and FIT projects as of June 30, 2012. Please update the provided tables with the most recent information available. Please indicate any changes in the updated tables.

EXHIBIT 3 – REVENUE

3.0-Staff-1

Ref: Ex. 3/T. 1/Sch. 2/Att. 1 – Load Forecast Report

Elenchus' report states that separate multivariate regression modelling has been done on a class basis, and the Load Forecast Report shows separate regression models for: Residential; GS < 50 kW; and GS 50 to 499 kW. Elenchus provides comparisons of actual monthly data with forecasted monthly data, as well as, actual annual data with forecasted annual data.

Please provide the definition of the kWh data used as the explanatory variable in the Residential, GS < 50 kW and GS 50 to 499 kW customer classes. Is this the actual consumption in each calendar month? If not, please provide a detailed description of the source of, and any methodology used, to interpolate the data to derive the monthly data.

3.0-Staff-2

Ref: Ex. 3/T. 1/Sch. 2/Att. 1 – Load Forecast Report

On pages 1-2 of the Elenchus report, it is stated that there was a permanent loss of load in 2007 due to economic conditions, particularly within THI's service area. As a result, all of the regression models begin with January 2008 to December 2011. This uses thus 48 actual observations, and the estimated models are then used to develop load forecasts 24 months further for the 2012 bridge and 2013 test years.

a) What efforts were made to use actual data prior to January 2008? If attempted, please describe the efforts, the results obtained, and reasons why the shortened regression range was adopted.

b) Please provide a variance analysis showing comparing the actuals, normalized for HDD and CDD, versus estimated kWh, by month for the period January 2012 to December 2012. This should be done for each of the three regression models used.

3.0-Staff-3

Ref: Ex. 3/T. 1/Sch. 2/Att. 1 – Load Forecast Report

On page 3 of the Elenchus report, it is stated:

> In order to measure the change in economic activity, a data series must be chosen which represents, as much as possible, regional economic activity. For Tillsonburg, monthly full-time employment as reported in Statistics Canada's Monthly Labour Force Survey (Table 282-0054) for the London Economic Area (3560) is used. The London Economic Area includes the Town of Tillsonburg.

In the Residential model, the variable is labelled LondonFTE. For the GS < 50 kW and GS > 50 kW models, the variable is labelled LondonER_FTE.

a) Is this the same variable in all models? In not, please provide the definition, data source, and the data for each variable.
b) What is the source for the forecast of this variable or these variables for the 2012 bridge and 2013 test years?

3.0-Staff-4

Ref: Ex. 3/T. 1/Sch. 2/Att. 1 – Load Forecast Report

For the multivariate regression model of Residential consumption, THI shows that Residential kWh was regressed against the following explanatory variables:

- Constant;
- HDD (Heating Degree Days, as measured in London);
- CDD (Cooling Degree Days, as measured in London);
- MonthDays (Number of Days in the calendar month); and
- LondonFTE (London full-time employment).

a) LondonFTE is used as a proxy for economic activity in THI's service territory. What other variables for community size (population) and economic activity were tried in the model? Why were each of these variables rejected from the load forecast model?
b) The model appears to have a constant term that is statistically insignificant, with a t-statistic of -0.92.
    i. Why was the constant retained if it was statistically insignificant?
    ii. Please provide the regression results retaining all exogenous variables with the exception of the constant.

c) Table 2 on page 4 of the Elenchus study provides summary statistics of the "fit" of the model in terms of annual percentage error and the mean absolute percentage error. As the regression model is based on monthly data, the residual analysis based on annual results can understate the actual residual error, as summing over the monthly values can smooth the deviations. Please provide the following:
    i. Actual and predicted Residential kWh, residual and % error, by month, for the regression period and also including the predicted values for the bridge and test years by month, up to and including December 2013; and
    ii. The Mean Absolute Percentage Error of the monthly residuals over the actual regression range from January 2008 to December 2011.

3.0-Staff-5

Ref: Ex. 3/T. 1/Sch. 2/Att. 1- Load Forecast Report

For the multivariate regression model of GS < 50 kW consumption, THI shows that GS < 50 kW consumption, in kWh, was regressed against the following explanatory variables:

- Constant;
- HDD (Heating Degree Days, as measured in London);
- CDD (Cooling Degree Days, as measured in London);
- MonthDays (Number of Days in the calendar month);
- LondonER_FTE

a) The model appears to have a constant term that is statistically insignificant, with a t-statistic of -1.90.
    i. Why was the constant retained if it was statistically insignificant?
    ii. Please provide the regression results retaining all exogenous variables with the exception of the constant.
b) Table 4 on page 5 of the Elenchus study provides summary statistics of the "fit" of the model in terms of annual percentage error and the mean absolute percentage error. As the regression model is based on monthly data, the residual analysis based on annual results can understate the actual residual error, as summing over the monthly values can smooth the deviations. Please provide the following:
    i. Actual and predicted GS < 50 kW kWh, residual and % error, by month, for the regression period and also including the predicted values for the bridge and test years by month, up to and including December 2013; and
    ii. The Mean Absolute Percentage Error of the monthly residuals over the actual regression range from January 2008 to December 2011.

3.0-Staff-6

Ref: Ex. 3/T. 1/Sch. 2/Att. 1- Load Forecast Report

For the multivariate regression model of GS 50 to 499 kW consumption, THI shows that GS 50 to 4999 kW consumption, in kWh, was regressed against the following explanatory variables:

- Constant;
- HDD (Heating Degree Days, as measured in London);
- CDD (Cooling Degree Days, as measured in London);
- MonthDays (Number of Days in the calendar month);
- LondonER_FTE
- Peakdays;
- RecessionD (recession period dummy variable for June 2008 to June 2009 inclusive);

a) Please provide the definition for the Peakdays variable.
b) The model appears to have a constant term that is statistically insignificant, with a t-statistic of -0.54.
    i. Why was the constant retained if it was statistically insignificant?
    ii. Please provide the regression results retaining all exogenous variables with the exception of the constant.
c) The documentation states that a dummy variable was included to reflect the recession for the period from June 2008 to June 2009. Please provide the rationale for assuming that the recession period was from June 2008 to June 2009 inclusive. What other explanations are there for the significance of this variable?
d) Table 6 on page 7 of the Elenchus study provides summary statistics of the "fit" of the model in terms of annual percentage error and the mean absolute percentage error. As the regression model is based on monthly data, the residual analysis based on annual results will understate the actual residual error, as summing over the monthly values with smooth the deviations. Please provide the following:
    i. Actual and predicted GS 50 to 499 kW kWh, residual and % error, by month, for the regression period and also including the predicted values for the bridge and test years by month, up to and including December 2013; and
    ii. The Mean Absolute Percentage Error of the monthly residuals over the actual regression range from January 2008 to December 2011.

3.0-Staff-7

Ref. Ex. 3/T. 1/Sch. 2, Att. 1- Load Forecast Report

In the multivariate regression models used by THI for its load forecast, the models used included explanatory variables such as HDD, CDD, days of month and London Employment data.

a) In many load forecasting multivariate regression models filed in cost of service applications in recent years, distributors often include binary seasonal variables (i.e. spring/fall flag) to account for seasonal variability (beyond that of HDD and CDD). Was the inclusion of a spring/fall flag attempted? If so, please explain the reason for excluding it in the final model.
b) The load forecasting models documented by THI in its Application do not include any variables for CDM activity/impacts during the regression period.
    i. Was any CDM activity variable tried?
    ii. If not, why not?
    iii. If a CDM variable was tried, please define the CDM variable attempted, the regression results, and the reasons that the variable was rejected in the final model. Please provide the data for the variable.

3.0-Staff-8

Ref: Ex. 3/T. 1/Sch. 3 and Ex. 3/T. 1/Sch. 3/Att. 1 – CDM Adjustment of Load Forecast

In Ex. 3/T. 1/Sch. 3, THI describes the methodology it has used to adjust the load forecast data to account for the impact and persistence of CDM programs from 2006 to 2011, and to derive the adjustment for the 2013 load forecast to reflect the impact of 2011 to 2013 CDM programs to achieve the CDM target that is a condition of its distribution licence.

The data is provided in Attachment 1 of Ex. 3/T. 1/Sch. 3.

a) Please provide Ex. 3/T. 1/Sch. 3/Att. 1 in working Microsoft Excel format if available.
b) What is the rationale for using the average of 2006 to 2011 CDM savings to gross-up the base 2013 forecast arising from the model? In particular, estimated savings in 2006 would be smaller that year because only one year's worth of CDM would be involved. CDM savings would generally increase, with some drop off in the persistence of prior year CDM programs with the passage of time, so it would be expected, all other things being equal, that the 2006-2011 CDM program average impact would understate the cumulative persistence to 2013.

c) THI has used a regression range of January 2008 to December 2011 for each of the three models. Thus, the estimated models would only reflect the impact of CDM programs on the actual data in those years. However, THI has used the average CDM impact for the period 2006 to 2011 to "back out" the historical impacts. This is for a data range longer than the regression range. Further with OPA CDM programs beginning in 2006, and the impacts in each year being cumulative (i.e., reflecting the "persistence" of prior year programs as well as the first year impact of new programs in the year), the 2006 and 2007 CDM impacts are typically lower than those for other years. Thus, including 2006 and 2007 in the average will tend to understate the "average" annual impact over the regression range of 2008 to 2011. Please provide THI's rationale for calculating the "average" CDM adjustment based on a time range longer than the regression range.

d) THI has included 2011 actual data in the regression analysis, and the 2011 actual consumption would be impacted by 2011 CDM programs. However, the 2011 CDM program impact is excluded from the adjustment. Please explain how THI or its consultant Elenchus have taken into account the presence and influence of 2011 CDM programs on the load forecast before the 2013 CDM adjustment.

e) Why has THI adopted the approach of setting the target as 30% of the cumulative 2011-14 CDM target, rather than taking into account measured 2011 CDM savings and setting the adjustment to reflect both what was achieved in 2011 and hence what remains to be achieved in each of 2012, 2013 and 2014 to meet the cumulative CDM target.

3.0-Staff-9

Ref: Ex. 3 /T. 1/Sch. 2/Att. 1 – Load Forecast Report

On page 10 of the above reference, THI states: "Billed kWh for the sentinel light class has fluctuated somewhat. To forecast sentinel light kWh consumption, the average of the last 4 years' use per connection has been used (932kWh/yr)." "

In Exhibit 3/ Tab 1/ Sch.2/Attachment 3, THI provides the actual average use per customer (kWh) for sentinel light class as below:

Year	Sentinel	Change
2007	1,167	
2008	988	-15.3%
2009	869	-12.1%
2010	835	-3.9%
2011	1,037	24.2%

Please explain the cause(s) of the fluctuation of the sentinel light class usage as stated in the above table.

3.0-Staff-10

Ref: Ex. 3 /T. 1/Sch. 2/Att. 1/ pages 11 and 12

On pages 11 and 12 of Ex. 3/T. 1/Sch. 2/Att. 1, Elenchus discusses the changes to consumption for three large customers. Please identify the original customer class of Customer # 1 and Customer #2, as identified in the referenced section of the report.

3.0-Staff-11

Ref: Ex. 3 /T. 1/Sch. 2/Att. 1/pages 12 and 13

In the above reference, THI states: "In order to generate appropriate use per customer estimates for these classes going forward, the large customers that have ceased production need to have their consumption removed from the historical class consumption. The restated classes (with shut-down operations' consumption restated are referred to as "net" classes."

Based on the data in table 10 of the above reference, the following table summarizes the adjustments (in kWh) made to the GS 500 – 1,499 kW and GS > 1,500 kW classes.

Year	GS 500-1499 Actual	GS 500-1499 Net	Adjustment	GS > 1500 Actual	GS > 1500 Net	Adjustment
2007	43,912,433	33,322,814	10,589,619	73,318,742	32,005,608	41,313,134
2008	32,215,202	32,215,202	0	68,618,309	27,710,937	40,907,372
2009	30,013,245	30,013,245	0	39,910,421	25,838,718	14,071,703
2010	35,629,880	35,629,880	0	36,643,040	32,873,956	3,769,084
2011	35,963,953	35,963,953	0	34,473,148	34,279,409	193,739

a) Please provide the reason for the adjustment made to the GS 500 – 1499 class in 2007 and explain how the 10 million kWh adjustment was determined.
b) Please provide the reason(s) for the adjustments made to the GS > 1500 class and explain how the kWh adjustments were determined.

3.0-Staff-12

Ref: Ex. 3/T. 1/Sch. 3/pages 1 – 4

On page 3 of Ex. 3/T. 1/Sch. 3 of the Application, THI states that it adjusted the demand forecast for past OPA programs by grossing it up by the six year average of the 2006-2010 programs and netted it down with the expected 2013 CDM persistence. On Table

3-7 of page 4 of the same section, THI indicates that a 5 year average is used for calculating the adjustment to demand for the GS > 50 classes.

Table 3-7 shows the calculated persisted demand reduction for 2006-2010 programs in 2013 for the GS > 50 kW classes. The persisting demand reduction in 2013 shows a significant decrease over the average reduction calculated for the prior years.

a) Please confirm the number of years used to compute the average reduction in demand (kW) for the GS > 50 kW.
b) Please explain the significant decrease in the persisting demand reductions for 2013 shown in Table 3-7.

EXHIBIT 4 – OPERATING COSTS

4.0-Staff-1

Ref: Ex. 4/T. 1/Sch. 4/page 1
Ref: Ex. 4/T. 2/Sch. 3/page 1
Ref: Decision and Order, EB-2008-0246, page 27

On page 1 of Ex. 4/T. 1/Sch. 4, THI states that one of the cost drivers for the increase in OM&A is an increase in regulatory costs of $19k per year. In Ex. 4/T. 2/Sch. 3, THI states that it has engaged Elenchus Research Associates to assist in its Application and that it estimates consulting fees of $130k to complete its 2013 cost of service application.

On page 27 of the Decision and Order of THI's last cost of service application (EB-2008-0246), the found THI's proposed $175k in one-time consultant fees to be excessively high and approved $75k to be recovered through rates.

a) Given the Board's decision in THI's prior cost of service application, please explain why THI believes that the $130k in one-time costs requested in this application is reasonable.

4.0-Staff-2

Ref: Ex. 4/T. 1/Sch. 4/page 1
Ref: Ex. 2/T. 4/Sch. 1/page 1
Ref: Ex. 2/T. 4/Sch. 4/page 5
Ref: Ex. 4/T. 2/Sch. 2/Att. 1, Section 5.2.7, Fleet and Transportation

On page 1 of Ex.4/T. 1/Sch. 4, THI states the following as two of the cost drivers for an overall increase of $517k in 2013 test year OM&A over 2011 actuals:

> Decrease capitalization of labour and fleet [$182k] due to lower anticipated capital projects compared to 2011 actual.

Indirect costs that can no longer be capitalized due to shift to MIFRS [$119k].

In Ex. 2/T. 4/Sch. 1, states that it incurred approximately $648k in capital expenditures in 2011. Ex. 2/T. 4/Sch. 4 shows that THI expects to incur $661k in capital additions for the 2013 test year.

Additionally, the transfer pricing study indicates:

> With regard to transportation and work equipment owned by the Town, an hourly rate is charged for vehicle use and hourly time is also directly billed. The square footage for the garage and bays, in the CSC building, has been accounted for in the CSC annual lease rate within the facilities section. There are no other shared costs to consider as these are directly billed.

a) Please explain the distinction between the decreased capitalization of labour and fleet and the costs that can no longer be capitalized due to a shift to MIFRS.
b) Please explain why THI states that it has a lower level of anticipated capital projects for the 2013 test year when the proposed levels in Exhibit 2 are roughly equal to actual spending in 2011.
c) Given that Fleet and Transportation expenses are directly billed to THI by the Town of Tillsonburg, please explain why a decrease in the level of anticipated capital projects would result in an increase in OM&A for THI.

4.0-Staff-3

Ref: Ex. 4/T. 2/Sch. 2/page 1
Ref: Ex. 4/T. 2/Sch. 2/Att. 1
Ref: Ex. 1/T. 2/Sch. 9/page 9

On page 9 of Ex. 1/T. 2/Sch. 9, THI states that it entered in to a new Master Services Agreement ("MSC") with the Town of Tillsonburg, effective January 1, 2012 through December 31, 2015. On page 1 of Ex. 4/T. 2/Sch. 2, THI states that it engaged the services of a consultant to complete a transfer pricing study, as per the Board's decision in its prior cost of service application (EB-2008-0246).

In section 2 of the Transfer Pricing Study, the Scrimgeour Consulting Group ("SCG") states that it was not requested to comment on the overall level of the costs or on the degree to which operational synergies are achieved by the Town's arrangement with THI. Additionally, the Transfer Pricing Study does not explicitly state what date SCG began its evaluation but does mention June 26, 2012 discussions with THI staff in several sections (e.g. Section 5.1).

a) Please confirm whether or not the Transfer Pricing Study was conducted under the terms of the updated MSC, effective January 1, 2012.

b) If so, please explain why THI believes it was appropriate to enter in to a new MSC prior to the completion of the transfer pricing study, ordered by the Board in EB-2008-0246. Please summarize the differences between the current and prior MSCs.
c) Please clarify the scope of the study, completed by SCG. Particularly, please clarify what is meant when SCG states that it was not requested to comment on the overall level of the costs.

4.0-Staff-4

Ref: Ex. 4/T. 2/Sch. 2/Att. 1

In the transfer pricing study ("TPS"), provided in Ex. 4/T. 2/Sch. 2/Att. 1, the Scrimgeour Consulting Group ("SCG") shows the methodology it used in allocating the indirect costs THI incurs from the Town of Tillsonburg.

In section 5.2.3, SCG discusses the allocation of a staff member whose main function is maintaining regulatory compliance with the OEB. SCG states that the staff member's costs were allocated based on a representative period.

In section 5.1, SCG states that it used the Town's lease agreement for the Town Centre Mall office space, with First Capital Management to determine an appropriate value for THI's lease rate for its use of the Town's Customer Service Centre ("CSC"). SCG states:

> The locations are close in proximity thus it is assumed that the lease rate would be comparable within the same area. While there are some differences in the properties, First Capital Asset Management lease rate is independent and due to the lack of comparable properties and access to specific lease rate information in the area, the annual lease rate appears to be a reasonable estimate.
>
> SCG analysis concludes that the historic lease rate of $90,144 should be increased to $132,620 which is reasonable and representative of the actual costs.

In section 5.2.9, SCG states:

> SCG considers the approach reasonable and consistent with GAAP cost allocation methodology. SCG analysis concludes that the management fee of $140,000 is reasonable.

a) Please provide further details regarding the responsibilities held by the staff member who identified maintaining regulatory compliance with the OEB as their primary function. Is this staff member typically involved in regulatory

rate proceeding? If so, please identify what time period was used as representative for that staff member.

b) Please provide further details regarding the differences between the facilities at the Town Centre Mall office space and the CSC.
c) Given that SCG has stated there is a lack of comparable properties in the region, please explain why THI believes that the increase in the lease rate is warranted.
d) Given that THI is adopting MIFRS in the 2013 test year, does THI believe that any changes are required to SCG's recommendations, which were made using a GAAP cost allocation methodology?
e) The majority of SCG's discussions in the TPS focus on the allocation of indirect costs to THI. Please elaborate on SCG's rationale for the conclusion that THI's $140,000 management fee is reasonable.

4.0-Staff-5

Ref: Ex. 4/T. 4/Sch. 1/Table 1
Ref: Ex. 4/T. 4/Sch. 1/page 1

On Table 1 of Ex. 4/T. 4/Sch. 1, THI provides a table summarizing the number of FTEs provided by the Town of Tillsonburg. The table provided shows a reduction in executive FTEs from 0.55 to 0.45 in 2011 and an increase in executive FTEs from 0.45 to 0.62 in 2012. The executive FTE level is maintained at 0.62 for the 2013 test year.

Additionally, Table 1 show an increase in non-union FTEs from 15.85 in the 2009 historical year to 16.85 in the 2012 historical year.

a) Please explain the fluctuations in executive FTE levels from 2010 through 2012. Given the amount of time that has elapsed since the application was filed, do THI's updated actual costs in 2012 indicate that the 0.62 executive FTE level should be maintained in the 2013 test year?
b) Please explain the over-all increase in non-union FTEs, shown in Table 1, from 15.85 in the 2009 historical year to 16.85 in the 2012 historical year.

4.0-Staff-6

Ref: Ex. 4/T. 4/Sch. 1/pages 1 and 2
Ref: Decision and Order, EB-2008-0246, page 21

On page 1 of Ex. 4/T. 4/Sch. 1, THI states:

> In June 2009, the Town of Tillsonburg filled the position of Operations Regulatory Affairs. The position had been included in the 2009 Rate

Application but the Board's Decision and Order dated July 12, 2009 denied its funding.

Page 21 of the Decision and Order from THI's last cost of service application (EB-2008-0246) states:

> With respect to the ORA manager position, the Board does not find that the additional costs are justifiable for a number of reasons.
>
> First, cost of service proceedings occur every four years under the Board's current IRM regime. Acquiring the expertise internally for that periodic need is highly questionable, particularly for a distributor the size of THI.
>
> Second, THI's "unaddressed regulatory activities" argument is not convincing. Already 73% of the time of the FRA Manager is allocated for regulatory matters. This is more than adequate to deal with annual IRM process, which is highly mechanistic.
>
> Third, it is not expected that THI, primarily because of its size, will be involved wholly or substantially or on its own in the various Board initiatives which may occur over the next few years.
>
> Fourth the costs of both positions would equal close to 10% of the total OM&A expenses being requested by THI. This is an excessive level.

a) Please confirm whether or not THI has reflected costs for the position of Operations Regulatory Affairs ("ORA") in the Application.
b) If THI is seeking recovery of these costs:
    i. Please explain the rationale for the inclusion of these costs in light of the Board's decision on THI's prior cost of service application.
    ii. Please provide a table summarizing the costs included in the Application for the ORA position per year.

4.0-Staff-7

Ref: Ex. 4/T. 4/Sch. 1/page 2

On page 2 of Ex. 4/T. 4/Sch. 1, THI states that due to the implementation of a new customer service information system in 2009, staff time to maintain and bill increased and the CSR allocations were increased to reflect additional complexities. THI then states that it has reduced the CSR by 0.3 FTE for the 2013 test year with a shift of staff in positions as a cost savings measure.

a) Please provide further details regarding the complexities that arose from the implementation of the customer information system in 2009 and include a summary of the staff levels and costs associated with these complexities.

Please describe what on-going issues remain with THI's customer information system that would warrant increased CSR staff levels moving forward.

b) Please provide further details regarding the 0.3 FTE reduction is CSR staff for the 2013 test year.

4.0-Staff-8

Ref: Ex. 4/T. 6/Sch. 1/Att. 1
Ref: Ex. 4/T. 6/Sch. 1/page 1

The table provided in Ex. 4/T. 6/Sch. 1/Att. 1 shows a list of all purchases made from suppliers over $50,000 in 2011.

On page 1 of Ex. 4/T. 6/Sch. 1, THI states that "THI expects its pattern of expenditures to remain generally consistent with recent history, except for material variances in expenses for Operations, Maintenance and Administration."

a) Please confirm whether or not THI made any exemptions to its standard procurement process when purchasing the items listed in the table of provided.
b) Please clarify what THI means when it says "except for material variances in expenses for Operation, Maintenance and Administration." If THI is referring specifically to variances in its level of purchases from suppliers in 2013, please identify the factors that lead THI to expect material variances.

4.0-Staff-9

Ref: Ex. 4/T. 7/Sch. 1

Please map the asset type and useful life provided in Ex. 4/T. 7/Sch. 1 to the categories in the Kinetrics Report (Summary Results section), for the following asset types:

a) Substation Equipment;
b) Overhead Devices;
c) Underground Conduit;
d) Underground Conductors and Devices;
e) Line Transformers;
f) Overhead Services; and
g) Underground Services.

EXHIBIT 7 – COST ALLOCATION

7.0-Staff-1

Ref: Ex. 7/Tab. 1/Sch. 1/Att. 1/pages 7-9 – Cost Allocation Study

On page 8 of Ex. 7/Tab. 1/Sch. 1/Att. 1, Elenchus states that THI does not record assets and expenses broken down between primary and secondary distribution system assets. Elenchus states that it conducted a survey of similar distributors in Ontario in order to determine average allocators for primary and secondary assets of the asset types identified. On pages 8 and 9, Elenchus lists the distributors that were surveyed to determine the primary and secondary asset allocation to be used for THI's cost allocation.

a) Please provide the criteria that were used to determine which distributors were similar to THI for the survey.
b) Did Elenchus use the information provided in each of selected distributor's cost of service application filings or did it receive information directly from each listed distributor.
c) If the former:
    a. Did Elenchus investigate whether the distributors for the selected cost allocation studies were able to directly classify assets as primary and secondary or whether the allocations used some form of estimate?
    b. Did Elenchus consider expanding their survey to include data from a larger range of cost allocation studies used in cost of service applications?

EXHIBIT 8 – RATE DESIGN

8.0-Staff-1

Ref: Ex. 8/T. 2/Sch. 1/pages 1 and 2

On page 1 of Ex. 8/T. 2/Sch. 1, THI states that it in setting it proposed 2013 rates it endeavoured to maintain the fixed to variable split of existing rates with the added constraint of not decreasing the monthly fixed charge of any class for revenue stability purposes.

On page 2 of Ex. 8/T. 2/Sch. 1, THI states that "Maintaining the [fixed/variable] split for the GS > 1,500 class would have resulted in a lesser fixed charge for that class than the GS 500 to 1,499 kW class and would have also reduced the 2013 monthly charge significantly compared to 2012."

a) Please explain whether or not THI believes it is necessary for the GS > 1,500 kW class to have a higher fixed charge than the GS 500 to 1,499 kW class.

8.0-Staff-2

Ref: Ex. 8/T. 3/Sch. 6/Att. 1
Ref: Ex. 2/T. 1/Sch. 1/page 11

The table below reproduces the 5 years of historical loss factors reported by THI in Ex. 8/T.3/Sch. 6/Att. 1.

Year	Total Loss Factor
2007	1.0287
2008	1.0256
2009	1.0428
2010	1.0365
2011	1.0356

On page 11 of Ex. 2/T. 1/Sch. 1, THI states:

One of the key benefits to the voltage conversion program is reduced distribution system losses. This will benefit customers in the short term as distribution losses are treated as a pass through. THI's customers have already benefited from an improvement in its loss factor; the Board approved 2009 loss factor was 4.20%. THI proposed to reduce its loss factor to 3.33% in the 2013 TY.

a) Please explain the increase in reported total loss factor from 2.56% in 2008 to 4.20% in 2009.
b) Please explain how THI's customers have benefited from improvements to its system loss factor when current values (3.65% in 2010 and 3.56% in 2011) are higher than observed loss in 2007 and 2008.

EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

9.0-Staff-1

Ref: Ex. 1/T. 3/Sch. 4/Att. 1
Ref: Ex. 1/T. 3/Sch. 4/Att. 2
Ref: Exhibit 9, Tab 1, Schedule 2, Attachment 1
Ref: Decision and Order, THI's 2012 IRM Application (EB-2011-0198)

In the 2012 Pro-forma Projection, the projected amount for Account 1562 is ($65,034). In the 2013 Pro-forma, the projected amount for Account 1562 is ($187,461). However, per Tillsonburg's 2012 IRM Decision (EB-2011-0198), the balance in Account 1562 was to be transferred to the applicable principal and

interest carrying charge sub-accounts of Account 1595 on May 1, 2012. Tillsonburg's Continuity Statements for Deferral/Variance Accounts also shows nil principal balance projected as at December 31, 2012.

a) Please clarify why there are balances projected for Account 1562 in the 2012 and 2013 Pro-forma projections.
b) Please revise the application as necessary.

9.0-Staff-2

Ref Exhibit 9, Tab 2, Schedule 3, Page 1

In Table 1 relating to Account 1592, THI provided for the actual expense in calculating PST savings on OM&A purchases.

a) Please clarify what time period "Period 1, 2 and 3" relate to.
b) Please clarify if PST savings relating to capital expenditures have been considered in the actual expense amounts indicated in Table 1.
c) If the answer to part b) is no, please explain why capital expenditures have not been considered in the actual expenses and provide the PST savings relating to capital expenditures for Periods 1, 2 and 3
d) Using Accounting Procedures Handbook Frequently Asked Questions #4, December 2010 as a guide, please provide an estimate of the PST savings from OM&A and capital related expenditures to be included in Account 1592 from "Period" 3 to April 30, 2013.

9.0-Staff-3

Ref: Ex. 9/T. 2/Sch. 1/page 2
Ref: Accounting Procedures Handbook, Frequently Asked Questions #4, December 2010

THI is not requesting disposition of the balance recorded in Account 1508 Other Regulatory Assets – Deferred IFRS Transition but will be requesting the disposition for this account in a future application.

a) Please confirm that these costs have not been included in OM&A.
b) If these costs have been included in OM&A, please indicate the amount included and remove the amounts from OM&A.

9.0-Staff-4

Ref: Ex. 9/T. 3/Sch. 2/Att. 1 and 2

For Account 1855 Services (Overhead & Underground) and Account 1860 Meters (Smart Meters), the useful lives used for additions in 2012 MIFRS Appendix 2-CG

are 45 and 15 years respectively. The useful lives used for additions in 2013 MIFRS Appendix 2-CH are 50 and 7.5 years.

a) Please explain why the useful lives for these assets changed from 2012 to 2013.
b) Please revise depreciation figures accordingly, if material.

9.0-Staff-5

Ref: Ex. 9/T. 4/Sch. 2/page 1

On page 1 of Ex. 9/T. 4/Sch. 2, THI states that it proposes to recover the net difference between the revenue requirement related to historical smart meter costs and the corresponding smart meter funding adders collected from May 1, 2006 to May 1, 2012 in the form of a monthly charge of $1.25 for Residential Customers and $5.72 for GS < 50 kW customers.

a) Please describe the cost allocation methodology used to allocate costs to each class for the calculation of the SMDRs.

9.0-Staff-6

Ref: Smart Meter Model – Sheet "2. Smart Meter Costs"

On Sheet 2 of the Smart Meter Model, THI has provided the costs incurred in smart meter deployment.

On line 44 of Sheet 2, THI provides its capital costs for installation. In 2008, the installation costs related to smart meter deployment ($84k) are roughly equal to the capital costs for installed meters ($80). In the following years, the installation costs for smart meters are significantly less than the capital costs of the meters themselves.

On line 90 of Sheet 2, THI summarizes its program management costs related to smart meter deployment. These costs total $200,135, roughly 17% of the total capital costs for the project.

Column S of Sheet 2 shows $20,360 in OM&A costs for 2012 for administration and WAN maintenance.

a) Please describe the installations of smart meters undertaken 2008 and explain the relatively high levels of installation costs provided in Sheet 2 of the smart meter model.
b) Please provide further explanation regarding the nature of the program management costs incurred in smart meter deployment. Please include the names of any third parties that may have been contracted for this purpose.

c) Please confirm whether or not the OM&A costs indicated in 2012 are forecasted for the entire year of representative of actual values incurred up to the filing of the application.
d) Please provide a breakdown of the on-going OM&A expenses related to smart meters that THI is seeking recovery for the 2013 test year in a format similar to Sheet 2 of the smart meter model. Please provide a brief description for each item indicated included the name and roles of any third parties that will be providing smart meter related services to THI.

9.0-Staff-7

Ref: Smart Meter Model – Sheet "10.A_Cost_Alloc_SMDR"

On sheet 10.A of the Smart Meter Model, THI indicates that 10% of smart meter funding adder revenues were collected from the GS 50 to 499 kW class for a total amount of $48,052.80. Board staff notes that the $48,052.80 is not credited to the net deferred revenue requirements for the Residential and GS < 50 kW classes as per recent Board decisions (e.g. PowerStream's smart meter cost recovery application EB-2011-128). Please provide updated calculations of the net deferred revenue requirement for each class and resulting rate riders that reflect the credit of amounts collected from the GS 50 to 499 kW class. Please include any charges that arise from other interrogatory responses, if applicable.

9.0-Staff-8

Ref: Ex. 9/T. 4/Sch. 1/page 6

On page 6 of Ex. 9/T. 4/Sch. 1 of the Application, THI states:

> THI's stranded meter costs calculation was completed using the actual meters removed from service for the time frame in question: from 25 prior to December that its stranded meter cost calculation was completed using the timeframe in question: from 25 years prior to December 31, 2011.
>
> As seen in E9/T4/S1/Att2, the total asset value of this subset of meters was approximately $713k using meter purchase price and estimated installation costs based on year of installation. Individually depreciating each installed meter straight-line over 25 years results in a residual book value of $89k.
>
> THI is proposing the recovery of stranded meter costs through a rate rider of $3.3289/month for Residential and GS < 50 [customers].

Board staff notes that it appears that THI has calculated a uniform stranded meter rate rider based on overall meters removed and not on the residual net book value per class.

Additionally, Board staff notes that THI's current proposed rate rider of $3.3298/month with a 4 year recovery period would result in an overall recovery of $1,066,068.77 (6670 meters x 12 months x 4 years x $3.3298/month).

a) Provide a calculation of the residual net book value of the stranded meters on a per class basis and the corresponding class specific rate riders.
b) Please provide a reconciliation of the updated stranded meter rate rider calculation with the overall residual net book value to be recovered.

9.0-Staff-9

Ref: Ex. 9/T. 5/Sch. 1/page 1
Ref: Ex. 9/T. 5/Sch. 1/Att. 2, Third Party Report, Output Table One
Ref: Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003), Section 13: LRAM

THI has requested recovery of an LRAM amount for persisting lost revenues from 2010 CDM programs in 2011 for the total amount of $7,266 not including carrying charges. THI has requested recovery over a one-year period.

THI has also included a request for approval of $662 in carrying charges associated with the entirety of its lost revenue request, inclusive of both LRAM amounts for persisting savings from 2010 CDM programs in 2011 and LRAMVA amounts for 2011 CDM program savings in 2011.

Board staff notes that section 13.6 of the 2012 CDM Guidelines state that it is the Board's expectation that LRAM for pre-2011 CDM activities should have been completed with the 2012 rate applications, outside of persisting historical CDM impacts realized after 2010 for those distributors whose load forecast has not been updated as part of a cost of service application.

a) Please confirm that the scope of THI's LRAM request for pre-2011 programs is the persisting lost revenues from 2010 CDM programs in 2011.
b) Please discuss if THI plans to seek recovery of persisting lost revenues from 2010 CDM programs in 2012.
c) If the answer to (a) is yes, please provide supporting evidence for the persisting lost revenues in 2012 from 2010 CDM programs in the same manner as has been provided in the Elenchus LRAM/LRAMVA report for the persisting lost revenues of 2010 CDM programs in 2011.
d) If the answer to (a) is no, please confirm that THI foregoes the opportunity to recover the persisting lost revenues from 2010 CDM programs in 2012.
e) Please recalculate the carrying charges to provide carrying charges specific to only those lost revenues associated with the LRAM amount for persisting 2010 CDM savings in 2011. Do not include any lost revenues associated with 2011 CDM programs in this calculation.

f) Please provide separate rate riders specific to THI's requested LRAM amount for persisting lost revenues from 2010 CDM programs in 2011 (and 2012 if THI updates its application based on the interrogatories above). Do not include any LRAMVA amounts associated with 2011 CDM programs in the LRAM rate riders.

9.0-Staff-10

Ref: Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003), Section 13: LRAM
Ref: Chapter 2 of the Filing Requirements for Electricity Transmission and Distribution Applications, Last Revised on June 28, 2012, Section 2.7.10: CDM Costs
Ref: Ex. 9/T. 5/Sch. 1/Att. 2, Third Party Report

THI has requested recovery of an LRAMVA amount for 2011 lost revenues from 2011 CDM programs in the total amount of $16,783, not including carrying charges. THI has requested recovery over a one-year period.

THI has also included a request for approval of $662 in carrying charges associated with the entirety of its lost revenue request, inclusive of both LRAM amounts for persisting savings from 2010 CDM programs in 2011 and 2011 CDM program savings in 2011.

a) Please discuss why THI has multiplied its kW savings in Input Table Five – 2011 Programs (kW) by a certain number of months. Please discuss the appropriateness of this multiplier and how THI decided on the number of months to multiply its savings by.
b) Please provide an updated Input Table Five with the kW savings not multiplied by a value for "months".
c) Please recalculate the carrying charges included in the application for only those lost revenues associated with the LRAMVA amount for 2011 CDM program savings in 2011. Do not include any lost revenues associated with persisting 2010 CDM programs in this calculation. Please provide two versions of the carrying charges, one with the request as found in THI's application, the other using the updated Input Table Five amount as requested in (b) above.
d) Please provide separate rate riders for THI's requested LRAMVA amount associated with 2011 CDM programs. Do not include any LRAM amounts for persisting 2010 CDM programs in the LRAMVA rate riders. Please provide two versions of the rate rider calculations, one associated with the LRAMVA amount ($16,783) requested in THI's application, the other using the updated Input Table Five amount as requested in (b) above.