Board Staff Interrogatories
2009 Electricity Distribution Rates
Innisfil Hydro Distribution Systems Ltd.
EB-2008-0233

1 OPERATING COSTS

1.1 General – Historical OM&A Expenses Data

Ref: http://www.oeb.gov.on.ca/OEB/_Documents/EB-2006-0268/Comparison_of_Distributors_with_2007_data.xls

The figures in Table 1 below are taken directly from the public information filing of Innisfil in the Reporting and Record-keeping Requirements ("RRR") initiative of the OEB. The figures are available on the OEB's public website.

Table 1

	2003	2004	2005
Operation	$489,610	$494,923	$616,202
Maintenance	$371,329	$452,465	$401,407
Billing and Collection	$664,946	$778,884	$842,374
Community Relations	$18,086	$10,841	$43,853
Administrative and General Expenses	$835,138	$919,729	$790,623
Total OM&A Expenses	**$ 2,379,109**	**$ 2,656,841**	**$ 2,694,458**

Please confirm Innisfil's agreement with the numbers for Total OM&A Expenses that are summarized in Table 1. If Innisfil does not agree with any figures in Table 1, please explain why not and provide amended tables with a full explanation of all changes.

1.2 General – OM&A Expenses

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

Board staff took the figures from the evidence provided in Exhibit 4 of Innisfil's application and prepared Table 2 as a summary of Innisfil's OM&A expenses. Please note that rounding differences may occur, but are not material to the questions that follow.

Table 2

	2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
Operation	$ 494,922	$ 600,374	$ 639,277	$ 733,700	$ 778,575
Maintenance	$ 452,465	$ 416,921	$ 489,578	$ 580,100	$ 657,080
Billing and Collection	$ 808,784	$ 829,894	$ 923,175	$ 950,950	$ 1,010,600
Community Relations	$ 8,290	$ 60,213	$ 49,890	$ 10,600	$ 11,700
Administrative and General Expenses	$ 1,216,272	$ 989,218	$ 1,071,420	$ 1,237,175	$ 1,463,165
Total OM&A Expenses	$ 2,980,733	$ 2,896,620	$ 3,173,340	$ 3,512,525	$ 3,921,120

Board staff took the figures from the evidence provided in Exhibit 4 of Innisfil's application and prepared Table 3 which summarizes Innisfil's OM&A forecasted expenses. Please note that rounding differences may occur, but are not material to the questions that follow.

Table 3

	2006 Board Approved	Variance 2006/2006	2006 Actual	Variance 2007/2006	2007 Actual	Variance 2008/2007	2008 Bridge	Variance 2009/2008	2009 Test	Variance 2009/2006
Operation	494,922	105,452	600,374	38,903	639,277	94,423	733,700	44,875	778,575	178,201
		21.3%		*6.5%*		*14.8%*		*6.1%*		***29.7%***
Maintenance	452,465	-35,544	416,921	72,657	489,578	90,522	580,100	76,980	657,080	240,159
		-7.9%		*17.4%*		*18.5%*		*13.3%*		***57.6%***
Billing & Collections	808,784	21,110	829,894	93,281	923,175	27,775	950,950	59,650	1,010,600	180,706
		2.6%		*11.2%*		*3.0%*		*6.3%*		***21.8%***
Community Relations	8,290	51,923	60,213	-10,323	49,890	-39,290	10,600	1,100	11,700	-48,513
		626.3%		*-17.1%*		*-78.8%*		*10.4%*		***-80.6%***
Administrative and General Expenses	1,216,272	-227,054	989,218	82,202	1,071,420	165,755	1,237,175	225,990	1,463,165	473,947
		-18.7%		*8.3%*		*15.5%*		*18.3%*		***47.9%***
Total OM&A Expenses	**2,980,733**	**-84,113**	**2,896,620**	**276,720**	**3,173,340**	**339,185**	**3,512,525**	**408,595**	**3,921,120**	**1,024,500**
		-2.82%		9.55%		10.69%		11.63%		***35.37%***

a) Please confirm that Innisfil agrees with the figures presented in Table 2 and Table 3. If Innisfil does not agree with any figures in the tables, please explain why not and provide amended tables with a full explanation of all changes.

b) Please complete Table 4 below by identifying and listing the key cost drivers that are contributing to the overall increase of 35.4% in total 2009 OM&A expenses over 2006 historical actuals. Please add additional rows to Table 4 if there are more than four cost drivers. Some examples of specific costs drivers include items such increase in staff compensation, hiring staff, increase in cost of contractors, increase in inflation, etc.

Table 4

	2006	2007	2008	2009
Opening Balances	**2,980,733**	**2,896,620**	**3,173,340**	**3,512,525**
e.g., hiring X staff				
e.g., X% increase in cost of contractors				
Closing Balances	**2,896,620**	**3,173,340**	**3,512,525**	**3,921,120**

c) For the period 2006 to 2009, please provide detailed and specific explanations for each cost driver in Table 4 above.

1.3 General – Cost Efficiency Programs

Ref: Exhibit 4/Tab 2/Schedule 1/ p. 1-2

Please describe and quantify the benefits of any cost efficiency programs that Innisfil has undertaken, e.g. cost reduction, contract negotiations, system automation, cost savings or other programs that are either in place now or are contemplated at some future time.

1.4 Contracted Services

Ref: Exhibit 4/Tab 2/Schedule 1/ p. 1-2

a) From 2006 through 2009, please identify the portion of total OM&A expenses that is related to contracted services.
b) For each of the years, 2006 through 2009, please identify the selection process for the contracted services.
c) For each contracted service, please identify the year in which the selection process was used to select a particular contractor.
d) Please provide examples of contracted services for the period of 2006 through 2009 in which Innisfil negotiated cost savings or contemplates achieving costs savings. Regarding contracted services, please provide evidence, if any that demonstrates that Innisfil has implemented cost efficiency initiatives or it is contemplating undertaking initiatives that help Innisfil achieve savings at some future time.

1.5 Capitalization of Employee Compensation

Ref: Exhibit 4/Tab 2/Schedule 7/ p. 1/ Table 1

Using the information from evidence provided in Exhibit 4 of the application, Board staff developed Table 5 below which shows the total compensation charged to OM&A. As Table 5 illustrates, from 2007 to 2009, Innisfil capitalized 7% of total compensation

Table 5

	2006 Board Approved	2006 Actual	2007	2008 Bridge	2009 Test
Total Compensation	$ 1,310,125	$ 1,641,929	$ 1,745,568	$ 1,920,501	$ 2,117,298
Less Capitalized Amount	$ 65,000	$ 89,159	$ 118,763	$ 131,600	$ 147,000
Total Compensation Charged to OM&A	$ 1,245,125	$ 1,552,770	$ 1,626,805	$ 1,788,901	$ 1,970,298
Capitalized	5%	5%	7%	7%	7%

Board staff notes that the capitalization rate for 2008-2009 is approximately 7%. Please provide an explanation for Innisfil's capitalization policy including the rationale for the selection of this rate.

1.6 Average Yearly Base Wage per Management Employee

Ref: Exhibit 4/Tab 2/Schedule 7/ p.1/ Table 1

Referencing to Table 1 from the above evidence provided in Exhibit 4 of the application ("Employee Information – Compensation – Average Yearly Base Wages"), Board staff notes that the total base wage per management employee increased from $84,218 in 2008 to $90,994 in 2009. This represents an increase of 8% in compensation.

Please provide an explanation and justification for this increase.

1.7 Personnel Management

Ref: Exhibit 4/Tab 2/Schedule 7/ p.1

Please provide a description of plans (if any) to address the issue of an aging workforce.

1.8 Shared Services / Corporate Cost Allocation

Ref: http://www.oeb.gov.on.ca/documents/minfilingrequirements_report_141106.pdf

Pursuant to section 2.5 (Exhibit 4 Part A and D) of the Filing Requirements for Transmission and Distribution Applications (see reference above), applicants are to file the following information:

a) The type of shared service and the total annual expense by service.
b) A detailed description of the assumptions underlying the corporate cost allocation as well as provide documentation of the overall methodology and policy.

Please complete Table 6 below for the years 2006 through 2009 describing all services that Innisfil provides and receives from its parent company as well as affiliate companies. Please duplicate the table for each year 2006 to 2009 to

show the required information for the respective year. Please use additional rows, if necessary.

Table 6

Year:_____

Name of Company		Type of Service Offered	Pricing Methodology	Price for the Service ($)	Cost for the Service ($)	% Allocation	Explanation
From	To						

Type of Service Offered: Services such as billing, accounting, payroll, etc.
Pricing Methodology: Pricing Methodology includes approaches such as cost-base, market-base, tendering, etc. Please provide evidence to demonstrate the pricing methodology that was used.
Price for the Service: The amount the entity pays for the service that it receives.
Cost for the Service: The cost of to provide the service.
%Allocation: % of the costs that is allocated to the entity for the service being offered.

1.9 Corporate Cost Allocation

Ref: EB-2005-0001 Decision with Reason for Enbridge Gas Distribution Inc. Chapter 10 p.69-91

The five principles listed below formed the basis of the Board's acceptance of Enbridge's corporate cost allocations in EB-2005-0001.

1. The service is specifically required by the utility;
2. The level of service provided is required by the utility;
3. The costs are allocated based on cost causality and cost drivers;
4. The cost to provide the service internally would be higher and the cost to acquire the service externally on a stand-alone basis would be higher; and
5. There are scale economies.

Please provide information as to how Innisfil's corporate cost allocation policy meets each of these principles.

2 COST OF CAPITAL - CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL

2.1 Long Term Debt Rate

Ref: Exhibit 6/Tab 1/Schedule 3/ p.2

Innisfil includes a new bank loan to be issued on May 1, 2009 with a rate of 5.08%.

Please provide a more detailed explanation of how this rate was determined including the relevant calculations.

3 RATE BASE AND CAPEX

3.1 Capital Program Increase

Ref: Exhibit 2/Tab 3/Schedule 1/ p. 8

Innisfil is proposing a substantial increase in its capital program which is envisaged to rise from a 2007 actual level of $1.5 million to a $3.4 million level in the 2008 Bridge Year to $6.5 million in the 2009 Test Year:

a) Please provide the breakdown fore each 2006 through 2009 the capital expenditures that are “one-time programs” vs. “ongoing programs”.

b) Please discuss the extent to which Innisfil considered a phased approach to its capital program and if a phased approach was considered, why it was not adopted. If a phased approach was not considered, please explain why not.

c) Please describe how the costs of capital investment programs for 2009 were estimated. Please provide evidence and supporting documents such as calculations, market-based contractor bids, etc.

d) Innisfil is proposing a substantial increase in its capital program for the test year. Please provide an explanation on the measures that Innisfil has taken or will undertake, e.g. use of tendering process and deploying the lowest bid contractor, negotiations with suppliers on purchase of material and equipment, etc. to execute capital program projects in the most cost-effective way. Please file with the Board any evidence that demonstrates Innisfil’s effort in undertaking and implementing measures that would demonstrate achieve cost savings for Innisfil’s capital programs.

e) Please state why Innisfil believes that it has the capacity to complete such a large capital program in 2009. In this context, please provide an update as to where the 2008 capital program stands on a completion basis as of September 30, 2008. Please also discuss whether or not Innisfil anticipates having any carryover projects from 2008 and, if so, what their impacts would be in 2009.

3.2 Capital Program Increase

Ref: Exhibit 2/Tab 3/Schedule 1/ p.8/ Table 2

On this page, Table 2 provides a breakdown by category of Distribution Plant Projects comprising the increase in capital expenditures of about $3 million from the 2008 Bridge Year to the 2009 Test Year. The two main categories comprising the increase are reliability which increases by roughly $1.6 million and capacity which increases by $1.1 million.

a) Please state the basis of Innisfil's belief that a $1.6 million increase in expenditures for the Reliability category in 2009 is necessary. Please provide service reliability indicators such as SAIDI, SAIFI and CAIDI for a sufficient period of time to indicate any deterioration in reliability that would support this requirement. If reliability statistics do not show deterioration, please justify the proposed increase in this context.

b) In regards to capital expenditure for system capacity, Table 2 shows that in the years 2005 to 2008, the greatest amount spent was less than $40,000. Please state in this context why $1.1 million in 2009 is a reasonable level of expenditure in this category and justify this investment.

3.3 Capital Expenditure Forecasts

Ref: Exhibit 2/Tab 3/Schedule 1/ p.8/ Table 2

Please provide the total "Gross Asset Total" forecasts for 2010, 2011, and 2012.

3.4 Asset Management Plan

Ref: Exhibit 2/Tab 1/Schedule 1/Appendix A

Please indicate if Innisfil has utilized any asset condition study in developing its Asset Management Plan. Please file any such study, if available.

3.5 Asset Management Plan

Ref: Exhibit 2/Tab 1/Schedule 1/Appendix A

Innisfil's asset management plan contains a number of stated exclusions from its budget. For instance on page 16, it is stated that a plan of testing and inspecting is a necessity for Fault Indicators to ensure good reporting with high reliability, but that the amount for such testing has not been budgeted for in 2009 and subsequent years. A similar exclusion is made for Load Balancing on the same page. On page 14, it is stated that Innisfil has not proposed funding to engage in a number of inspections referenced in the DSC. There are a number of other references in the asset management plan to amounts that are not budgeted.

a) Please discuss how Innisfil's asset management plan links to its proposed CAPEX program. Please include in the discussion explanations of the stated exclusions in the asset management plan in the wake of such a large increase in the proposed CAPEX levels.
b) Please an explanation on how the 2009 programs were prioritized and selected while some programs that are referenced above were excluded.

3.6 Service Quality and Reliability

Ref: Exhibit 2

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

c) a listing of the Service Reliability Indicators maintained and used, and their actual values for the years 2002 through 2007;
d) Innisfil's 2008 and 2009 reliability improvement targets, if any, for the SAIDI, SAIFI and CAIDI indicators; and
e) If Innisfil has established reliability improvement targets, a copy of the plan that identifies programs or projects that Innisfil will undertake to achieve these targets.

4 SMART METERS

Ref: Exhibit 1/Tab 1/Schedule 7/ p. 2
Ref: Ontario Energy Board – Guideline, Smart Meter Funding and Cost Recovery, G-2008-002, p. 9-10,
http://www.oeb.gov.on.ca/OEB/_Documents/Regulatory/OEB_Guideline_SmartMeters.pdf/

On page 1 of Exhibit 1/Tab 1/Scheudle 8 of its application, Innisfil stated that:

> "*Innisfil Hydro, along with other members of the CHEC group, have met with the Ministry of Energy staff to arrange approval to begin installation of smart meters in our service territory in order to meet the Government's 2010 timeline. Innisfil Hydro is requesting continuation of the rate rider for smart metering infrastructure in the 2009 Rate Application and expects to submit an application at a later date for a revised Smart Meter Rate Rider once the process for Innisfil Hydro becomes more definite with respect to inclusion in the Ministry Regulations for the procurement of Smart Meters.*"

With reference to the Board guideline on smart meter funding and cost recovery (pages 9-10):

a) Please provide a statement that the Innisfil is not planning to start a smart meter program in the rate test year.

b) Please indicate the steps Innisfil intends to take in order to mitigate future rate impacts related to the implementation of smart meters in its service area.

5 PILS

5.1 Appropriateness of tax rate

Ref: Exhibit 4/Tab 3/Schedule 1

Innisfil used a combined income tax rate of 33.0% in its application for 2008 even though its taxable income is below the $1.5 million threshold for this tax rate. Please explain why Innisfil believes that the 33% rate is the correct one to use, or if not, please provide a revised version of this evidence making use of the appropriate rate.

5.2 Consistency of income numbers

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

Please show the calculation of the distribution income before taxes of $1,470,445 for the 2009 test year. Please also show the calculation of 2009 test year income before taxes based on the following calculation:

a) Rate base multiplied by the percentage that equity comprises in the capital structure multiplied by the percentage return on equity.
b) If there is a difference between the dollar figure of $1,470,445 and the result in a) above, please explain why there is a difference.

5.3 Provision of Actuals

Ref: Exhibit 4/Tab 3/Schedule 1

On this page, Innisfil provides its tax calculations including information for the years “2006 Board Approved”, “2008 Bridge” and “2009 Test.” Please provide a revised version of this table incorporating 2006 and 2007 actuals.

6 LOAD FORECAST

6.1 Load Forecast and Methodology - Weather Normalization

Ref: Exhibit 3/Tab 2/Schedule 3/p.p. 4-5/ 2nd Paragraph of p. 4

On pages 4-5, Innisfil states: "*The forecasted weather normalized amount for 2008 and 2009 is determined by using a forecast of the dependent variables in the predication formula on a monthly basis. In order to incorporate weather normal conditions, the average monthly heating degree days and cooling degree days which has occurred from 2002 to 2007 is applied in the prediction formula*."

Using a similar method to develop the weather normalized forecast of total system purchases for 2009, please provide the following scenarios.

a) Instead of using the average monthly heating degree days (HDD) and cooling degree days (CDD) from 2002 to 2007, please develop the weather normalized forecast of total system purchases for 2009 by using **average** monthly HDD and CDD from 1998 to 2007. Please calculate the variance and percent variance from 2009 proposed weather normalized forecast for total system purchases.

b) Instead of using the average monthly heating degree days (HDD) and cooling degree days (CDD) from 2002 to 2007, please develop the weather normalized forecast of total system purchases for 2009 by using a **trend** of monthly HDD and CDD from 1988 to 2007. Please calculate the variance and percent variance from 2009 proposed weather normalized forecast for total system purchases.

6.2 Economic and Growth Projections

Ref: Exhibit 3/Tab 2/Schedule 3/p. 6/ 1st paragraph

On page 6 Innisfil states: "*The next step in the forecasting process is to determine a customer/connection forecast. The customer/connection forecast is based on reviewing historical customer/connection data……*"

Please provide supporting material related to the Innisfil's customer/connection forecast.

6.3 Customer Count

Ref: Exhibit 3/Tab 2/Schedule 3/p. 6/ 3rd paragraph

On page 6, Innisfil states: "*In most cases where the geometric mean is determined, the resulting geometric mean is applied to the 2007 customer/connection numbers to determine the forecast of customer/connections in 2008 and 2009.*"

Board staff is not clear what method (i.e., geometric mean, arithmetic average, or others) is used to determine to forecast customer/connection figure. Board staff has confirmed the calculation for residential growth rate using an arithmetic average approach. However, Board staff has been unable to duplicate the calculations for the growth rate for customer/connection for GS<50kW and GS>50kW using geometric mean. Please provide details for these calculations.

6.4 kWh Load and Revenue

Ref: Exhibit 3/Tab 2/Schedule 3/p. 8/Table 10

On page 8, Innisfil states: "*For the forecast of usage per customer/connection the historical geometric mean was used for all classes except Unmetered Load*."

Board staff is not clear what method (i.e., geometric mean, arithmetic average, or others) is used to determine the usage per customer/connection forecast. Board staff has been unable to duplicate the calculations for the growth rate for usage per customer/connection forecast using geometric mean approach for all classes that are shown in Table 10. Please provide details for these calculations.

6.5 kWh Load

Ref: Exhibit 3/Tab 2/Schedule 3/p. 7/Table 9

Innisfil provides historical annual usage per customer in Table 9. Using the same format as Table 9, please provide the total actual consumptions in kWh by classes for the period of 2002 to 2007.

6.6 Customer Count, kWh load, kW load and Revenue

Ref: Exhibit 3/Tab 1 & 2

Some of Innisfil's evidence may be required to be adjusted in light of responses to the preceding customer count, load and revenue forecasting interrogatories.

Please re-file any tables in Exhibit 3 that are required to be updated as a result of changes in the Innisfil's evidence.

7 DEFERRAL AND VARIANCE ACCOUNTS

7.1 Continuity Schedule for Regulatory Assets

Ref: Exhibit 5/ Tab 1/ Schedule 1

Innsifil is requesting disposition of the regulatory variance accounts in Exhibit 5/Tab 1/Schedule 1, p. 1. Please complete the attached continuity schedule for regulatory assets and provide a further schedule reconciling the continuity schedule with the amounts requested for disposition, as provided in Exhibit 5/Tab 1/Schedule 1, p. 1. 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.

8 LOSS FACTORS

8.1 Supply Facilities Loss Factor

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

Embedded distributors typically use a Supply Facilities Loss Factor (SFLF) of 1.0340, comprising losses of 1.0060 in the transformer at the grid interface and losses of 1.0278 within the HONI distribution system. On Page 2, Innisfil states that it proposes to use a SFLF of 1.0257 for the 2009 Test Year. Please explain the reason for proposing a SFLF that is different from the industry standard.

9 COST ALLOCATION

9.1 Cost Allocation Informational Filing

Ref: Exhibit 8/Tab 1/Schedule 1

Please file Sheets O1 and O2 from the Cost Allocation Informational Filing EB-2006-0247 as part of the record of this application. Please file Run 1 or 2, whichever one is more closely representative of Innisfil's situation. Alternatively, as a means of avoiding the difficulties described in the third paragraph of the reference page, file a modified run that is more closely representative than either of the runs in the Informational Filing.

9.1 Monthly Fixed Service Charge

Ref: Exhibit 9/Tab 1/Schedule 1/ p. 4/ Table 6

With reference to Sheet O2 of the Cost Allocation Informational Filing EB-2006-0247 "Fixed Charge Floor/Ceiling" that Innisfil is required to file with the Board, please provide an explanation of any variances for the proposed Monthly Fixed Charge for GS<50 and GS>50 rate classes that may exceed the ceiling as set out in Sheet O2 Fixed Charge Floor/Ceiling.

9.2 Unmetered Scattered Load

Ref: Exhibit 9 /Tab 1/ Schedule 2/p. 1

a) Innisfil states that the total bill impact for its USL class is over 10%, due to "the move in the revenue to cost ratio to get that class into the band as required by the Cost Allocation report dated November 28, 2007". Please explain how a change in the current revenue to cost ratio of 78.9% to 80%, results in a total bill impact increase of 35% for the USL rate class.

b) On Page 1, Innisfil proposes to meter all customers in its USL customer class. Please explain Innisfil's rationale for the eventual elimination of this rate class.

10 RATE DESIGN

10.1 Retail Transmission Service Rates

Ref: Exhibit 4/Tab 2/Schedule 8/Page 1
Ref: Ontario Energy Board Guideline (G-2208-001) - Electricity Distribution Retail Transmission Service Rates, p. (III-IV), http://www.oeb.gov.on.ca/OEB/_Documents/Regulatory/Board_Guideline_EDRTS.pdf

On August 28, 2008, the Board issued its Decision and Rate Order in proceeding EB-2008-0113, setting new Uniform Transmission Rates (UTR) for Ontario transmitters, effective January 1, 2009. The change in the UTRs affects the retail transmission service rates (RTSR) charged by distributors. Given that Innisfil is fully embedded within Hydro One Distribution, its wholesale cost of transmission service is affected by the approved UTRs change.

On October 22, 2008, the Board issued its guideline on Electricity Distribution Retail Transmission Service Rates, outlining the evidence it expects distributors to file in support of their cost of service applications.

Innisfil is expected to file an update to that application detailing the calculations for adjusting its RTSRs.

a) Please file a variance analysis using 2 years of actual data examining what, if any, trend is apparent in the monthly balances in the RTSR deferral accounts

b) Please file a calculation of the proposed RTSR rates that includes the adjustment of the UTRs effective January 1, 2009 and an adjustment to eliminate ongoing trends in the balances in the RTSR deferral accounts