

Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c.15, Schedule B, as amended;

AND IN THE MATTER OF an Application by Innisfil
Hydro Distribution Systems Limited for an Order or Orders
approving or fixing just and reasonable rates and other service
charges for the distribution of electricity as of May 1, 2009.

**INTERROGATORIES – ROUND TWO
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

December 16, 2008

**INNISFIL HYDRO DISTRIBUTION SYSTEMS LTD.
2009 RATES REBASING CASE
EB-2008-0233**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES – ROUND TWO**

Interrogatory # 25

Ref: Response to Energy Probe Interrogatory # 3 c)

- a) Please provide the R squared and adjusted R squared values for the regression equation that does not include the two variables with a t-statistic below 2.00.
 - b) Is the adjusted R squared value higher or lower for the equation with the two variables with a t-statistic higher or lower than it is for the equation that excludes these two variables?
 - c) Please confirm that an R squared value can only increase in value (i.e. move closer to 1.0) with the addition of explanatory variables, even if these variables are not statistically significant.
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Response #25

a)

	Two variables with T stat less than 2 included	Two variables with T stat less than 2 excluded
R Square	98.51%	96.41%
Adjusted R Square	98.33%	96.08%

- b) See response to a)
- c) See response to a)

Interrogatory # 26

Ref: Response to Energy Probe Interrogatory # 13 c)

- a) Please explain what is meant by “When final rates are determined this item will be reflected in those rates.”
 - b) Will Innisfil Hydro make an adjustment to its 2009 tax calculation to reflect the transfer or adjustment for these assets that were included in Class 1 in 2005 rather than in Class 47?
 - c) Will Innisfil Hydro provide all the calculations involved in any adjustment it makes?
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Response #26

- a) Innisfil Hydro has submitted a Cost of Service application on August 15, 2008. Several changes have been identified subsequent to this filing i.e. the cost of the commodity, smart meter funding adder etc through the interrogatory process and direction from the OEB. A summary of the identified changes has been prepared below. It is Innisfil Hydro’s position that these subsequent changes should be reflected in the OEB’s decision and final rate order for the 2009 rates.

A summary of these adjustments is as follows:

1. **Energy Probe #1c) – Summary of Forecast Data:** Innisfil Hydro is proposing to use the three average distribution loss factor of 4.77% instead of 5.8% as submitted in the application. This result in an overall increased customer loads of 2,301,874 kWh and reduces the revenue deficiency.
2. **Energy Probe #16a) – Cost of Power:** Innisfil Hydro has determined an incorrect total loss factor of 1.0498 was utilized in the quantities of the cost of power components as it relates to the working capital calculations within the application. Innisfil Hydro is proposing to update the quantities of the cost of power components using the total loss factor of 1.0746. This result in an increase to the cost of power for \$382,144 and increases the revenue deficiency.
3. **Energy Probe #16c) – Cost of Power and RTSR:** Innisfil Hydro has prepared an analysis of the impact for the Retail Transmission Rates in accordance with the OEB’s guidelines of October 22, 2008. Innisfil Hydro is also proposing to update the power supply expense using October 15, 2008 OEB forecasted rate of \$0.0603 per kWh. This would result in an increase to the overall cost of power components of \$1,554,380 and increases the revenue deficiency.
4. **OEB Staff #3.1e) – Capital Expenditures:** Innisfil Hydro has determined the road widening project has been pushed back one year. Innisfil Hydro is

proposing the \$750,000 estimated project cost be removed from the 2008 bridge year capital expenditures. Also, Innisfil Hydro has most recently received an updated 2009 cost estimate from Innisfil Hydro's design engineering consultant in the amount of \$1,050,000. This results in an increase to the capital expenditure for 2009 of \$261,200.

5. **OEB Staff #3.2a) – Capital Expenditures:** Innisfil Hydro has decided that one of the two feeders can be deferred for a few years and will therefore not be required to pay the estimated Hydro One contribution originally submitted in the application of \$500,000. Innisfil Hydro will also reduce capital costs in relation to the construction of the second feeder in the amount of \$170,000. Innisfil Hydro is proposing to reduce the 2009 capital expenditures by \$670,000.
6. **OEB Staff #3.2b) – Capital Expenditures:** Innisfil Hydro has determined due to a subdivision delay in the settlement area of Lefroy will allow the postponement of line extensions totaling \$898,650. Innisfil Hydro is proposing to reduce the 2009 capital expenditures by \$898,650. The items identified in 3.1e), 3.2a) and 3.2b) will result in overall reduced capital requirements in 2009 of \$1,307,450, reduced 2009 debt by \$2,057,450, and reduce the revenue deficiency.
7. **OEB Staff #4a) – Smart Meter Funding Adder:** Innisfil Hydro has requested to change its Smart Meter Funding Adder of \$0.30 per customer to \$1.00 per customer in accordance with the OEB's guidelines of October 22, 2008. The impact is a bill only impact.
8. **SEC #1b) – Innisfil Hydro is proposing to increase the OM&A Expenses by \$25,000 per year over four years as a result of the transition to IFRS January 2011.** Innisfil Hydro is beginning the planning stage for the conversion from GAAP to IFRS and estimates a one-time cost of \$100,000 for this transition. Innisfil Hydro is aware that it may incur additional operational expenses on a yearly basis, but at this point has not included an estimate of these costs until further information is known. Innisfil Hydro will require an understanding of the OEB requirements vs. IFRS presentation of our financial records to better estimate the additional cost.

**Innisfil Hydro Distribution Systems Limited
Summary of Proposed Changes**

IR #		Regulated Return on Capital	Regulated Rate of Return	Rate Base	Working Capital	Working Capital Allowance	Amortization	PLs	OM&A	Service Revenue Requirement	Base Revenue Requirement	Revenue Deficiency
IR #	Original Submission August 15, 2008	\$1,732,770	7.19%	\$24,089,366	\$20,952,180	\$3,142,827	\$1,980,834	\$596,367	\$3,931,720	\$8,241,691	\$7,750,434	\$1,071,765
EP 1c)	Loss factor chg to load forecast Change	\$1,735,078 \$2,308	7.19% -	\$24,121,443 \$32,077	\$21,166,026 \$213,846	\$3,174,904 \$32,077	\$1,980,834 \$0	\$597,025 \$658	\$3,931,720 \$0	\$8,244,657 \$2,966	\$7,753,400 \$2,966	\$1,046,120 -\$25,645
EP 16a)	Loss factor chg to cost of power Change	\$1,739,201 \$4,123	7.19% -	\$24,178,765 \$57,322	\$21,548,170 \$382,144	\$3,232,226 \$57,322	\$1,980,834 \$0	\$598,202 \$1,177	\$3,931,720 \$0	\$8,249,957 \$5,300	\$7,758,700 \$5,300	\$1,051,420 \$5,300
EP 16c)	Commodity & RTSR update Change	\$1,755,972 \$16,771	7.19% -	\$24,411,922 \$233,157	\$23,102,550 \$1,554,380	\$3,465,383 \$233,157	\$1,980,834 \$0	\$602,991 \$4,789	\$3,931,720 \$0	\$8,271,517 \$21,560	\$7,780,260 \$21,560	\$1,072,980 \$21,560
OEB 3.1e) 3.2a) 3.2b)	Capital/Amortization/Debt Change 2008 (\$750.0k), 2009 +\$261.2k 2009 (\$670.0k) 2009 (\$898.65k)	\$1,735,797 -\$20,175	7.54% 0.35%	\$23,039,953 -\$1,371,969	\$23,102,550 \$0	\$3,465,383 \$0	\$1,924,223 -\$56,611	\$601,512 -\$1,479	\$3,931,720 \$0	\$8,193,251 -\$78,266	\$7,701,994 -\$78,266	\$994,714 -\$78,266
OEB 4a)	Smart Meter Funding Adder (Bill Impact only) Change	\$1,735,797 \$0	7.54% -	\$23,039,953 \$0	\$23,102,550 \$0	\$3,465,383 \$0	\$1,924,223 \$0	\$601,512 \$0	\$3,931,720 \$0	\$8,193,251 \$0	\$7,701,994 \$0	\$994,714 \$0
SEC 1b)	IFRS reporting standards	\$1,736,067 \$270	7.54% 0.00	\$23,043,703 \$3,750	\$23,127,550 \$25,000	\$3,469,133 \$3,750	\$1,924,223 \$0	\$601,589 \$77	\$3,956,720 \$25,000	\$8,218,598 \$25,347	\$7,727,341 \$25,347	\$1,020,061 \$25,347
	Proposed at December 18, 2008	\$1,736,067	7.54%	\$23,043,703	\$23,127,550	\$3,469,133	\$1,924,223	\$601,589	\$3,956,720	\$8,218,598	\$7,727,341	\$1,020,061
	Change - Proposed vs. Original	0.19% \$3,297		-4.34% -\$1,045,663	10.38% \$2,175,370	10.38% \$326,306	-2.86% -\$56,611	0.88% \$5,222	0.64% \$25,000	-0.28% -\$23,093	-0.30% -\$23,093	-4.82% -\$51,704

b) Innisfil Hydro is currently working with their external auditors to quantify the adjustment for the distribution assets that were included in class 1 in 2005 rather than in class 47. We are expecting to have this information available within the first quarter of 2009.

c) Innisfil Hydro will make available all the calculations involved in the capital class adjustment from class 1 to 47 for its distribution assets in 2005.

Interrogatory # 27

Ref: Response to Energy Probe Interrogatory # 20

a) Where are the historical, bridge and test year figures related to accounts 4355 and 4360 provided in the evidence?

- b) If any of the figures referred to in (a) above have not been provided, please provide them for both accounts for each year of missing data.**
 - c) Please confirm that when the surplus equipment is sold, the original purchase value is removed from both the gross assets and accumulated depreciation? If this cannot be confirmed, please provide an explanation of the adjustments made.**
 - d) If the surplus equipment that is removed from service is not fully depreciated, does Innisfil Hydro still remove the original purchase cost from both the gross assets and the accumulated depreciation? If yes, what impact does this have on the remaining net book value component of rate base?**
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Response #27

- a) Any gain or loss on the sale of fixed assets for historical, bridge and test year are included in the evidence to accounts 4355 and 4360 respectively. In 2008 and 2009 Innisfil Hydro is forecasting the disposal of a vehicle in each of the noted years. The age and condition of the vehicles are such that no gain is forecasted.**
- b) All of the figures have been provided both within the Cost of Service application and in the response in question 27a).**
- c) Innisfil Hydro confirms removal of the asset cost and related accumulated depreciation upon the disposal of assets if applicable. If there are proceeds on the sale of assets, the gain or loss would be recorded to account 4355 and 4360 respectively. If any assets are deemed to be scrap material and sold as scrap, these proceeds are recorded to the US of A 4390 per the APH article 220 page 109.**
- d) Innisfil Hydro does not remove the original purchase cost from the grouped gross assets when removed from service as per Article 410 of the APH. Identifiable assets such as vehicles are removed from the gross assets and accumulated depreciation.**

Interrogatory # 28

Ref: Response to Energy Probe Interrogatory # 21

- a) Please provide the quantum of any proceeds or costs associated with transformers, meters and vehicles and other disposals for each of 2006, 2007 and year-to-date 2008.**

- b) Are these costs and proceeds recorded in accounts 4355 and 4360? If not, where are they recorded?
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Response #28

- a) Innisfil Hydro has not incurred any costs associated with the disposal of transformers, meters and vehicles for the years 2006, 2007 and year to date 2008. The scrap proceeds for the transformers and meters have been recorded to account 4390 per the APH.
- b) See response 28 a).

Interrogatory # 29

Ref: Response to Energy Probe Interrogatories # 23 & 24

The Innisfil September year-to-date capital expenditures are less than 40% of the total forecast for the 2008 bridge year and Innisfil has identified a number of capital expenditures in both 2008 and 2009 that will be postponed.

- a) Please provide an updated Table 2 from Exhibit 2, Tab 3, Schedule 1, page 8 that reflects the deferral of these projects and Innisfil's best estimate of the capital expenditures that will be completed and in service by the end of 2008.
- b) Please provide the impact on the revenue deficiency of the change in the level and timing of the capital expenditures by taking into account the change in rate base, change in depreciation expenses, taxes (CCA and capital) and any other impacts.
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Response #29

- a) The following table has been updated to reflect Innisfil Hydro's best estimate of the updated capital expenditures for 2008 and 2009. The 2008 capital has been reduced by a total of \$865.3k of which \$750k relates to Urbanization project that has been delayed to 2009. The 2009 capital has been reduced by \$1,307.5k due to the items listed in question 26a).

Capital Projects by year

Table 2

Description	2005 Actual	2006 Actual	2007 Actual	2008 Bridge Year	2009 Test Year
Distribution Plant Projects					
Customer Demand	488,649	1,256,003	853,455	950,055	2,302,760
Infrastructure Replace & Betterments	414,041	577,193	529,566	565,655	849,556
Security	0	0	0	360,400	198,900
Capacity	0	36,406	35,179	0	389,300
Reliability	34,592	0	210,551	427,700	1,460,126
Regulatory Requirements	0	0	0	207,700	0
Substations	4,506	1,301,539	28,376	58,850	2,200
Customer Connections and Metering	71,008	66,265	43,048	80,000	74,000
Sub Total-Distribution Plant Projects	1,012,796	3,237,406	1,700,175	2,650,360	5,276,842
General Plant Projects					
Facilities	33,447	56,665	56,911	104,600	40,000
Other Computer Hardware and Software	122,993	137,407	282,348	150,900	202,500
Transportation and Related Equipment	69,628	35,827	34,820	38,000	76,000
Communications Equipment	34,023	6,522	40,211	123,900	145,800
Tools and Equipment	2,734	8,798	13,377	14,500	21,200
Sub Total-General Plant Projects	262,825	245,219	427,667	431,900	485,500
Contributions					
Contributions	(248,034)	(1,020,015)	(642,594)	(505,000)	(571,900)
Sub Total-Contributions	(248,034)	(1,020,015)	(642,594)	(505,000)	(571,900)
GROSS ASSET TOTAL	1,027,587	2,462,610	1,485,248	2,577,260	5,190,442

- b) Please see response for question 26 a) which provides the impact the capital changes have on the revenue requirement.