Board Staff Interrogatories
2010 Electricity Distribution Rates
Festival Hydro Inc. ("Festival Hydro")
EB-2009-0263

Rate Base and Capital Expenditures

1. Ref: Exhibit 2 / Tab 2/ Sch. 3/ Page 25
Ref: Exhibit 1/ Tab 3/ Sch. 1/ Exhibit F/ Page 32

In 2008, Festival Hydro adopted CICA Handbook Section 3031 and reclassified spare parts totalling $648,253 from inventory to capital assets. Please explain why this change in accounting policy was not applied on a retrospective basis and why prior periods were not restated, as noted in paragraph 40A(b) of CICA Handbook Section 3031.

2. Ref: Exhibit 2 / Tab 2/ Sch. 3/ Page 25

In 2008, Festival Hydro transferred $968,310 from the non depreciable asset disposal cost account to the respective property, plant and equipment accounts. The application states that this transfer was done following the 2008 audit.

a) Please provide a year by year summary to illustrate how the $968,310 accumulated in the non depreciable asset disposal account.
b) Please provide the reference to this subject in the 2008 audited financial statements.
c) If this subject is not noted in the 2008 audited financial statements, please provide documentation reflecting the auditor's observations and findings and Festival Hydro's decision to transfer $968,310.
d) Please include reference to any precedents. Were adjustments done on a retrospective basis in these precedent cases?

3. Ref: Exhibit 2 / Tab 3/ Sch. 1/ Page 4

The scope of the Stratford – Wright Blvd Ph 2 project is to provide servicing to 23 lots in 2010 to support economic development. Is this land privately owned? If so, will the owner of the land undertake the costs to service the lots?

Service Quality and Reliability

4. Ref: Exhibit 2 / Tab 3/ Sch. 2/Appendix A/ Page 83 to 87

Festival Hydro has provided reliability performance for the period 2004 to 2008 actuals for SAIDI, SAIFI and CAIDI, with and without Loss of Supply interruptions.

The 2006 Electricity Distribution Rate Handbook specifies the standard for reliability performance as being “within the range of the last three year’s performance”. For 2007 and 2008, please describe the reasons for below-standard SAIDI and SAIFI performance and what actions Festival Hydro took or is taking to remedy the situation. Please identify, as appropriate, operating or capital projects linked to reliability improvement.

5. Ref: Exhibit 2 / Tab 3/ Sch. 2/ Page 25
Ref: Exhibit 2 / Tab 3/ Sch. 2/Appendix A/ Page 89

Festival Hydro states that its tree trimming policy is based on a cycle lasting three years and that it follows the EUSA Safe Practice Guide for Line Clearing. In the second reference, Festival Hydro states that better tree trimming is one of the reasons that 2008 service quality and reliability has improved over 2007 performance. Please explain how tree trimming has improved. Is the cycle shorter than three years? Does Festival Hydro exceed the guidance of EUSA? Will Festival Hydro revise its current tree trimming policy?

Load and Customer Forecasting

6. Ref: Exhibit 3 / Tab 2/ Sch. 1/ Page 7

The coefficient for “Population” in the multifactor regression model is (5,558.23). Please confirm that the interpretation of this coefficient is that Festival Hydro will purchase 5,558.23 kWh less per month for an increase of one person in the population, assuming all other factors are held constant.

7. Ref: Exhibit 3 / Tab 2/ Sch. 1/ Page 8
Ref: Exhibit 3 / Tab 2/ Sch. 1/ Appendix A

Festival Hydro states that the negative coefficient for population is a result of population growth in recent years increasing at a decreasing rate.

a) Please confirm that the data and calculations in the following table are correct. Please correct data if required.
b) Please comment on the data in the table with respect to trends and Festival Hydro’s observation that population growth in recent years is increasing at a decreasing rate.

Year	Population on Jan 1	Population Increase	% Change
1998	41047		
1999	41287	240	0.58%
2000	41539	252	0.61%
2001	41799	260	0.63%
2002	42039	240	0.57%
2003	42279	240	0.57%
2004	42519	240	0.57%
2005	42749	230	0.54%
2006	42977	228	0.53%
2007	43223	246	0.57%
2008	43469	246	0.57%
2009 B	43715	246	0.57%
2010 T	43961	246	0.56%

8. Ref: Exhibit 3 / Tab 2/ Sch. 1/ Page 10

Table 4 provides the statistical results of the developed model. The adjusted R square is 0.776.

a) Please identify any changes to the model Festival Hydro plans to make in future applications in order to raise the adjusted R square value closer to the normal 0.90-0.95 acceptance range.
b) Please provide any statistical information (including the adjusted R square value) the Applicant may have that demonstrates the Applicant’s load forecasting track record over the past three years.
c) Please describe what alternative modeling efforts, such as additional variables, were examined by Festival Hydro to improve the results of the model.

9. Ref: Exhibit 3 / Tab 2/ Sch. 1/ Page 12

Festival Hydro has applied adjustments to the 2010 forecast to reflect the addition of two large general service > 50 kW operations. What is the current status of the operation of these two customers?

Operating Costs

10. Ref: Exhibit 4 / Tab 2 / Sch. 1 / Page 3

The conversion of 4kV systems to 27 kV has allowed the applicant to reduce the number of municipal substations from 10 in 2006 to 6 in 2008. What costs savings or productivity improvements has Festival Hydro projected as a result of this conversion? How have these been factored into operating expenditures during 2010 and factored into Festival Hydro's proposed distribution rates? If available, please provide the details of cost savings on an annual basis.

11. Ref: Exhibit 4 / Tab 2 / Sch. 3 / Page 17 - LEAP
Ref: Exhibit 4 / Tab 2 / Sch. 1 / Page 7

In the first reference above, Festival Hydro stated that it has included 0.12% of its distribution revenue requirement for 2010 in account 5605 to fund the low income energy assistance program. The 2009 bridge year also includes this amount.

a) Please identify whether these amounts relate to existing programs (as noted in the second reference above) or new program(s).
b) Please explain why these funds are included in account 5605.

12. Ref: Exhibit 4 / Tab 2/ Sch. 3/ Page 17

The applicant has included $25,000 in administration costs to cover the transition cost to IFRS in each of four years starting in 2010, for a total of $100,000. Please explain whether these costs are one-time administrative costs or ongoing compliance costs. Please explain how this request complies with section 8.2 of the July 28, 2009 Board Report, Transition to International Financial Reporting Standards.

13. Ref: Exhibit 4 / Tab 2/ Sch. 6

Festival Hydro has provided employee complement and compensation data for 2006, 2008, 2009 (bridge) and 2010 (test).

a) Please provide employee complement and compensation data for 2007.
b) Has the applicant historically increased compensation by 3% annually for non-union, management and executive level staff?
c) Please identify the source document for the inflation assumptions.
d) Please confirm that the greater than 3% increase in 2010 over 2009 management compensation levels reflects the addition of the energy conservation officer, whose costs will be shared with the City of Stratford.
e) Please explain the greater than 3% increase in 2009 over 2008 management compensation levels.

14. Ref: Exhibit 1 / Tab 2/ Sch. 5

The applicant states that contributing factors to the 2010 revenue deficiency are increases in depreciation expense and replacement regulatory and engineering staff. The applicant states that the new staff have different skill sets than those employees who have retired.

a) Are the regulatory and engineering staff management or non-union?
b) Please explain the requirement for the new skill sets.

15. Ref: Exhibit 4 / Tab 2/ Sch. 7

The reference lists depreciation rates, which the applicant states are in line with rates set out in the APH. The life-years for all assets is consistent with those listed in Appendix B of the 2006 Electricity Distribution Rate Handbook, except buildings & fixtures. Please explain the assignment of 30 life-years to buildings and fixtures instead of 50.

16. Ref: Exhibit 4 / Tab 3/ Sch. 1/ Page 97

The reference summarizes tax calculations for 2006 Board approved, 2009 bridge and 2010 test. The Ontario income tax rate will change effective July 1, 2010 from 14% to 12%. This change in tax rate will change the combined tax rate from 32% to 30%. Please explain the rationale for using a 32% tax rate instead of the weighted average tax rate of 31%.

17. Ref: Exhibit 4 / Tab 3/ Sch. 1/ Page 97
Ref: Exhibit 4/ Tab 3/ Sch. 2/ Page 6

The Ontario capital tax will be phased out effective July 1, 2010. Please explain why there is no entry against Ontario capital tax for 2009 and 2010 in the first reference, but there are entries in the second reference.

Cost of Capital

18. Ref: Exhibit 5 / Tab 1/ Sch. 1
Ref: Exhibit 5 / Tab 1/ Sch. 3/ Appendix A/ Page 3

As noted in the first reference, Festival Hydro has its original debt, a Promissory Note held by its shareholder, the City of Stratford. Please explain the purpose of the second reference, an August 19, 2009 certification from the City of Stratford. What provision does Festival Hydro have to renegotiate the rate or terms of this debt?

19. Ref: Exhibit 5 / Tab 1/ Sch. 1

Festival Hydro will be borrowing $2.5 million from Infrastructure Ontario to fund the applicant's smart meter program. Please confirm that the Infrastructure Ontario loan is not included in the cost of capital. Please explain why Festival Hydro requires a new credit facility for smart meter funding in light of the fact that a funding adder has been included in rates since 2006.

Cost Allocation

20. Ref: Exhibit 7 / Tab 1/ Sch. 2/ Page 2
Ref: Exhibit 7 / Tab 1/ Sch. 3/ Page 2-3

Festival Hydro updated the original 2006 cost allocation model to remove the transformer ownership allowance of $446,944. Please confirm that the transformer ownership allowance is applicable to the GS>50 and Large User customer classes. Please explain why the revenue for all customer classes is lower in the run with the transformer ownership allowance removed.

21. Ref: Exhibit 7 / Tab 1/ Sch. 2/ Page 4

The applicant's proposed 2010 revenue to cost ratios are listed in Table "Appendix 2-P". All of the proposed ratios are within the Board's target range except for sentinel lights, street lights and USL. When does the applicant propose to bring the revenue to cost ratios for these customer classes within the target range?

22. Ref: Exhibit 7 / Tab 1/ Sch. 2 / Page 5 and 6

The application states that the proposed revenue to cost ratio for the residential Hensall customer class exceeds the 50% difference between the existing ratio and the Board's minimum target because of Festival Hydro's desire to move these rates closer to regular Festival Hydro residential rates and to eventually harmonize these rates. Festival Hydro also states that as part of the 2006 rate application Festival Hydro took steps to harmonize these rates through direct mitigation.

a) Please explain the 2006 direct mitigation for the residential Hensall customer class.
b) What are Festival Hydro's plans regarding harmonization for the residential Hensall customer class?

Rate Design

Low Voltage

23. Exhibit 1/ Tab 1/ Sch. 11/ Page 1
Exhibit 8 / Tab 1/ Sch. 1/ Page 10

In the first reference, Festival Hydro states that electricity from Hydro One's low voltage distribution system supplies Festival Hydro customers in the towns of Brussels, Seaforth, Hensall, Zurich, and Dashwood. In the second reference, Table 9 lists kW subject to LV charges for the communities of Seaforth, Brussels, Grand Bend and remaining locations.

a) While Grand Bend is not noted in the first reference, please confirm that the community of Grand Bend is supplied by Hydro One's low voltage system.
b) Please confirm that the "remaining locations" listed in Table 9 includes Hensall, Zurich and Dashwood.
c) Do the "kW with Common ST Line Charge (1,2,3)" at 116,666 kW refer to locations (1,2,3) or to locations (1,3)?
d) Similarly, do the "kW with Inc Capital (1,2,3)" at 116,666 kW refer to locations (1,2,3) or to locations (1,3)?
e) Please explain how the LV rates listed in Table 9 reflect the approved Hydro One rate riders that are applicable for a 27 month period starting February 1, 2009.

24. Ref: Exhibit 8 / Tab 1/ Sch. 1 / Page 11

Festival Hydro has allocated low voltage costs to customer classes based on charges collected from customers in the period 2006 to 2008. Please prepare a summary table allocating low voltage costs on the basis of 2010 Retail Transmission Connection Costs.

Loss Factors

25. Ref: Exhibit 8/ Tab 1/ Sch. 1/ Page 12-15

Festival Hydro states that its current supply facility loss factor (SFLF) is 1.0045.

a) Was Festival Hydro's connection status 100% directly connected to the IESO controlled grid in 2006?
b) If yes, were the metering points in 2006 in the City of Stratford and the Town of St. Mary's which are directly connected to the IESO controlled grid as explained on page 12?
c) If no, please explain why the approved SFLF in 2006 was 1.0045.

26. Ref: Exhibit 8/ Tab 1/ Sch. 1/ Page 15

Festival Hydro states that it has been building up a debit balance in its cost of power variance accounts (ignoring sub account global adjustment). Festival Hydro states that the debit balance suggests that the current loss factor may be slightly low. Please identify if there are other factors that could contribute to the trend in the cost of power variance accounts.

Retail Transmission Service Rates

27. Ref: Exhibit 8/ Tab 1/ Sch. 3/ Page 4 - 5

Please provide a summary table of actual monthly network and connection costs and retail billings for 2007, 2008 and January to September of 2009..

28. Ref: Exhibit 8/ Tab 1/ Sch. 3/ Page 5

Festival Hydro requests no changes to its existing specific service charges and retail service charges. Do Festival Hydro's Conditions of Service include any rates or charges?

Rate Classes and Bill Impacts

29. Ref: Exhibit 8/ Tab 1/ Sch. 4

Please confirm whether the description of rate classes is the same as the description in the Tariff of Rates and Charges effective May 1, 2009. If not, please identify the differences and provide an explanation.

30. Ref: Exhibit 8/ Tab 1/ Sch. 8/ Appendix A/ Page 2 and 4

a) Please explain why there is only one tier of commodity pricing for regular residential customer consuming 800 kWh per month. Please confirm the delivery bill impact.
b) Please explain why there is no second tier of commodity pricing for the GS > 50 kW customer consuming 2,000 kWh per month. Please confirm the delivery bill impact.

Deferral and Variance Accounts

31. Ref: Exhibit 9 / Tab 1 / Sch. 1/ Page 3
Ref: Exhibit 9 / Tab 1 / Sch. 2/ Page 3-4

a) Please confirm that the principal amount of $82,381 related to Account 1508 Other Regulatory Assets – Sub-account OEB Cost Assessments only reflects OEB cost assessments prior to April 30, 2006.
b) Please confirm that the principal amount of $240,195 related to Account 1508 Regulatory Assets – Sub-account Pension Costs only reflects pension costs associated with cash contributions paid to OMERS for the period from January 1, 2005 to April 30, 2006.

32. Ref: Exhibit 9 / Tab 1 / Sch. 1 / Page 6

Festival Hydro has requested approval to use account 1574, Deferred Rate Impact Amounts.

Festival Hydro refers to EB-2008-0663 in support of its request. Please clarify this reference and state why this is the applicant's preferred approach if 2010 rates are approved after May 1, 2010.

33. Ref: Exhibit 9 / Tab 1 / Sch. 1

On October 15, 2009, the Board's Regulatory Audit & Accounting group issued a bulletin related to Regulatory Accounting & Reporting of Account 1588 RSVAPower and Account 1588 RSVAPower Sub-account Global Adjustment. Please confirm whether or not Festival Hydro plans on making any changes to its filing with respect to Account 1588.

34. Ref: Exhibit 9 / Tab 1 / Sch. 2/ Page 2 and 5
Ref: Exhibit 9 / Tab 1 / Sch. 2/ Appendix A

On page 2 of the first reference, Festival Hydro states that account 2405 is not part of the request for disposition at this time. On page 5 of the first reference, account 2405 is included in the table of "Accounts Requested for Disposition". In the second reference, account 2405 is not included in the determination of proposed rate riders. Please clarify.

35. Ref: Exhibit 9 / Tab 1 / Sch. 2/ Page 4

The Board issued its Report on Electricity Distributors' Deferral and Variance Account Review Initiative on July 31, 2009. The report identities accounts 1565 and 1566 as requiring further Board direction in order to proceed with disposition. Please comment as to why Festival Hydro has requested that balances be removed from these CDM accounts.

36. Ref: Exhibit 9 / Tab 1 / Sch. 2/ Appendix A

Table 3 summarizes the applicant's determination of proposed regulatory asset rate riders. Please explain why the billing determinant for the Residential Hensall customer class is kW.

37. Ref: Exhibit 9 / Tab 1 / Sch. 3

Please compare the January 1, 2005 deferral and variance account opening balances with the December 31, 2004 closing balances approved for recovery in RP-2005-0020/EB-2005-0364. Please identify any differences and provide an explanation for any differences.

Smart Meters

38. Ref: Exhibit 9 / Tab 1 / Sch. 4

The application states that Festival Hydro has been authorized to conduct smart meter activities by virtue of regulation and conditional on meters being acquired pursuant to and in compliance with a Request for Proposal issued by London Hydro Inc. Festival Hydro intends to install smart meters in 2010. Appendix 2-S indicates that 19,496 smart meters will be installed at a capital cost of $2.5 million. Please provide any update on the status of Festival Hydro's smart meter program.