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September 12, 2008

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
EB-2007-0776
Newmarket – Tay Power Distribution Limited – Newmarket Service Area –
2008 Electricity Distribution Rate Application

Please find enclosed the interrogatories of the Vulnerable Energy Consumers Coalition in the above-noted proceeding.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

cc: Mr. Iain Clinton
Newmarket – Tay Power Distribution Limited

Newmarket-Tay Power Distribution Ltd. (Newmarket-Tay)
2008 Electricity Rate Application
(Newmarket Service Area)
Board File No. EB-2007-0776

VECC's Interrogatories

Question #1

Reference: Exhibit 1.1.1, page 4 and Exhibit 1.1.4, pages 23-24

- a) Please confirm that Newmarket-Tay is not requesting Board approval of any new deferral or variance accounts apart from those listed as items (l) and (m) on pages 23-24. If this is not case, please describe all new variance/deferral accounts requested, including the rationale for the accounts.
- b) Please indicate where in the Application Newmarket-Tay has provided an explanation as to the reasons for each of the two new deferral accounts it is requesting. If not provided as part of the current Application, please provide the following for each of the new accounts requested:
 - A description as to the purpose of the account (i.e., why is it needed)
 - An explanation as to precisely what costs/revenues will be recorded in the account
 - A draft accounting order for the account.
- c) Has Newmarket-Tay received the interim approval requested under item (b) – page 23? If not, what is the status of the request?

Question #2

Reference: Exhibit 1.1.5, page 25 and Exhibit 1.1.12

Preamble: Exhibit 1.1.5 states that “the Applicant proposes to maintain separate rates for the two service areas for four years”. It also states that the current application represents the requirements of the old Newmarket Hydro service area and that a separate filing will be made for the Tay service area.

- a) For 2008, does Newmarket-Tay operate the two service areas as if they were fully separate utilities? If not, in what areas are costs incurred jointly on behalf of both service areas?
- b) Does Exhibit 1.1.12 represent the organization for the Newmarket service area?
 - If yes, will any of the organizational units set out there provide services to the Tay service area in 2008 and, if so, how have the associated costs of those services been identified and removed from the application?
 - If no, how have the costs associated with the Newmarket service area been determined?
- c) With respect to Exhibit 1.1.12, please provide the equivalent chart for Tay Hydro. Does each service area have its own President, CFO and COO?

Question #3

Reference: Exhibit 1.1.10, page 32 and Exhibit 1.3.2, pages 52-53

- a) Please confirm that the Newmarket service area is not (itself) an embedded distributor. If this is not the case, please explain.
- b) Please explain the reason why costs were previously reported in Account 1550 and why the Applicant is proposing to close the account.

Question #4

Reference: Exhibit 1.1.13, pages 34-35 and Exhibit 4.2.5, page 111

- a) Newmarket-Tay Power Distribution Ltd's 2007 Financial Statements (page 12) make reference to transactions between the distribution company and its majority shareholder. Please provide a listing of all services and their associated costs provided to Newmarket-Tay Power Distribution Ltd. by either Newmarket Hydro Holdings Inc. or Tay Hydro Holdings Ind. in 2007. Please also provide the forecast values for 2008.
- b) Please provide a listing of all services and their associated costs provided by Newmarket-Tay Power Distribution Ltd. to either Newmarket Hydro Holdings Inc. or Tay Hydro Holdings Ind. in 2007. Please also provide the forecast values for 2008.
- c) Please provide the Service Agreements between Newmarket-Tay Distribution and the two Holding Companies.

Question #5

Reference: Exhibit 1.2, page 39

- a) Please explain how spreading a decrease in revenue requirement to the other customer classes increases the revenue to cost ratios for these other customer classes.

Question #6

Reference: Exhibit 1.2.3, page 46

- a) Please provide a schedule that sets out the calculation of the 2008 test year revenues at existing (2007) rates and show the rates and volumes used by customer class and the resulting revenues.
- b) Please confirm that Newmarket's currently approved distribution rates do not include a smart meter rate adder. If they do, please indicate what it is.
- c) If Newmarket's currently approved distribution rates include a smart meter rate adder, please re-do part (a) excluding the smart meter rate adder from the currently approved rates used to determine revenues.
- d) If the Newmarket service area is an embedded distributor, do the rates used in the revenue deficiency calculation include the LV Rate Adder? If yes, please re-do part (a) excluding the LV Rate Adder (and the Smart Meter Rate Adder, if applicable).

Question #7

Reference: Exhibit 1.2.4, page 47

- a) Please provide the 2008 rate base associated with Smart Meter and TOU costs in the Revenue Requirement.
- b) Are the costs reported all associated with provision of "minimum functionality"? If not, please describe what aspects of the Newmarket-Tay Smart Meter (and TOU) program exceed minimum functionality and what the associated 2008 costs are in terms of revenue requirement and rate base.

Question #8

Reference: Exhibit 1.3.1, page 48

- a) Please provide the April 2007 audited financial statements for Tay Hydro Electric Distribution Company.
- b) Please provide the 2006 audited financial statements for both Newmarket Hydro and Tay Hydro.

Question #9

Reference: Exhibit 2.1.3, page 59 and Exhibit 2.1.5, page 63

- a) Exhibit 2.1.3 indicates there were no additions for smart meters in 2006 while Exhibit 2.1.5 suggests there were \$294,833 in additions. Please reconcile.

Question #10

Reference: Exhibit 2.1.7, page 73

- a) Please explain the basis for the estimated \$400,000 in Land Rights (i.e., how was this value determined?)
- b) How old is the existing Leadbeater DS and what was the basis for the determination that it required a “full refurbishment”?
- c) What are the loadings on the existing stations that supply the south east portion of Newmarket, what is the anticipated load growth in the area and what are the dates at which the existing stations will not be able to reliably meet the area’s load?

Question #11

Reference: Exhibit 2.1.7, page 77

- a) Please confirm whether Newmarket-Tay will have fully completed its Smart Meter installation program in 2008. If not, how many installations will be outstanding as of December 31, 2008?

Question #12

Reference: Exhibit 2.1.7, page 78

- a) Please explain Newmarket-Tay's policies/practices with respect to vehicle replacement? Are vehicles automatically replaced when they are fully depreciated? If so, why?
- b) Are there any efficiency gains in terms of rolling stock and equipment requirements as a result of the merger of Newmarket Hydro and Tay Hydro? If not, why not? If yes, how are these reflected in the 2008 capital spending?

Question #13

Reference: Exhibit 2.2.1

- a) Please provide a comparable capital budget summary for actual 2006 and the 2007 bridge year.
- b) Please explain why there is a carry-over in capital spending of over \$1.5 M from 2007 to 2008.
- c) Please breakdown Newmarket's 2006, 2007 and 2008 capital spending on lines (overhead and underground) and stations between that required to sustain/replace existing assets and that associated with facilities required to address load growth.

Question #14

Reference: Exhibit 2.3.1, page 86

- a) Please provide a schedule breaking down the 2007 and 2008 Total Expenses for Working Funds Allowance into its components, including:
 - OM&A
 - Cost of Power (Commodity)
 - Transmission Costs
 - Wholesale Market Costs
- b) With the respect to the Cost of Power (commodity) component, please provide a schedule that sets out the calculation of the 2007 and 2008 values, showing the volumes and commodity rates assumed for each year.

- c) With respect to the Transmission Cost component, please provide a schedule that sets out the calculation of the 2007 and 2008 values, showing the volumes and transmission rates assumed for each year.

Question #15

Reference: Exhibit 3.1.2, page 88 and Exhibit 2.2.1, page 81

- a) Prior to 2008, was the customer count for USL included in GS<50? If not, how was USL treated prior to 2008? Please provide the historic customer count values for 2006 and 2007 for the USL customers.
- b) Please reconcile the Commercial/Industrial customer additions for 2008 reported on page 81 with the 2008 over 2007 customer count changes for the GS class.

Question #16

Reference: Exhibit 3.2, pages 90-93 and Exhibit 3.1.2, page 88

- a) Please reconcile the 2008 residential average use value of 9,964 kWh (per page 91) with the 9,862 value (per page 88). Which value is used to derive the proposed rates?
- b) With respect to the CDM savings set out on page 92:
- Please confirm that the kWh savings account for free-ridership
 - Please confirm that the Lighting-related savings assume continued replacement with similar energy savings lights. What is the basis for this assumption?
 - Please provide Newmarket's CDM filings to the Board. If not included in the filings, please indicate the basis for the savings estimates for each program and whether the estimates were subject to third party audit.
- c) With respect to the OPA program reductions (page 93):
- Please provide the OPA documents (and page references) for each of the OPA programs.
 - Please provide a schedule showing the derivation of the savings for each program as attributed to the Newmarket service area.
 - Did Newmarket approach the OPA to determine the actual level of participations by its customers in the OPA programs? If not, why not?
 - Given Newmarket's significant growth in new customers with new appliances, etc., why is it reasonable to assume that participation in

OPA programs aimed at Appliance retirement will be proportional to population?

Question #17

Reference: Exhibit 3.2, page 94 and Exhibit 3.1.2, page 88

- a) Do the 2006 and 2007 GS<50 kW consumption figures include USL customers? If so, please provide the 2006 and 2007 average customer counts, the total consumption by the class for each year and the average use per customer excluding USL customers and their loads.
- b) What was weather normalized average use per customer values for the GS<50 class (excluding USL) as developed for EB-2006-0247 (i.e., the Cost Allocation Informational filing)?
- c) Please provide a schedule showing precisely how the 2008 average use value for GS<50 was derived using the 2007 actual value as the starting point. Please provide the rationale each adjustment.
- d) What is the basis for the 2008 USL customer count forecast? If it is assumed to be the same as 2007, please explain why.

Question #18

Reference: Exhibit 3.3.1, page 96

- a) Please explain why the revenues from the SSS Administration charge are forecast to decline in 2008.

Question #19

Reference: Exhibit 2.1.3, page 59

- a) There are no asset values reported for buildings, etc.. Does Newmarket rent/lease all of its required office space and garage space for storage of vehicles, etc.?
- b) If the answer the answer to the previous question is no (i.e., there are asset values):
 - Where are the assets values for these facilities reported?
 - Are any of the facilities for which capital costs are included used to house staff or equipment that support the Tay service area? If so, how

are the costs attributable to the Tay service area determined and removed?

- c) If the answer to part (a) is yes:
- Where are the lease/rental costs capture in the forecast OM&A?
 - Are any of the facilities for which OM&A costs are included used to house staff or equipment that support the Tay service area? If so, how are the costs attributable to the Tay service area determined and removed?

Question #20

Reference: Exhibit 4.2.1, page 103 – Operations and Maintenance

- a) Please explain the significant increase in 2008 for O/H Line Operation – Supplies & Expenses.
- b) Please explain the almost doubling of O/H Distribution Transformer Operation expense for 2008.
- c) Please explain the almost doubling in 2008 of O/H Distribution Lines Operation – Rentals Paid.
- d) Please explain the almost doubling in 2008 of sub-station maintenance.

Question #21

Reference: Exhibit 4.2.1, page 103 and pages 106-108 – Billing and Collecting

- a) What is the cost in 2008 for reading meters?
- b) Is the cost of reading meters declining in 2008 relative to 2007? If so, by how much?
- c) When will meter reading be eliminated as result of the full implementation of Smart Meters?
- d) Please explain the reason for the roughly 50% increase in bad debt expense for 2008.
- e) What are the total OM&A costs associated with Smart Meters (and TOU) for 2008?

- f) Please provide a breakdown of the various elements of the Smart Meter OM&A costs for 2008 and indicate which ones are one-time versus ongoing cost. For those that are deemed to be ongoing costs, please explain why.
- g) Please explain why there is a provision for interest expense on customer deposits? Doesn't Newmarket earn interest on the customer deposits that it holds?

Question #22

Reference: Exhibit 4.2.1, pages 109-111

- a) What was the reason for the 2007 increase in building rent (Account 5670)?
- b) Page 109 makes reference to the allocation of management time to the Tay Hydro division. Please indicate all accounts where a portion of the costs were assigned to the Tay Hydro division.
- c) In each case, was total number of customers used to perform the allocation and, if so, why? If not, what other allocators were used and why were they adopted? Please provide a schedule showing the allocation of costs for 2007 and 2008 between service division (by Account) and the allocation base used in each case.
- d) With respect to Account 5655, please provide a schedule that for the years 2006-2008 provides a detailed breakdown. At a minimum please indicate the OEB fees, the fees to Other Organizations and Other Purchased Services related to Regulatory activities.
- e) With respect to Account 5655, what are the additional anticipated budget expenses in 2008 for regulatory support (i.e., what are the costs and what activities do they support)?.
- f) Please provide the total 2008 costs include in the Application that are related to the preparation of the 2008 Rate Application. Are they all reported under Account #5655? If not, please explain where the costs are included.

Question #23

Reference: Exhibit 4.2.6, page 112 and Exhibit 4.2.2, page 109

- a) Newmarket-Tay does not appear to use Account 5630 (per page 109). Please explain where the purchased services reported on page 112 are included in the Applicant's reported costs.
- b) For each of the services listed on page 112, please provide the forecast 2008 expenses included in the Application.

Question #24

Reference: Exhibit 4.2.7, pages 113-117

- a) Please confirm whether the compensation costs reported on pages 114-116 are prior to any allocation of cost to the Tay service area. If not, what are the total costs and FTEs prior to such allocation?

Question #25

Reference: Exhibit 4.2.8, page 117

- a) How were 2008 depreciation charges determined for in-service asset additions during 2008?

Question #26

Reference: Exhibit 4.2.9, page 118 and Exhibit 9.1.4, page 152

- a) Can Newmarket-Tay explain the reason for the decrease in the TLF to 2.987% in 2007?

Question #27

Reference: Exhibit 4.3, pages 119-120

- b) Please revise the Ontario Capital Tax calculation to reflect the reduction in capital tax rates per Bill 44 which received Royal Assent on May 14, 2008.
- c) The amortization charges shown here total \$4,337,658. However, the amortization used in the revenue requirement determination (reported in Exhibit 1.2.3) is reduced by \$338,937. Please reconcile

Question #28

Reference: Exhibit 5.1 and 5.1.1, pages 127-133

- a) Please indicate the basis for the carrying charges calculated for the various deferral and variance accounts and confirm that they calculated in accordance with the OEB's guidelines.
- b) Please confirm that the 2006 balances reported for the various deferral and variance accounts are based on Newmarket's 2006 audited statements.
- c) Are the 2007 reported balances all based on audited results?
- d) For Account 1518, please provide a continuity schedule for all historic years contributing to the current balance and report separately the incremental costs and the related revenues.
- e) For Account 1525, please confirm that the \$75 refund cheques were all issued prior to January 1, 2003 and indicate how many cheques were issued.
- f) For Account 1548, please provide a continuity schedule for all historic years contributing to the current balance and report separately the incremental costs and the related revenues.
- g) For Account 1556, were the activities related to these costs considered (and approved) by the OEB as part of the Board's review of Newmarket's Smart Meter program/costs? If yes, please provide the relevant Decision references, the costs approved by the Board and the related timeframe for this activity.
- h) For Account 1570:
 - Please confirm that to qualify for the "Minimum Review" a distributor must elect to accept 90% of reported transition costs (Account 1570) or \$60 per customer (based on 2003 data), whichever is less.
 - Based on \$682,610 cost and Newmarket's 2003 customer count, what were its per customer transition costs.
 - The Board's Decision on Regulatory Assets (December 2004) set out a number of requirements that distributors must meet in order to recover their Transition costs (paragraphs 10.0.5 and 10.0.9). Please indicate where in the Application each of the requirements has been provided and/or provide the necessary information as part of the response to this question.

Question #29

Reference: Exhibit 5.1.1, page 131 and Exhibit 9.1.2, page 150

- a) Please explain how the addition of MDMR charges and the elimination of the “Transmission Rights Clearing Account Credit” will both increase the costs posted to this account.
- b) If MDMR costs are addressed through this account why does Newmarket-Tay require a new deferral account for the Provincial Meter Data Repository expenses (per page 24)?
- c) Please confirm that on page 150, MDMR refers to Meter Data Management and Repository. Also, what is the basis for the assumed \$25,000 monthly charge?

Question #30

Reference: Exhibit 5.1.2, page 134

- a) Please provide a schedule that sets out for each deferral/variance account where the Applicant is seeking approval to recover the balance:
 - The proposed balance to be recovered (including carrying charges)
 - The method of allocation to customer classes
 - The values of the allocation factor
 - The resulting allocation of the balance to customer classes
- b) Base on the results from part (a) please show the determination of the rate rider that will recover the total recovery amount allocated to each customer class.
- c) Please reconcile the total of the balances in the various deferral/variance accounts Newmarket-Tay is seeking to clear with the \$2,485,132 recovery amount set out on page 134.

Question #31

Reference: Exhibit 6.1.1 and 6.1.2, page 136

- a) In accordance with the Board’s direction, Newmarket-Tay is proposing a 53.3% debt ratio for 2008 as it transitions to the 60% target debt ratio. However, the Applicant is proposing that the 53.3% be deemed to be 52% long-term debt and 1.3% short-term debt. What is the basis for this assumption as opposed to a debt composition of 49.3% long-term and 4.0% short-term?

- b) Please re-do the cost of capital calculation (Exhibit 6.1.2) assuming 4% short-term debt and 49.3% long-term debt.

Question #32

Reference: Exhibit 7.1 and 9.1

- a) Please provide a schedule that updates the proposed revenue requirement to reflect any changes or corrections Newmarket-Tay has identified as a result of the interrogatory process and now proposes to adopt in its Application. In each case, please identify the change and reference the relevant interrogatory response.

Question #33

Reference: Exhibit 8.1, page 139

Preamble: A number of distributors who filed for 2008 rates based on a cost of service application have expressed concerns regarding the OEB's Cost Allocation Model treatment of the transformer ownership allowance credit. An example of this can be found in the Guelph Hydro Application at Exhibit 8, Tab 1, Schedule 2, page 2

(http://www.rds.oeb.gov.on.ca/webdrawer/webdrawer.dll/webdrawer/rec/30258/view/Guelph_APPL_2008EDR_20080226.PDF)

- a) Does Newmarket-Tay agree with this alternate view as to how the transformer credit should be treated? If not, why not?
- b) Please re-do the Cost Allocation model as presented in Appendix 2, with the following changes:
- Remove the transformer allowance as a "cost"
 - For those classes where customers receive a transformer ownership credit – use the customer class revenues net of the credit.
- Note: It is only necessary to provide Sheet O1 from the run.

Question #34

Reference: Exhibit 8.1, page 141 and Appendix 2

- a) Please confirm what year the cost, revenue and load data used in the Cost Allocation filing was based on.

- b) Please explain why the Total Revenue reported in Sheet O1 (Appendix 2) of \$14,244,657 does not equal the Total Revenue Requirement (\$14,564,174).
- c) Please explain how the Revenue to Cost Ratio values in Sheet O1 were determined. Using Residential as an example, please provide an illustrative calculation.
- d) The “Revised Rev to Exp %” values shown on page 141 apply cost shifts (based on 2008 costs) to the Cost Allocation informational filing which is based on a different year’s costs and loads. Why is the mixing of different years’ data appropriate?

Question #35

Reference: Exhibit 8.2, page 142

- a) Why is Newmarket-Tay proposing to increase the fixed charge for GS<50 given the current rate falls within the Board’s range?
- b) Why is the proposed increase in the GS<50 fixed charge almost 20% when the increase in rates is less than 6% for the utility overall?
- c) Why is Newmarket-Tay proposing to decrease the fixed charge for USL given the current rate falls within the Board’s range?

Question #36

Reference: Exhibit 8.3, page 143

- a) Please confirm that the OEB’s Cost Allocation Model allocates the “cost” of the distributor’s line transformers to customer classes based on the loads in each customer class that “use” the transformers. If this is not the case, please explain why.

Question #37

Reference: Exhibit 9.1, page 145

- a) Why (under the first approach) did Newmarket-Tay allocate the shortfall to customer classes using the variable rate only as oppose to the % of total distribution revenues at existing rates?

- b) Please re-do the second table on page 145, such that the total revenue requirement (\$14,436,325) is allocated to classes base on the percentages shown in the first table (i.e., revenue distribution at current rates)

Question #38

Reference: Exhibit 9.1, page 146

Preamble: In a number of its 2008 Rate Decisions the Board has required that distributors increase the revenue to cost ratios for those classes that are below the prescribed range to as to reduced the difference by 50% (Again, see the Guelph Hydro decision, page 25). Adopting this approach would lead to 2008 revenue to cost ratios for the Street Lighting ad Sentinel Lighting classes of 39.68% and 54.81% respectively.

- a) Starting with the results from 37 (b) – above – please re-do the allocation of revenues such that the Street Lighting and Sentinel Lighting revenue to cost ratios achieve the above percentages. The additional revenues should be applied so as to:
- First, reduce the ratio for USL to 120% and, then
 - Any remaining surplus revenue should be applied to both the USL and GS>50 classes.
- Note: For this calculation there should be no change to the revenue allocation %'s used for residential and GS<50.
- b) Please comment on the bill impacts that would result if rates were developed using the class revenue requirements developed in response to part (a).

Question #39

Reference: Exhibit 9.3.1, pages 160-162

- a) a) Based on a recent 12 consecutive months of actual billing data, please indicate the percentage of total residential customers that:
- Consume less than 100 kWh per month
 - Consume 100 -> 250 kWh per month
 - Consume 250 -> 500 kWh per month
 - Consume 500 -> 750 kWh per month

Question #40

Reference: i) General

- a) Please provide copies of all Board Decisions pertaining to Newmarket Hydro's or Tay Hydro's rates issued since December 31, 2000.