

**Board Staff Interrogatories for  
Newmarket – Tay Power Distribution Ltd.  
Regarding the 2008 Electricity Distribution Rates  
Application for its Newmarket Service Area  
EB-2007-0776**

Board Staff interrogatories for the application from Newmarket – Tay Power Distribution Ltd. (Newmarket – Tay) for its Newmarket Service Area are as follows.

**General**

1. The Applicant states in its covering letter that as of May 1, 2007 Newmarket Hydro and Tay Hydro merged their operations to become Newmarket – Tay Power Distribution Ltd. Despite this merger, the present application is for rates only in its Newmarket service area. Please provide an explanation as to why the application does not cover the entire operation of Newmarket – Tay Power Distribution Ltd. including the Tay service area. In addition to any plan regarding the harmonization of the rates between the two service areas, what plan does the applicant have to present both the Tay component and the complete distributor's operation?
2. Please provide the cost allocation methodology used to allocate costs between the Newmarket and Tay service areas.

**Capital Related**

**Rate Base, Capital Budget (excluding Smart Meters) and Asset Management**

3. Ref: Exhibit 2.1.3 – Fixed Asset Continuity Schedule

Please provide Exhibit 2.1.3 in the following format.

[illegible]

4. Ref: Exhibits 2.1.3 and 2.1.4 – Rolling Stock and Equipment

In Exhibit 2.1.3, Newmarket - Tay shows increases (additions less write-offs/retirements) of \$90,391 in 2006, \$139,883 in 2007 and \$843,080 in 2008. Explanations in Exhibits 2.1.4 describe these as being attributable to replacement of fully depreciated vehicles. For 2008, Newmarket - Tay is forecasting the following vehicle replacements, as documented on page 78:

Fully depreciated bucket truck (\$280,000)  
Fully depreciated RBD line truck (\$350,000)  
Fully depreciated Dump Truck (\$70,000)  
2 fully depreciated pickup trucks (\$94,000)

- a) Please describe Newmarket - Tay's policy for determining when vehicles need to be replaced.
- b) What other options did Newmarket - Tay consider before deciding that replacement of all of these vehicles in 2008 was necessary and prudent?
- c) Are the vehicles which Newmarket - Tay is including in this application dedicated to serving customers in the Newmarket service area? If not, has Newmarket - Tay allocated the costs between the Newmarket and Tay customer bases for recovery?

5. Ref: Exhibits 2.1.3 to 2.1.7 – Overhead and Underground Line and Cable Replacement, Asset Condition and Asset Management

In Exhibits 2.1.3 through 2.1.7, Newmarket - Tay has documented ongoing capital expenditures for replacement of overhead and underground line and cable replacement. For underground cable, Newmarket - Tay states that "Cable has deteriorated beyond repair and must be replaced."

- a) Please provide documentation, including any recent Asset Condition Assessment studies, that Newmarket - Tay has conducted and relied on to identify the need for replacement of overhead and underground lines.

- b) Please provide information on Newmarket - Tay's service reliability in the service area of Newmarket which supports and has been considered by Newmarket - Tay in deciding to and prioritizing the overhead and underground replacements documented from 2006 to 2008.
- c) Please provide options that Newmarket - Tay has considered rather than full replacement of overhead and underground lines.
- d) Please describe Newmarket - Tay's business practice for conducting asset condition assessment.
- e) Please describe Newmarket - Tay's practices, including Asset Management practices, for incorporating asset condition information into its budgeting and prioritization plans for operating and capital expenditures.

6. Ref: Exhibit 2.1.7 – 2008 Fixed Asset Details – Municipal Transformer Stations

Under account 1820, Newmarket - Tay documents \$981,700 of capital expenditures for this account in the 2008 test year, primarily driven by \$440,000 for refurbishment, including replacement of 13.8 kV and 44 kV metal clad enclosures at the existing Leadbeater D.S., and \$483,000 for a new 10 MVA Bogarttown D.S. to accommodate load growth in southeastern Newmarket.

- a) Please provide further information on the Leadbeater D.S. replacement project, including the age and net book value of the station assets, the condition of assets and the factors that have contributed to the need for refurbishment at this time.
- b) Is Newmarket - Tay receiving contributions in aid of construction from the customers to be served from Bogarttown D.S.? Why or why not? If contributed capital is being provided, please document the amount.

7. Ref: Exhibit 2 – Rate Base and Capital Expenditures

Please provide information for the period 1999 to 2008 (forecasted test year) in the following table format:

[illegible]

## Working Capital Allowance

8. Ref: Exhibit 2.3 – Working Capital Allowance

Please provide a detailed schedule showing, at account level, all cost of power and controllable expenses that add to the Total Expenses for Working Funds Allowance.

## Cost of capital

9. Ref: Exhibit 6.1.1 – Capital Structure

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 states in section 2.2.2 that there will be a deemed short-term debt component of 4% in the deemed capital structure.

- a) Please explain Newmarket - Tay's reasons for assuming a transition for the short-term debt component of the deemed capital structure for rate-setting purposes.
- b) Please provide the calculation of the cost of capital for the 2008 test year according to the following table:

Weighted Average Cost of Capital			
	Component	Rate	Component X Rate
Long-term Debt	49.30%		
Short-term Debt	4.00%		
Equity	46.70%		
Preference Shares			
Total	100.00%	WACC =	

10. Ref: Exhibit 6.1.2, 6.2, and Audited Financial Statements

In Exhibit 6.2, Newmarket - Tay documents its long-term debt as follows:

The Applicant long-term debt rate consists of an unsecured Promissory Note in the amount of \$22,000,000 with the Town of Newmarket. This note was initially

issued on November 1, 2001. The interest rate on the debt when issued was 7.25% and the current rate is now 6.1%. This rate reflects the OEB's deemed long-term debt rate.

In the Table in Exhibit 6.1.2, Newmarket - Tay shows long-term debt of \$28, 775,757.

Appendix 3 contains Audited Financial Statement with Notes ("AFS") corresponding to Newmarket Hydro for the period January 1 to April 30, 2007 and for Newmarket - Tay for the period May 1 to December 31, 2007.

Note 11 of Newmarket Hydro's January 1 to April 30, 2007 AFS documents long-term debt as follows:

The note payable is an unsecured promissory note to the Town of Newmarket. The note bears interest at a deemed rate as permitted by the Ontario Energy Board. The rate for April 2007 was 6.25% (2006 – 7.25%). Changes to the terms of the note require 13 months notice. The note has been subordinated to the IESO letter of credit referred to in Note 15.

Note 10 of Newmarket - Tay's May 1 to December 31, 2007 AFS list three long-term debt instruments:

	\$
Note payable, 6.25% - Town of Newmarket	22,000,000
Note payable, 6.25% - Township of Tay	1,742,821
Debenture payable – Township of Tay	436,000
	24,178,821
Less principal payments due within one year	200,000
Due beyond one year	23,978,821

The Note also states:

The notes are unsecured and have no specific terms of repayment. Changes to the terms of the notes require 13 months notice. The notes are subordinated to IESO letters of credit referred to in Note 18.

The debenture is payable to the Township of Tay and bears interest at rates of 5.05% to 6%. Principal payments are due annually May 31 until 2009.

- a) Please provide copies of the current notes payable to each of the Town of Newmarket and the Township of Tay.
- b) Please confirm that the debenture payable to the Township of Tay is retired effective May 31, 2009, and identify the current interest rate payable on the debenture.
- c) Please reconcile the long-term debt documented in Note 10 of Newmarket - Tay's May 1 to December 31, 2007 AFS \$24,178,821 versus \$22,000,000 documented in Exhibit 6.2 and \$28,775,757 long-term debt shown in Exhibit 6.1.2. Please update Exhibit 6.2 and the table in 6.1.2 if necessary.
- d) Please explain why Newmarket - Tay believes that cost of capital for determining distribution rates for the Newmarket service area should not be set on a corporate basis, reflecting all long-term debt of Newmarket-Tay.

## Depreciation

### 11. Ref: Exhibit 4.2.8 – Depreciation Expense

Newmarket - Tay has documented the following as its depreciation expense by year.

Year	2006 Historical	2007 Bridge	2008 Test
Depreciation Expense	(\$3,571,475)	(\$3,708,810)	(4,337,658)

Newmarket - Tay further states:

The Applicant follows the OEB's guidelines as outlined in the Accounting Procedures handbook. The following is a schedule of the depreciation account. Please see Exhibit 3 for amortization schedules by asset class – a detailed chart of each is included.

Exhibit 3 of the application covers Operating Revenues and does not appear to contain the detailed documentation. Please provide a detailed schedule of the derivation of the depreciation expense for each year, by asset class and total, showing the amortization rate used and the calculation of the amortization/ depreciation expense.



## **Taxes (PILs)**

12. Ref: Exhibit 4.3 – Taxes/PILs

For each of the years 2006 and 2007, please provide the following:

- a) Newmarket - Tay's (or its predecessor utilities') actual Federal T2 tax returns and supporting schedules;
- b) Newmarket - Tay's (or its predecessor utilities') actual Provincial CT23 tax returns and supporting schedules;  
Notices of Assessment; and

Notices of Re-assessment(s), if any, including Statement of Adjustments, received from the Ministry of Finance for each tax year.

13. Ref: Exhibit 4.3 – Taxes/PILs

Please explain the entry of \$965,000 for the “Loss on disposal of fixed assets” shown as an add-back for the 2007 bridge year.

14. Ref: Exhibit 4.3 – Taxes/PILs

Please recalculate the 2008 PILs allowance to reflect the following:

Deemed capital structure of 46.7% equity, 4% short-term debt and 49.3% long-term debt.

ROE of 8.57%, short-term debt rate of 4.47% and long-term debt rate of 6.10%.

Federal tax rate of 33% and tax rate of 0.225% for Ontario Capital Tax.

15. Ref: Exhibit 4.3 PILs

As noted in the application, Newmarket - Tay was formed through the merger of Newmarket Hydro and Tay Hydro effective May 1, 2007.

- a) Please identify any non-distribution activities within Newmarket -Tay.

- b) Please provide an Excel spreadsheet that shows Newmarket - Tay's 2007 T2 federal Schedule 1 tax return data allocated between the Newmarket and Tay service areas, plus the total.
- c) Please provide an Excel spreadsheet that shows the calculation of the federal T2 taxable income, starting with net income for tax purposes as shown in T2 Schedule 1, and allocate each of the tax return items between the Newmarket and Tay service areas. Please show the calculation of income tax PILs.
- d) Please provide an Excel spreadsheet for the calculation of Ontario CT23 taxable income and income tax PILs allocated between the Newmarket and Tay service areas.
- e) Please provide an Excel spreadsheet that shows the allocation between the Newmarket and Tay service areas of Undepreciated Capital Cost and Capital Cost Allowance, from federal T2 Schedule 8.
- f) Please provide an Excel spreadsheet that allocates the Ontario capital tax, as filed in the CT23 return, between the Newmarket and Tay service areas.
- g) Please provide an analysis for Cumulative Eligible Capital (CEC) and the deductions claimed.

### **Smart Meters**

16. Ref: Exhibit 5.1.1 / page 130. Smart Meter OM&A expenses

Newmarket - Tay is requesting disposition of \$49,914 as the balance as of December 31, 2007 being tracked in deferral/variance account 1556.

Newmarket - Tay states that this is the cost of meter bases that had to be converted in order to install smart meters. Please identify the number of meter bases replaced and the average cost per meter base replaced or refurbished.

17. Ref: Exhibit 2 – Rate Base: Smart Meter installations

Newmarket - Tay was an applicant utility whose costs for smart meters installed were reviewed in the combined smart meter proceeding conducted under file

number EB-2007-0063. The Board's Decision with Reasons was issued on August 8, 2007. In that Decision, the Board approved costs of \$2.111 Million for capital expenditures and \$0.237 Million for operating expenditures related to smart meters installed to June 8, 2007. The approved smart meter costs relate to 19,000 smart meters installed to that date in the Newmarket service area. There were no costs and no installed smart meters for the Tay service area as reviewed in that proceeding.

- a) Please provide the following for smart meters installed in the Newmarket service area:

		2006	2007		2008
			January 1 to June 8	June 9 to December 31	
Smart Meters Installed during period	(A)				
Cumulative smart meters installed	(B)				
Smart Meter Capital Costs					
- Meeting Minimum Functionality	(C)				
- Exceeding Minimum Functionality	(D)				
Smart Meter Operating Costs	(E)				
Per installed Meter Costs					
- Meeting Minimum Functionality	(F)=(C)/(A)				
- Total	(G)=[(C)+(D)]/(A)				

- b) Please provide a description of smart meter costs exceeding minimum functionality for each period. Please include a description of the benefits to Newmarket – Tay's Newmarket service area ratepayers of such functionality.
- c) For smart meter costs per installed smart meter meeting minimum functionality, please explain any variance in the per meter cost in the table above compared to the cost of \$123.59 per installed meter approved for Newmarket - Tay for the Newmarket service area in the combined smart meter proceeding EB-2007-0063.

- d) For smart meters installations for each of the following periods, please provide information in the format filed in Exhibit A9 Confidential by Newmarket - Tay for the Newmarket service area in the combined smart meter proceeding EB-2007-0063:
- i) June 9 to December 31, 2007;
  - ii) January 1 to August 31, 2008; and
  - iii) September 1 to December 31, 2008.

18. Ref: Exhibit 2.1.7 – 2008 Smart Metering Capital Expenditures

On page 77, Newmarket - Tay documents 2008 smart metering capital expenditures of \$1,696,019 in account 1860, and documents the primary drivers as follows:

Subdivision Development Program (Metering Component). The Developers pay a large share of these costs ranging from about 50% to 70% depending on the design of the installation. The 2008 gross costs for this category are expected to be \$125,000.

Completion of the Smart Meter installation program, primarily at small commercial customer locations. (\$1,550,000)

- a) Under the Subdivision Development Program (Metering Component), please clarify if Newmarket - Tay is stating that 50% to 70% of the procurement and installation costs for smart meters in new residential and small General Service developments (i.e. subdivisions) are paid for through contributions in aid of construction?
- b) Is this treatment the same as for conversion of existing residential and small general service customers? If not, please explain the reasoning for different cost recovery treatment.

## Operation and Maintenance Related

### OM&A Expenses – overall

19. Please confirm that Newmarket - Tay has not made changes to the company's accounting policies with 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. If any accounting policy changes or any significant changes in accounting estimates have been made, please provide supporting documentation and a discussion of the changes.
20. Ref: Exhibit 4 - Productivity  
Please identify any directives, programmes, or initiatives in the business planning process that are directed at productivity improvements or cost savings in the forecast test year. If there are any past programmes in the historical or bridge years, please describe these programmes and their outcomes.
21. Ref: Exhibit 4, Page 102 - Reconciliation  
Newmarket – Tay has provided the Summary of Operating Costs Table on page 102, which include the years 2006 through 2008. Staff has compared this table with the following table from Newmarket's RRR Filing. Please, with full explanation, provide a reconciliation between the two sets of information.

### Newmarket RRR Filing

Item		Col. 1 2007	Col. 2 2006	Col. 3 2005
<b>Staff Proposed Cost Centre Groupings</b>				
1	Total OM&A	\$5,804,941.99	\$5,081,302.00	\$4,901,766.85
2	Operation and Maintenance	\$1,837,041.92	\$1,662,771.00	\$1,718,329.85
3	Administration	\$3,916,100.52	\$3,380,826.00	\$3,170,686.00
4	Bad Debt Expense	\$ 51,799.55	\$ 37,705.00	\$ 12,751.00
5	Amortization Expense	\$3,677,282.87	\$3,259,164.00	\$3,001,408.00
6	<b>Total</b>	<u>\$9,482,224.86</u>	<u>\$8,340,466.00</u>	<u>\$7,903,174.85</u>

22. Ref: Exhibit 4, page 102 - Trends

In reviewing an application, the Board finds historical trends in expenditures of value. The following table was developed by Board staff using the information on page 102.

**OM&A Trends**

**Newmarket**

Item		Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7
		2006		2007		2008		
		Actual	Variance 2007/2006	Actual	Variance 2008/2007	Forecast	Variance 2008/2007	Variance 2008/2006
1	Operation & Maintenance	1,662,430	48,445	1,710,875	25,865	1,736,740	25,865	74,310
2			2.9%		1.5%		1.5%	4.5%
3	Billing & Collections	1,378,099	89,296	1,467,395	245,403	1,712,798	245,403	334,699
4			6.5%		16.7%		16.7%	24.3%
5	Community Relations	100,304	-28,597	71,707	-4,707	67,000	-4,707	-33,304
6			-28.5%		-6.6%		-6.6%	-33.2%
7	Administrative and General Expenses	1,793,844	77,223	1,871,067	93,415	1,964,482	93,415	170,638
8			4.3%		5.0%		5.0%	9.5%
9	Total Controllable Expense	4,934,677	186,367	5,121,044	359,976	5,481,020	359,976	546,343
10			3.8%		7.0%		7.0%	11.1%
11	Taxes other than income taxes	239,020	18,486	257,506	7,443	264,949	7,443	25,929
12			7.7%		2.9%		2.9%	10.8%
13	Other Operating Costs	4,944,163	-184,389	4,759,774	580,947	5,340,721	580,947	396,558
14			-3.7%		12.2%		12.2%	8.0%
15	Total Operating Costs	10,117,860	20,464	10,138,324	948,366	11,086,690	948,366	968,830
16							9.4%	9.6%

- Please confirm that Newmarket - Tay agrees with the table prepared by Board staff presented above. If Newmarket – Tay does not agree with the table please provide an explanation as to why Newmarket – Tay does not agree. If Newmarket – Tay determines that the table requires changes, please provide an amended table with full explanation of changes made.
- Newmarket -Tay has included in their Application the costs of implementing and operating smart meters. Please provide a similar table with the expenses for smart meters removed.

**Conservation and Demand Management**

23. Ref: Exhibit 4, General – CDM

The Applicant filed a Conservation and Demand Management Plan on November 10, 2004 as part of the third instalment of their incremental market adjusted revenue

requirement (“MARR”). In RP-2004-0203/EB-2005-0236 the Board granted approval of the plan, totalling \$1,267,010.

- a) Are there any costs associated with this MARR included in Newmarket’s proposed 2008 revenue requirement? If there are, please identify and explain.
- b) Are there any other incremental CDM costs included in the proposed 2008 revenue requirement? If there are, please identify and explain.

## Purchase of Services

24. Ref: Exhibit 4, page 112: - Purchase of Services

The Applicant has provided information concerning its purchase of services for 2006 and 2007 for contracts above a threshold of 0.5% of OM&A. In total, there has been a \$179,261 or 25% increase in the one year.

- a) Are any of these costs in the table on page 112 incurred for services rendered to Tay? If so, what is the amount, and explain how their portion is determined?
- b) Please provide a similar forecast of purchase of services for 2008 and include to which expense category they are allocated. If a forecast cannot be provided, please explain why.
- c) Please provide the total amount of 2006 and 2007 purchases and a 2008 forecast for contracts less than \$27,000. Are any of these costs incurred for Tay? If so, what is the amount, and is their portion determined?

## Employee Compensation

25. Ref: Exhibit 4, page 114 - Compensation

Board staff has compiled the following table from the information provided in the Applicant's table on page 114. This table determines the average wage change and the resulting percentage change by employee group.

### Newmarket - Tay Compensation

Item		Col. 1 2006	Col. 2 2007	Col. 3 2008
<b>Average Wage</b>				
1	Managem	101,721	105,749	108,921
2	Superviso	73,705	81,982	84,441
3	Non-union	46,448	48,073	49,515
4	Union	62,214	69,876	71,957
<b>Wage Change \$</b>				
5	Management		4,027	3,173
6	Supervisory		8,276	2,460
7	Non-union		1,625	1,442
8	Union		7,661	2,081
<b>Wage Change %</b>				
9	Management		4.0%	3.0%
10	Supervisory		11.2%	3.0%
11	Non-union		3.5%	3.0%
12	Union		12.3%	3.0%



On page 114 the explanation for increases states that "...the increases reflect existing contracts. They are 3.25% for 2007 and 3% per year through 2009."

Please explain the apparent discrepancy between this statement and the percentage changes determined in the table above. The reference is to contracts; however, it would be useful to explain why all groups exceed the 3.25%.

26. Ref: Exhibit 4, Page 114 - Compensation

For each of the three years provided:

- a) Please provide the percentage of the total compensation that is capitalized.
- b) Are benefits also capitalized? If so at what percentage.

27. Ref: Exhibit 4, page 116 - Incentive Plan

Newmarket – Tay state that a supervisor can earn an incentive of approximately 5% of base salary.

- a) Are any of the incentives associated with cost reductions or productivity improvements?
- b) Are there incentives or bonuses for management or executive levels?
- c) If there are management and/or executive incentives or bonuses, are they:
  - Associated with cost reductions of productivity improvements?
  - Associated with improved return on equity?

### **General Regulatory Costs**

28. Ref: Exhibit 4, page 110 - Regulatory Costs

The Applicant states that for account 5655, Administration Fees, that there are some additional budgeted expenses for regulatory support in 2008.

- a) Please provide a breakdown for actual and forecast regulatory costs, where applicable, for the 2006 actual, 2007 bridge year, and 2008 test year and present it in the format shown in the following table.
- b) Under "Ongoing or One-time Cost", please identify and state if any of the regulatory costs are a "One-time Cost" and are not expected to be incurred by the applicant during the impending two year period when the applicant is subject

to the 3<sup>rd</sup> Generation IRM process, or it is an “Ongoing Cost” and will continue throughout the 3<sup>rd</sup> Generation of IRM process.

- c) Please state Newmarket – Tay’s proposal on over what time period it intends to recover the “One-time” costs given that it will be using incentive rate adjustments for 3 years after this rebasing proceeding.

## Regulatory Cost Table

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

## Forecasting Related

### Weather Normalization

29. Ref: Exhibit 3.2/ pages 90-93

On page 91, the Applicant references the EB-2006-0247 cost allocation filing which provided the weather-normalized data for the current application. The Applicant also shows how, for the Residential customer class, weather normalization is taken into account by modifying the 2004 kWh average residential consumption (by including CDM and OPA conservation effects) to arrive at a 2008 estimate for this kWh/customer quantity. On pages 91-93, CDM and OPA conservation effects are calculated. On page 90, the kWh/customer quantity is multiplied by both the average number of Residential customers and the variable \$/kWh rate to determine the variable revenue for that class.

- a) Please provide the Hydro One report and any spreadsheets containing data supporting the calculation of the weather-normalized historical load.
- b) Please provide the calculations for the \$/kWh quantities for the other weather-sensitive classes in a format similar to that used on page 91 for the Residential class customers.
- c) Please confirm that the Applicant's separate estimates for CDM and OPA conservation effects are consistent with the Applicant's annual CDM report(s) and any other energy-saving reports the Applicant may have.
- d) Please comment on whether a 20-year trend analysis for weather normalization would provide a more accurate assessment of the impact of weather on consumption.

### Load Forecast

30. Ref: Exhibit 3/ pages 87 to 100

On page 88, in the second unnumbered table, the Applicant shows the average consumption for classes on a per customer basis. Also, on page 89, the Applicant explains that the increase in GS>50kW revenue is primarily due to a new municipal

recreation centre but this increase is expected to be offset by a significant downturn in the automotive manufacturing sector.

- a) Please reconcile the 2008 average consumption for Residential customers (9,862 kWh) with the 9,964 kWh value for Residential customers shown on page 91.
- b) Please provide details of the timing and start-up load profile of the new municipal recreation centre load and the timing and close-down load profile of the lost automotive manufacturing sector load.
- c) Please provide any data that demonstrates the accuracy of the Applicant's kWh forecasts over the past 5 years.

31. Ref: Exhibit 3/ pages 87 to 100

On page 90, the Applicant shows in the unnumbered table, the 2008 expected load (both kWh and kW) and revenue for the three customer classes that appear to use the kW charge determinant; i.e. GS>50kW, Street Lights and Sentinel Lights. No explanation is provided regarding the development of the kW loads for these three classes that account for approximately one third of the Applicant's revenue.

Please provide details for the development of the kW values shown in the table including the process and values used to establish any kWh/kW conversion factors that may have been used.

### **Customer Forecast**

32. Ref: Exhibit 3/ pages 87 to 100

On page 88 in the first unnumbered table, the Applicant shows the 2006, 2007 and 2008 kWh loads for the GS<50kW class to be increasing from each year to the next. In the third unnumbered table on page 88, the Applicant shows:

- (i) customer count for the Residential class to be increasing from 24,069 in 2007 to 24,569 in 2008;

- (ii) the customer count for the GS<50kW class to be 2,632, 2,674 and 2,642 for the years 2006, 2007 and 2008 respectively; and
  - (iii) the number of customers in the GS>50kW class to be increasing by 6 customers from 2007 to 2008.
- a) Please reconcile the quantitative changes in customer count for the GS<50kW class shown on page 88 with the explanation given on page 89, specifically; “The increases in both customer numbers and consumption are consistent between 2006, 2007, and estimated 2008”.
  - b) Please explain the circumstances that saw the customer count for the GS<50kW class increase by 42 from 2006 to 2007 but expect the customer count to drop by 32 from 2007 to 2008.
  - c) Please reconcile the 2008 average customer count for the GS<50kW class (i.e. 2,658 which is the mid-year average of 2,674 and 2,642 for 2007 and 2008 respectively) with the value of 2,620 shown in the unnumbered table on page 90.
  - d) Please reconcile the 2007 to 2008 increase of 6 customers in the GS>50kW class with the expected increase of 15 new 44kV system customers (referenced in various pages from 78 to 83).
  - e) Please provide any data the Applicant may have that demonstrates the accuracy of the Applicant's customer count forecasts over the past 5 years.

## **Revenue Forecast**

33. Ref: Exhibit 1.2.1/ page 44

On page 44, it states: “The Applicant uses historical consumption patterns, class growth rates and estimates from the Town of Newmarket as primary drivers to make informed projections of its revenue requirements.”

Please provide source references to the materials obtained from the Town of Newmarket and from any other external organizations.

34. Ref: Exhibit 3/ pages 87 to 100

On page 90, the Applicant shows in the unnumbered table, the 2008 expected load (both kWh and kW) and revenue for the three customer classes that appear to use the kW charge determinant; i.e. GS>50kW, Street Lights and Sentinel Lights. Also, for all six classes, the base revenue calculated is not necessarily the straight-forward multiplication of the values in the table but involves some form of approximation.

Please recalculate the base revenue values without any approximations; i.e. using only the input values in the table.

## Cost Allocation and Rate Design

### Cost Allocation and Rate Design

35. References:

Exhibit 8, Section 8.1, page 139

Appendix 2, 2006 Cost allocation Informational Filing, Sheet O1

Exhibit 8, Section 8.2, page 142

Appendix 2, 2006 Cost allocation Informational Filing, Sheet O2

Exhibit 9, Section 9.1, page 147

Exhibit 9, Section 9.3, pages 160-169

Exhibit 9, Section 1.2, page 39

The 1<sup>st</sup> reference provides a brief statement about the inclusion in the application of a revised version of the Cost Allocation Informational Filing caused by the removal of the Large User rate class.

The 2<sup>nd</sup> reference comprises Sheet O1 of the revised Cost Allocation Informational Filing.

The 3<sup>rd</sup> reference provides data on fixed or monthly service charges.

The 4<sup>th</sup> reference comprises Sheet O2 of the revised Cost Allocation Informational Filing.

The 5<sup>th</sup> reference provides the revenue requirement for each rate class.

The 6<sup>th</sup> reference provides bill impacts resulting from 2007 and proposed 2008 rates.

The 7<sup>th</sup> reference provides revenue to cost ratios for each rate class with respect to proposed rates for 2008.

- a) In the 2<sup>nd</sup> reference in the “Total” column, “Total Revenue” and “Revenue Requirement (includes NI)” are respectively shown as \$14,244,657 and \$14,654,174.

Please explain the difference given the fact that Revenue Requirement and Total Revenue would be intended to be the same.



- b) The “Revenue To Expenses %” is intended to be a ratio of Total Revenue and Revenue Requirement. Given the difference noted above, please explain why the ratio is shown as 100% in the total column.
- c) With respect to the “Revenue To Expenses %” for individual rate classes such as Residential, a division of Total Revenue (\$7,346,636) and Revenue Requirement (\$8,089,822) results in 90.8% versus 92.85% as provided in the 2<sup>nd</sup> reference. Please indicate which is correct. In the same fashion, please comment on the “Revenue To Expenses %” for the remaining rate classes.
- d) With respect to the Customer Unit Cost per month – Minimum System: Please explain the reason why this amount is different for every rate class when comparing the revised version of the Cost Allocation Informational Filing as shown in the 4<sup>th</sup> reference and the application as shown in the 3<sup>rd</sup> reference.
- e) In the 3<sup>rd</sup> reference, please explain why the “Ceiling” is shown as a higher dollar number than the Customer Unit Cost per month – Minimum System.
- f) With respect to the GS>50 rate class, please explain the sharp increase in the class revenue requirement expressed as a percentage of total revenue requirement, in the proposed structure (29.8% after adjustment for transformer allowance as shown in the 5<sup>th</sup> reference) compared to the structure in the revised Cost Allocation Informational Filing (20.5% deducted from the 2<sup>nd</sup> reference), given that the revenue to cost ratio has dropped to 139.4% (7<sup>th</sup> reference) in the former from 143.5% in the latter (2<sup>nd</sup> reference).
- g) With respect to the GS>50 rate class, please explain the method by which the transformer allowance (“GS>50 T/A”) of \$137,633 (5<sup>th</sup> reference) is allocated amongst the rate classes, including the rationale for doing this allocation.
- h) With respect to the GS<50 rate class, please explain the reason for the Monthly Service Charge proposed for 2008 as shown in the 6<sup>th</sup> reference being higher than the Customer Unit Cost per month – Minimum System, as shown in the 4<sup>th</sup> reference.
- i) With respect to the GS<50 rate class, as shown in the 6<sup>th</sup> reference comparing 2007 to 2008, please explain why the percentage increase in the monthly service

charge (19.3%) is greater than the percentage increase in the volumetric rate (2.9%).

- j) With respect to the GS<50 rate class, please provide a calculation of rates where the percentage increase in the monthly service charge is the same as the percentage increase in the volumetric rate and comment on how the resulting monthly service charge compares with the Customer Unit Cost per month – Minimum System.
- k) With respect to the Street Light rate class, please explain the reason for the Monthly Service Charge proposed for 2008 as shown in the 6<sup>th</sup> reference being higher than the Customer Unit Cost per month – Minimum System, as shown in the 4<sup>th</sup> reference.
- l) With respect to the Street Light rate class, the revenue to cost ratio has increased/improved from 9.36% in the Cost Allocation Informational Filing (2<sup>nd</sup> reference) to 23.33% in the proposal for 2008 (7<sup>th</sup> reference). In order to analyze the impact of further improvement, please provide a calculation of rates that would yield a revenue to cost ratio of 40% together with a total bill impact calculation.

### **Specific Service Charges**

36. References:

Exhibit 3, Section 3.3.4, page 98

Exhibit 3, Section 3.3.4.1, page 99

The 1<sup>st</sup> reference provides a list of currently approved and proposed specific service charges.

The 2<sup>nd</sup> reference provides information on non-standard specific service charge rates.

Please confirm that, with four exceptions, the proposed specific services charges as shown in the 1<sup>st</sup> reference are identical to standard charges in Schedule 11-3 of the 2006 EDR Handbook. In the four instances where the proposed charges are different from the levels shown in Schedule 11-3 of the 2006 EDR Handbook, please confirm that the proposed charges are lower than the standard charges.

## Loss Factor

### 37. References:

Exhibit 4, Section 4.2.9, page 118

Exhibit 9, Section 9.1.4, page 152

The 1<sup>st</sup> reference provides a brief statement on Newmarket-Tay's loss factor relating to the Newmarket service area.

The 2<sup>nd</sup> reference provides the current loss factor plus a calculation of actual total loss factors (TLF) for 2003 to 2007 and the weighted average for the 5-year period.

- a) With respect to the historical and average/proposed loss factors plus current loss factor provided in the table in the 2<sup>nd</sup> reference, please provide the historical and average loss factors in the framework of the 2006 EDR Handbook Schedule 10-5.
- b) The 4<sup>th</sup> column in the table titled "TLF%" suggests that the historical loss factors provided plus the loss factor proposed for 2008 (1.0346) are Total Loss Factors (TLF). If this is correct, for each TLF, please provide the underlying Distribution Loss Factors (DLF) and Supply Facilities Loss Factor (SFLF). If this is not correct, i.e. the loss factors provided are DLFs rather than TLFs, please provide the TLFs and SFLF.
- c) Similar to the above, please confirm if the current loss factor (1.0365) refers to TLF or DLF. If it is the former, please provide the underlying DLF. If it is the latter, please provide the TLF. In either case, please also provide the SFLF.
- d) Please confirm if the proposed and current loss factors refer to secondary metered customers < 5,000 kW.
- e) Please provide TLF's proposed for 2008 for each of secondary and primary metered customers > and < than 5,000 kW.

- f) Please confirm whether or not the proposed and current loss factors include losses incurred in the distribution network of a host distributor. If yes, please quantify such losses on a percentage basis.
- g) Please provide an explanation or rationale for proposing an average loss factor (1.0346 or 3.46%) for the test year 2008 rather than a lower loss factor such as the actual loss factor for 2007 (1.02987 or 2.987%).
- h) Please describe any steps that are contemplated to decrease the loss factor in the Newmarket service area during the test year (2008) and/or during a longer planning period.

## **Deferral and Variance accounts**

### **38. References:**

Exhibit 5, pages 127-134

Exhibit 9, Section 9.1.3, pages 151-152

Exhibit 1, Section 1.2, pages 40-42

Exhibit 1, Section 1.1.4, pages 23-24, items l) and m).

The 1<sup>st</sup> reference provides an overview and account specific details on deferral and variance accounts.

The 2<sup>nd</sup> reference provides a write-up on the integration of deferral account recovery in rate design.

The 3<sup>rd</sup> reference provides currently approved and proposed rates and charges.

The 4<sup>th</sup> reference provides a summary on the creation of two proposed new accounts.

- a) In both the 1<sup>st</sup> reference (page 134) and 2<sup>nd</sup> reference, the outstanding deferral account balance as of April 2008 is shown as \$2,604,905. The recovery amount between May 1, 2008 and April 30, 2011 under currently approved recovery rates is shown as \$3,823,280 and under proposed recovery rates is shown as \$2,485,132.

Please calculate and provide the date by which the outstanding balance of \$2,604,905 as of April 2008 would be fully recovered under current recovery rates.

Under proposed recovery rates (decrease of 33% over current recovery rates), the recovery amount (\$2,485,132) is less than the outstanding balance of \$2,604,905 as of April 2008. Please explain Newmarket - Tay's plans for full recovery following April 30, 2011.

- b) On page 128 of the 1<sup>st</sup> reference, the total balance in the "2008 Test" column is shown as \$2,213,298. As this amount is less than the balance referenced above (balance of \$2,604,905 as of April 2008), please provide the month corresponding to it.
- c) Please list and provide a brief description of all outstanding deferral and variance accounts. This includes the deferral and variance accounts not being requested for disposition.
- d) Newmarket - Tay is requesting disposition of regulatory variance accounts (1<sup>st</sup> reference, page 128). Please provide the information as shown in the attached continuity schedule in excel format for regulatory assets. Please note that forecasting principal transactions beyond 2007 and the accrued interest on these forecasted balances and including them in the attached continuity schedule is optional.
- e) What are the interest rates being used to calculate carrying charges for each regulatory deferral and variance account for the period from January 1, 2005 to present?
- f) With respect to the two new deferral accounts proposed to be created, i.e.
  - (i) to capture potential lost distribution revenue resulting from new 2008 Ontario Power Authority conservation related programs, and
  - (ii) for the Provincial Meter Data Management Repository (MDMR) expenses when enabled (4th reference):
    - What is the regulatory precedent for this proposed deferral account?
    - What is the justification for this account?
    - What are the journal entries to be recorded?
    - When does the applicant plan to ask for its disposition?
    - How does the applicant plan to allocate this amount by rate class?

- If the costs or fees are not known, what would be the basis of the approval to record these amounts in a deferral account?
  - What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs or fees in a deferral account?
- g) The Accounting Procedures Handbook states that account 1508 sub-account OEB Cost Assessments and sub-account OMERS closed as of April 30, 2006.
- Why is Newmarket - Tay accruing balances beyond April 30, 2006 into this account?
  - What would the balance be in both sub-accounts if principal accruals ceased at April 30, 2006?
- h) Account 1588 is subject to quarterly reviews under section 78 (6.1) of the Ontario Energy Board Act. The Board has launched an initiative on a review and disposition process and is considering extending this initiative to include all the RCVA and RSVA accounts (1<sup>st</sup> reference, page 128).
- Why should the following accounts: 1518, 1548, 1580, 1582, 1584, 1586 and 1588 be cleared outside this process?
  - Please re-calculate the total outstanding balance in the "2008 Test" column absent the above mentioned RCVA and RSVA accounts.