

Board Staff Interrogatories
2009 Electricity Distribution Rates
Lakeland Power Distribution Ltd. ("Lakeland")
November 24, 2008
EB-2008-0234

Economic Assumptions

1. Ref: n/a

- a) Given the general economic situation in Ontario, has Lakeland assessed the situation and identified any specific issues that may have a material impact on its load and revenue forecasts and bad debt expense forecast?
- b) If so, please indicate if Lakeland will be updating its current application, in whole or in part, to address any material impacts. If yes, please provide an estimate of the timing of the update.

2. Ref: Exh2/Tab3/Sch2

- a) Please provide a list of criteria and the rationale that Lakeland has used in the prioritization and selection of 2009 maintenance and capital projects in its application.
- b) Please identify, individually, maintenance and capital programs, if any, that Lakeland may consider as a candidate for a deferral, cut, or partial adjustment, given the current economic situation. Please identify these programs, if any, in a ranking order that Lakeland would consider, using a ranking of "1" as the first suitable candidate, ranking of "2" as the second suitable candidate, ranking of "3" as the third suitable candidate, etc.
- c) Please identify the rationale for the selection of these maintenance and capital programs and projects.
- d) Please describe the expected impacts on Lakeland's revenue requirement, operations and service quality and reliability to customers if the identified programs are reduced, deferred or cut during the economic downturn.

Operating Costs

3. Ref: Exh5/Tab1/Sch2/p1; Exh4/Tab2/Sch2/p1

For 2007, Lakeland reports:

- 1. \$551,855 debit in USoA (consisting of \$54,823 principal and \$497,032 of interest) account 1590 in Exh5/Tab1/Sch2
- 2. \$238,350 debit in USoA account 5130 in Exh4/Tab2/Sch2.

For each of the accounts above please provide the following:

- a) State the amount reported to the Board in Lakeland's 2007 annual filing pursuant to RRR 2.1.7 for each USoA account.
- b) Identify the components of any difference between the amounts in a) and the amount reported in exhibits 5 and 4.
- c) Explain each component of any difference identified in b). Please include an explanation of which other accounts now contain any such difference by component.
- d) State which amount (the amount in a) above or the amount in exhibits 5 and 4 has been reflected in Lakeland's 2007 audited financial statements and identify the line item in the audited financial statements.
- e) State which value should be relied upon in this proceeding, and, if different from the value reported in the 2007 audited financial statements, explain why the Board should rely on such different value.

4. Ref: Exh4/Tab1/Sch1

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

Table 1			
	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>
	2003	2004	2005
1 Operation	77,558	94,206	172,643
2 Maintenance	650,311	621,624	687,495
3 Billing and Collection	525,057	600,723	568,262
4 Community Relations	25,401	28,599	43,532
Administrative and			
5 General Expenses	769,255	557,983	475,782
6 Total OM&A Expenses	2,047,582	1,903,135	1,947,713

- a) Please confirm Lakeland's agreement with the numbers for Total OM&A Expenses that are summarized in Table 1.

Board staff prepared Table 2 below to review Lakeland's OM&A expenses. Note rounding differences may occur, but are immaterial to the questions below.

Table 2

	Col. 1 2006 Bd Appr.	Col. 2 2006 Actual	Col. 3 2007	Col. 4 2008 Bridge	Col. 5 2009
1 Operation	\$94,205	\$262,589	\$197,461	\$223,773	\$223,674
2 Maintenance	\$621,624	\$529,040	\$593,016	\$835,279	\$927,043
3 Billing and Collection	\$610,994	\$652,753	\$606,167	\$647,111	\$655,137
4 Community Relations	\$15,320	\$27,365	\$17,610	\$8,467	\$11,255
5 Administrative and General Expenses	\$1,268,289	\$1,021,904	\$898,023	\$988,152	\$1,036,938
6 Total	2,610,432	2,493,651	2,312,277	2,702,782	2,854,047

Board Staff Table 3 below was created to review Lakeland's OM&A forecast expenses from the evidence provided in Exhibit 4. Note rounding differences may occur, but are immaterial to the following questions.

Table 3

Lakeland Power Distribution Ltd.

	Col. 1 2006 Board Approved	Col. 2 Variance 2006/2006	Col. 3 2006 Actual	Col. 4 Variance 2007/2006	Col. 5 2007 Actual	Col. 6 Variance 2008/2007	Col. 7 2008 Bridge	Col. 8 Variance 2009/2008	Col. 9 2009 Test	Col. 11 Variance 2009/2006
1 Operation	94,205	168,384	262,589	-65,128	197,461	26,312	223,773	-99	223,674	-38,915
2		178.7%		-24.8%		13.3%		0.0%		-14.8%
3 Maintenance	621,624	-92,584	529,040	63,976	593,016	242,263	835,279	91,764	927,043	398,003
4		-14.9%		12.1%		40.9%		11.0%		75.2%
5 Billing & Collections	610,994	41,759	652,753	-46,586	606,167	40,944	647,111	8,026	655,137	2,384
6		6.8%		-7.1%		6.8%		1.2%		0.4%
7 Community Relations	15,320	12,045	27,365	-9,755	17,610	-9,143	8,467	2,788	11,255	-16,110
8		78.6%		-35.6%		-51.9%		32.9%		-58.9%
9 Administrative and General Expenses	1,268,289	-246,385	1,021,904	-123,881	898,023	90,129	988,152	48,786	1,036,938	15,034
10		-19.4%		-12.1%		10.0%		4.9%		1.5%
11 Total OM&A Expenses	2,610,432	-116,781	2,493,651	-181,374	2,312,277	390,505	2,702,782	151,265	2,854,047	360,396
		-4.5%		-7.3%		16.9%		5.6%		14.5%
Combined O&M (lines 1 & 3)	715,829	75,800	791,629	-1,152	790,477	268,575	1,059,052	91,665	1,150,717	359,088
		10.6%		-0.1%		34.0%		8.7%		45.4%

- b) Please confirm that Lakeland agrees with the two tables prepared by Board Staff presented above. If Lakeland does not agree with any table please advise why not. If Lakeland determines that the tables require amending, please provide amended tables with full explanation of changes made.

5. Ref: Exh4/Tab2/Sch3

The table on page 1 of this schedule lists the major drivers of the \$360k increase between 2006 and 2009 for OM&A costs. Two of the most significant drivers are new hires and tree trimming.

- a) Please provide more detail concerning the description of the \$175k which is described as "Supervision – ½ Operations Mgr, Line Supervisor". For example, if only ½ of an Operations Manager is charged to Operations, where is the other ½ charged?
- b) When were these positions vacated, and when were they filled?

Beginning on page 1 Lakeland itemizes the account balances for OM&A expenses.

- 7. Ref: Exhibit 4/Tab 2/Schedule 3**

a) Please provide the breakdown for actual and forecast, where applicable, for the 2006 Board approved, 2006 Actual, 2007 Actual, 2008 Bridge Year, and 2009 Forecast Test Year regarding the following regulatory costs and present it in the table format shown below.

- [illegible]

6. Consultants costs for regulatory matters									
7. Operating expenses associated with staff resources allocated to regulatory matters									
8. Any other costs for regulatory matters (please define)									
9. Operating expenses associated with other resources allocated to regulatory matters (please identify the resources)									
10. Other regulatory agency fees or assessments									

8. Ref: Exh4/Tab2/Sch6

This exhibit itemizes Lakeland's purchased services.

- a) With the exclusion of purchased power costs, what is the percentage of Total OM&A that is purchased?
- b) Please provide a similar table showing the purchases by source from 2006 actual to 2009 forecast. (If needed, the 2006 actuals may be adjusted for the re-alignment identified in Table 2 on Exhibit 4/Tab2/Schedule3).
- c) Please explain any material variances in this table.

9. Ref: Exh4/Tab2/Sch4

On this schedule, Lakeland identifies the types of shared services along with their allocators. A better understanding of some of the allocators is requested.

- a) Some allocators are identified as percentage of time allocated.
 - i Does Lakeland Distribution have a time tracking system?
 - ii If there is a time tracking system, how are the actuals used in setting the forecast?
 - iii If there is no time tracking system, what quantifiable means are used to test the reasonableness of the forecast?
- b) Human Resources is allocated based on the percentage of time allocated. Why is that a better allocation than per employee, or a hybrid of time and employee?
- c) Telephone/internet services and IT support are allocated based on the number of employees. Considering that field personal may not have this equipment directly assigned to them, please explain the rationale for the use of this allocator for these two services.
- d) Office supplies/Photocopying/Postage/Courier services are allocated based on percentage of time. Please explain the rationale for this allocator.

Compensation

10. Ref: Exh4/Tab2/Sch7

This schedule contains the compensation and benefits statistics. Although the changes in the levels of compensation and benefits are forecasted to be 3% or less for 2009, there are large historical increases that have resulted in large component changes from 2006 to 2009.

- a) The following Table summarizes the data found on this referenced schedule for Base Wages and Benefits. The indicated percent changes are from one year to the next. The percentage change found in Column 6 is based on comparing 2009 to Actual 2006. Please explain the drivers of the large percentage changes observed in Column 6, referencing the year over year changes for both Base Wage and Benefits by employee type that contribute to these increases.
- b) Executives and Management do not appear to receive incentive pay. What is Lakeland's rationale for not including incentive pay for Executives and Management?

Table 4

Lakeland Distribution - Compensation

	<i>Col 1</i>	<i>Col. 2</i>	<i>Col 3</i>	<i>Col 4</i>	<i>Col 5</i>
	2006Act	2007	2008	2009	2009/06
Compensation - Avg. Base Wage (\$)					
1.1 Executive					
1.2 Management	61,255.0	72,485.0	72,342.0	73,830.0	
1.3 Non-Union	30,037.0	37,303.0	42,037.0	43,339.0	
1.4 Union	46,382.0	51,293.0	61,912.0	61,592.0	
1.5 Total	137,674.0	161,081.0	176,291.0	178,761.0	
Percentage change (%)					
2.1 Executive					
2.2 Management		18%	0%	2%	21%
2.3 Non-Union		24%	13%	3%	44%
2.4 Union		11%	21%	-1%	33%
2.5 Total		17%	9%	1%	30%
Compensation - Avg. Benefits (\$)					
3.1 Executive					
3.2 Management	14,721.0	18,431.0	15,626.0	16,169.0	
3.3 Non-Union	8,598.0	9,834.0	11,329.0	11,459.0	
3.4 Union	13,748.0	13,148.0	14,742.0	14,885.0	
3.5 Total	37,067.0	41,413.0	41,697.0	42,513.0	
Percentage change (%)					
4.1 Executive					
4.2 Management		25%	-15%	3%	10%
4.3 Non-Union		14%	15%	1%	33%
4.4 Union		-4%	12%	1%	8%
4.5 Total		12%	1%	2%	15%

c) Please complete the following table.

	<i>Col. 1</i>	<i>Col. 2</i>	<i>Col. 3</i>	<i>Col. 4</i>
	2006Act.	2007	2008	2009
1 Total Compensation				
2 Less Capitalized Amount				
3 Less Billable				
4 Less Other				
5 Compensation charged to OMA&G				

Rate Base

11. Ref: Exh2/Tab1/Sch1

For each of the years 2003 to 2009 please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars or % where indicated):

- a) Average Fixed Assets in Service
- b) Average Depreciation Rate as a % of Average Fixed Assets in Service;
- c) Working Capital as a % of Average Fixed Assets in Service;
- d) Number of Customer Connections in Each Customer Category
 - i) New Connections
 - ii) Service Upgrade Connections
 - iii) Population (actual or estimated) of Service Area.

12. Exh1/Tab3/Sch4/p1 and Exh2/Tab1/Sch1/p2/16

- a) Please clarify whether the existing rate base contains capitalized overhead and whether capitalized overhead is included in the proposed 2009 rate base.
- b) Please clarify whether the existing rate base contains AFUDC (also known as "Interest During Construction").
- c) As stated in the Exhibit 1 reference above, "The capital costs of any constructed assets will not include an appropriate allowance for use of funds during construction". Please elaborate on what projects or project types will have AFUDC omitted from their total capital costs.
- d) If AFUDC is not to be included in 2009 and subsequent capital additions, how will this capital or expense item be recovered and dealt with in determining cost of service?

13. Ref: Exh2/Tab2/Sch1

Please confirm that the continuity statement has included interest during construction and all overheads for the years until 2008 and not for 2009 and elaborate on any changes regarding Interest During Construction.

Capital Expenditures

14. Ref: Exh2/Tab1/Sch1

- a) Please provide a record of reliability indices for the years 2003 through 2009 (estimated) and indicate the desired values.
- b) Indicate if and how the reliability indices relate to the capital expenditures for each of the projects that have been undertaken for reasons of reliability in years 2008 and projected 2009.

15. Ref: Exh2/Tab1/Sch1

- a) Please provide Lakeland's Code of Business Conduct.
- b) For the years 2003 to 2009 inclusive, please provide a table listing the following information (actual dollars where available, or expected, planned or projected dollars or % where indicated):
 - i Net income;
 - ii Actual Return on Equity (%);
 - iii Allowed Return on Equity (%);
 - iv Retained Earnings;
 - v Dividends to Shareholders;
 - vi Sustainment Capital Expenditures excluding smart meters;
 - vii Development Capital Expenditures excluding smart meters;
 - viii Operations Capital Expenditures;
 - ix Smart meter Capital Expenditures;
 - x Other Capital Expenditures (identify);
 - xi Total Capital Expenditures including and excluding smart meters;
 - xii Depreciation.

16. Ref: Exh2/Tab3/Sch1/p2

2009 Capital Addition: Distribution Stations addition: Line 1

Capital cost of \$500,000 for this project is purported to have been spent in 2008 but the facilities will be brought into service in 2009. Please provide the project start date, the end date, and the date that these facilities are to be brought into service in 2009.

17. Ref: Exh2/Tab3/Sch1/p6

Security Project, Kirk Line-to-Taylor Road 1000 m connecting line.

Please list other engineering solutions that were investigated in order to reduce the outage time that is to be reduced by the proposed \$250,000 solution. Please list the reasons these other solutions were rejected.

18. Ref: Exh2/Tab3/Sch1/p10

Vehicles and Related Equipment

Tree trimming is listed as a major maintenance cost. Will any of the capital equipment expected to be purchased as capital items in 2009 (\$205,000) be used in the tree trimming maintenance planned. If so, please provide a description of the use of such vehicles in tree trimming activities.

19. Ref: Exh2/Tab3/Sch2/p2

Regulatory Project, Replacement of PCB-contaminated transformers.

Please quote the regulation that mandates replacement of transformers testing PCBs greater than 50 ppm.

Smart Meters

20. Ref. Exh1/Tab1/Sch5/p1 and Exh1/Tab3/Sch5/AppendixA/p21

Lakeland states that it seeks approval to charge for \$0.25 per customer per month to cover the costs of Smart Metering. Lakeland is pursuing the implementation of smart meters totalling \$3.0 million but it appears that it has not included any capital or expense items relating to this initiative in the application:

- a) Please provide the amount of capital expended on the smart metering installation in 2006, 2007, 2008 and projected 2009.
- b) Based on the capital expenditures for smart meters in 2007, 2008 and projected 2009, please provide justification for the \$0.25 per customer per month or any other figure for smart metering.
- c) How does Lakeland intend receiving the desired return from the investment in smart meters if any?

Payments in Lieu of Taxes

21. Exh4/Tab3/Sch1/p1

Lakeland has calculated their 2009 regulatory Net income before tax at \$965,096. Board staff cannot reconcile this figure using the same rate base of \$15,521,320, a deemed equity at 43.3% and cost of equity at 8.57%, where use of these figures yields \$886,213.

- a) Please calculate, and show the calculations of the before-tax regulatory income, when calculated on those assumptions.
- b) Please calculate and show the calculations of income tax using the following assumptions:
 - i) Net income before taxes of \$965,096 and \$886,213
 - ii) Proportions: Short term debt 4.0%; Long term debt 52.7% and Equity 43.3% at costs of 4.77%, 5.16% and 8.57% respectively
 - iii) Total income tax rate at 28.88% and 33%.
- c) Please calculate and show the calculations for the taxes as calculated in b) above, **grossed up** for rate purposes.

Load Forecast

22. Ref: Exh3/Tab2/Sch2

Weather Normalization and Modelling

On pages 4-5, Lakeland states: "In order to incorporate weather normal conditions, the average monthly heating degree days and cooling degree days which has occurred from 2001 to 2007 is applied in the prediction formula." Please:

- a) Provide any information that supports using a 6-year period as the definition of normal weather and the rationale for using this specific period instead of a longer period, and
- b) Recalculate the resulting 2009 total (system-level) billed kWh load forecast successively using
 - i. the 10-year average and
 - ii. the 20-year trend to define normal weather.

23. Ref:Exh3/Tab2/Sch2

Expected Future Change

On page 3, the formula is presented that describes Lakeland's Monthly Predicted kWh Purchases.

- a) Considering that CDM has probably only recently had (or is yet to have) an influence on Lakeland's consumption, explain how, and to what extent, the anticipated effect of Lakeland's CDM activities is represented by the formula on page 3 that is used to forecast future consumption.
- b) Please reconcile the anticipated effect of Lakeland's CDM activities in a) with Lakeland's latest CDM Annual Report to the Board.

24. Ref:Exh3/Tab2/Sch2

On page 3 when describing the sources of data for the multi-factor regression model, Lakeland states: "The 2008, 2009 and 2010 rate application (EB-2007-0680) for Toronto Hydro Electric System Ltd. [THESL] provided the Ontario real GDP monthly index." Please:

- a) Clarify if the THESL-provided Ontario real GDP was
 - i. utilized in both establishing the *historical* weightings for the independent variables and used as the economic *forecast* in determining the 2009 load forecast, or
 - ii. replaced with a different economic forecast to project into the future and, if so, identify the economic forecast used.
- b) If a) i above was answered in the affirmative, please explain why a more up-to-date economic forecast was not used considering that the Ontario real GDP used by THESL had been developed some time before by THESL "based on forecasts of 2007 GDP from the six Canadian chartered banks for 2007" (THESL Exhibit K1, Tab 1, Schedule 1, Filed 2007 Aug 2, page 7 of 11) and that THESL's updated filing used

the Toronto GDP (THESL Exhibit K1, Tab 1, Schedule 1, Filed 2007 Aug 2, Updated 2007 Nov 12, page 1 of 4).

**25. Ref: Exh3/Tab2/Sch2/p5
kWh and Revenue Forecast**

In Table 5, Lakeland shows the value of the actual Loss Factor for each of the years 2001 to 2007, and the calculated average value which is subsequently used to convert the purchased kWh to billed kWh. Because the 2001 value is much higher than the values in subsequent years, the calculated average value used for 2009 is higher than any value since 2003 and is inconsistent with the downward trend - thus resulting in higher rates. Please:

- a) restate the Loss Factor taking account of the trend in Loss Factors and the planned engineering investments designed to reduce losses, and
- b) recalculate the resulting 2009 total (system-level) billed kWh load forecast.

**26. Ref: Exh3/Tab2/Sch/p2/Table2;
Exh3/Tab2/Sch2/pp10-11/Tables 14-17;
Exh3/Tab2/Sch2/Appendix A/p1; and
Exh3/Tab2/Sch3/p2.**

Customer Count, kWh load, kW load and Revenue

In Tables 2 and 14, Lakeland shows the 2009 billed energy (GWh) forecast by customer class. In Table 17, Lakeland shows the 2009 kW forecast by customer class for those classes that uses the kW charge determinant. In Appendix A, Lakeland shows the 2009 kWh and kW by customer class. In the second unnumbered table in Schedule 3, page 2, Lakeland shows the 2009 kWh or kW forecast (depending on the charge determinant for the class) by customer class. Some of the values in the second unnumbered table in Schedule 3, page 2, do not match the corresponding values in Tables 2 and 14. In addition, some of the values in Appendix A do not match the values in Table 17.

Please provide a single table summarizing the 2009 forecast showing, for each customer class and for the total of all classes:

- a) Number of Customers/Connections;
- b) Billed kWh;
- c) Billed kW (for those classes that use this charge determinant); and
- d) Distribution Revenue.

**27. Ref: Exh3
Customer Count, kWh load, kW load and Revenue**

Issue: Some of Lakeland's evidence may require adjustment in light of responses to the preceding customer count, load and revenue forecasting interrogatories.

Please re-file any Exhibit 3 tables that require to be updated as a result of changes in Lakeland's evidence.

**28. Ref:Exh3/Tab3/Sch1/p1
Other Distribution Revenue**

In the table on page 1, Lakeland shows data for various accounts including 4375 – Revenue from Non-Utility Operations and 4405 – Interest and Dividend Income. For each of these accounts there is a significant difference between the “2007 Actual” and “2009 Test” values.

Please explain in detail the development of the 2009 Test values for the two identified accounts.

Low Voltage Costs and Revenue

29. Ref: Exh2/Tab4/Sch1/p3; Exh9/Tab1/Sch1/p7

The forecast cost of LV Charges in Account 4750 is \$656,843, compared with \$613,233 in 2007, and estimated \$666,534 in 2008.

- a) Please describe the services received, if other than Shared Lines, and please provide the annual kW amounts billed to Lakeland in 2007 noting which ones if any involve a service other than Shared Lines.
- b) Please describe the assumptions that Lakeland has used for 2008 and 2009 about the LV (or sub-transmission) rates charged by the host distributor, compared to those charged during 2007.

Cost Allocation

30. Ref: Exh8/Tab1/Sch2

Please provide for the record of this Application an electronic copy of Lakeland's cost allocation study Informational Filing EB-2006-0247 ('rolled-up version of Run 2).

31. Ref: Informational Filing, worksheet O2 'Monthly Fixed Charge Min. & Max.', & worksheet O3.5 'USL Metering Credit'

- a) The results filed in the Informational Filing show that the calculated customer-related cost for Unmetered Scattered Load (USL) is higher than for the GS<50 class. Is this calculation done for USL on a per-customer or a per-connection basis? If “per-connection”, please provide an explanation of how the cost can be higher given the absence of meter-related costs. If “per-customer”, please provide information on the average number of connections per customer.
- b) Please confirm that the calculated Metering Cost in worksheet O3.5 is \$5.16 per customer per month. Please provide any comments that might be helpful in understanding why the difference between the cost per customer in the GS<50 kW class and the cost per connection of USL in worksheet O2 should not be approximately equal to the result in worksheet O3.5.

Revenue to Cost Ratios

32. Ref: Exh8/Tab1/Sch2

Lakeland specifies that the proposed revenue to cost ratios apply to 2009, and suggests that future ratios would depend on the development of a sector-wide study. In the event that the results of further study were not available in 2010 or 2011, does Lakeland intend to phase in ratios in those years that would be within the ranges listed in Table 2 in the referenced Exhibit?

Rate Design

33. Ref: Exh9/Tab1/Sch5; Exh9/Tab1/Sch9/Appendix A

The existing distribution rates shown in Schedule 5 are not consistent with the existing rates used in the impact calculations in Schedule 9. The former appear to be erroneous.

If the rates in Schedule 5 are incorrect, please provide a corrected version. If Schedule 5 is correct, please provide consistent impact calculations in the appendix to Schedule 9.

34. Ref: Exh9/Tab1/Sch7

Please confirm that the Monthly Service Charges shown in this schedule are net of the Smart Meter adder, and that the Rate Order is expected to be gross of this adder.

35. Ref: Exh9/Tab1/Sch1/p3; Exh9/Tab1/Sch9/Appendix A /p18

The rates including rate adders proposed for the GS > 50 kW class do not result in a constant ratio of fixed to variable revenue, because the fixed rate increases by 1.4% and the volumetric rate decreases by 2.1%.

- a) Please provide an estimate of the LV adder component in the current volumetric rate for the GS>50 kW class, and after calculating the 2008 and 2009 volumetric rates net of the LV adder.
- b) Please provide a verification that the fixed:volumetric split is being held constant in the proposed rates for the class as stated in Schedule 1.

Retail Transmission Service Rates

36. Ref: "Electricity Distribution Retail Transmission Service Rates", Guideline G-2008-0001, October 22, 2008

Under the above referenced OEB Guideline, Lakeland is expected to file an update to its Cost of Service application with evidence to support a change in its RTSRs. The adjustment in RTSRs is intended to eliminate future growth in the Applicant's variance accounts that are related to the pass-through of transmission costs.

- a) Please file a table showing 2 years of Lakeland's wholesale Network and Connection costs charged by the host distributor, and its retail billings for Network and Connection service to its retail customers.

- b) Please provide an analysis of the variances between costs and the corresponding revenues, and any trends in these amounts.
- c) Please provide an analysis of what the variances would have been if the requested Total Loss Factor of 1.0614 had been in place instead of the current factor of 1.0428.
- d) Please file proposed RTSR rates for each customer class that would adjust to the currently approved RTSRs to recover the wholesale cost of transmission service, based on the assumption that the Interim rates charged by Hydro One to embedded distributors effective May 1, 2008 had been in effect during the 2-year period in part a). Please provide the calculations used to derive the adjustment factors for the Network and Connection RTSR rates.

Deferral and Variance Accounts

37. Ref: Exh1/Tab3/Sch1/Appendix A/p13; Exh1/Tab3/Sch2/Appendix A and B

The note to the audited financial statements (Schedule 1 reference) suggests that the recovery of the regulatory assets would be complete by mid-2008. In the pro forma balance sheets (Schedule 2 reference) Account 1590 'Recovery of Regulatory Assets' is forecast to have a balance of \$685,595.59.

Please describe how this balance has happened or is expected to happen during 2008, and confirm that the balance is not expected to change during 2009.

38. Exh5/Tab1/Sch2; Exh1/Tab3/Sch1/Appendix A/p13

Lakeland has provided information on opening balances at January 1, 2005 and closing balances at December 31, 2007.

- a) Please provide a more detailed continuity schedule for Lakeland's deferral and variance accounts using the Excel spreadsheet attached. (Please note that forecasting principal transactions beyond December 31, 2007 and the interest on those transactions in columns AM – AP is optional.)
- b) Please provide documentation that would assist parties in understanding the balances in Account 1590 'Regulatory Asset Recovery'. In particular, please include:
 - the instructions that result in an interest balance of \$497,032, and
 - a reconciliation of how the balance in the audited financial statement in the Exhibit 1 reference (\$991,978) and the sum of the principal and interest accounts in the Exhibit 5 reference (\$1,021,798).
- c) The continuity schedule spreadsheet provides a sub-total for the accounts: 1508, 1518, 1525, 1548, 1570, 1571, 1572, 1574, 1582, 1592, 1595, 2425. Please calculate a set of rate riders that would dispose of the net balance of these accounts, identifying the date of the balance and how many years the rate rider would be in effect. Please also provide details of how the individual balances would be allocated to customer classes, where possible using updated values of the same allocators as were used for the respective accounts in the 2006 model for regulatory asset recovery rate riders.

- d) Please provide a table and explanatory notes similar to the previous interrogatory, but calculating a rate rider that would dispose of all deferral and variance accounts except Accounts 1562 and 1563.

39. Ref: Exh5/Tab1/Sch2/p1

Please provide an explanation why the interest charges in Account 1590 on December 31, 2007 of \$497,032 are significantly greater than the principal in Exh5/Tab1/Sch2/p1.

Bill Impacts

40. Ref: Exh9/Tab1/Sch9/Appendix A / pp 4 & 10

- a) Please provide a version of the detailed impact calculation for a Residential customer consuming 500 kWh per month and a GS< 50 kW customer consuming 2000 kWh per month, changing the 2009 bill such that:
- the 2009 RTSRs are as calculated in part c) of the interrogatory above, and
 - the 2009 bill includes a rate rider to recover regulatory assets consistent with the higher of the hypothetical rate riders calculated in the two interrogatories above.
- b) In the event that either of the calculated total bill impacts in part a) is greater than 10%, please file a revised version of the whole Appendix A with the revised RTSRs and the hypothetical rate rider.

Loss Factors

41. Ref: Exh4/Tab2/Sch9/Table 1

- a) Please clarify whether Lakeland is entirely embedded in the Hydro One distribution system, or alternatively whether it receives part of its requirements directly from transformer stations with bills issued by the IESO.
- b) In light of the Hydro One approved loss factor for embedded distributors of 1.034, and the default Supply Facility Loss Factor of 1.0045 for distributors that are not embedded, please provide an explanation of the requested SFLF at 1.0290.
- c) Please provide a brief explanation of why the requested Total Loss Factor is more than 2% higher than the existing approved factor.

42. Ref: Exh9/Tab1/Sch7/p 3

Please confirm that the proposed Total Loss Factor should be 1.0614 rather than 1.0654 as shown.