



1 **Interrogatory**

2
3 **1. Reference: Hydro Ottawa, Manager's Summary**

- 4 a) With to page 8 (lines 18-20), please point to the parts of the record from
5 Hydro Ottawa's 2008 Rate Application that would substantiate its claim that
6 there were no costs related IFRS included in the 2008 revenue requirement.
7

8 **Response**

- 9
10 a) In Hydro Ottawa's 2009 Rate Application, Section 9.0 of the Manager's
11 Summary (Exhibit B-1-1) included a request for the establishment of a
12 deferral account for recording incremental costs related to the transition to
13 International Financial Reporting Standards ("IFRS"). Exhibit B-1-1, page 8,
14 lines 12-13 stated that "No costs were included in Hydro Ottawa's 2008 EDR
15 Application as the scope of the changes was still being determined." Hydro
16 Ottawa's 2008 Rate Application (EB-2007-0713) was submitted on
17 September 18, 2007 and during the preparation period of the application, the
18 details of the impact of IFRS were not known. As a result, no operating nor
19 capital dollars were earmarked for IFRS in the 2008 budget and hence no
20 reference to IFRS was made in the main body of the Rate Application.
21

22 In Attachment T to Exhibit B1-3-1, a Report entitled *Hydro Ottawa Limited –*
23 *Review and Update of Overhead Capitalization Estimates*, prepared by
24 KPMG on August 16th, 2007, page 7 states the following:

25 "As a result of recent initiatives by the Accounting Standards Board of
26 Canada ("AcSB"), entities such as Hydro Ottawa may be required to
27 report under International Financial Reporting Standards ("IFRS") by
28 2011. IFRS is more restrictive than current accounting standards for
29 regulated utilities with respect to the capitalization of overhead costs.
30

31 At this point, there is still some uncertainty regarding the details of the
32 application of IFRS to regulated Canadian utilities. IFRS and Canadian
33 standards may evolve in the years leading up to 2011 and Canadian utility
34 regulators have not yet addressed the issue of transition. The year 2011
35 is also beyond the horizon of this study's analysis. Accordingly, IFRS was



1 not specifically considered in the development of this study's estimates of
2 capitalized overhead costs for Hydro Ottawa."
3

4 The above quote refers specifically to the consideration of IFRS with respect
5 to Hydro Ottawa's capitalization policy, however it also reinforces the fact that
6 at that time (i.e. August 16th, 2007) the details of the impact of IFRS were not
7 known.
8

9 In the Ontario Energy Board's (the "Board") acknowledgement letter of
10 November 18, 2008 with respect to Hydro Ottawa's Application, they noted
11 the request for a new deferral account for the transition of utility accounting
12 from Canadian GAAP to IFRS and stated that because there are already
13 applications before the Board to consider this matter on a generic base, the
14 Board will not hear this part of Hydro Ottawa's application in the EB-2008-
15 0188 proceeding and therefore this issue is out of scope.



1 **Interrogatory**

2
3 **2. Reference: Hydro Ottawa, 3GIRM Supplementary Model**

- 4
5 a) With respect to Tab B3.1, please confirm that the OEB Cost Allocation Model
6 included the cost of the Transformer Ownership Allowance in the Base
7 Revenue Requirement and allocated it to all customer classes.
8
9 b) Please confirm how the “cost” of the transformer ownership allowance was
10 allocated in Hydro Ottawa’s 2008 Rate Order.
11
12 c) Given the price cap adjustment is applied to all rates, why shouldn’t it also be
13 applied to the transformer ownership allowance for 2009.
14

15 **Response**

- 16 a) Tab B3.1 of Hydro Ottawa’s 3GIRM Supplementary Model shows a
17 transformer allowance for 2008 of \$1,158,564. The Ontario Energy Board
18 (the “Board”) Cost Allocation Model, which Hydro Ottawa used to determine
19 the Board approved Revenue to Cost Ratios and which are being maintained
20 for 2009 Rates, included the cost of the transformer ownership allowance in
21 the Revenue Requirement and it is being collected from all customer classes.
22
23 b) The “cost” or expense of the transformer ownership allowance was allocated
24 to the three classes (GS > 50 < 1,500 kW, GS > 1,500 < 5,000 kW and Large
25 Use) which currently receive the allowance, using a forecast based on
26 historical data.
27
28 c) The Report of the Board on 3rd Generation Incentive Regulation for Ontario’s
29 Electricity Distributors, issued July 14, 2008 states on page 49:
30
31 “The price cap adjustment will not be applied to Rate Riders, Retail
32 Transmission Service Rates, Wholesale Market Service Rate, Rural Rate
33 Protection Charge, Standard Supply Service – Administrative Charge,
34 Allowances⁴, Retail Service Charges or Loss Factors.



1
2
3
4
5
6
7
8

⁴ Transformation and primary metering allowances and any other allowances the Board may determine.”

Hydro Ottawa understood the above statement to include the transformer ownership allowance and therefore the price cap adjustment was not applied to this allowance. Hydro Ottawa’s Transformer Ownership Allowance remains at \$0.45/kW.