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November 23, 2009

**BY RESS & COURIER**

Ms. Kirsten Walli, Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 26<sup>th</sup> Floor, P.O. Box 2319  
TORONTO, ON M4P 1E4

**Re: ED Number EB-2009-0263  
Festival Hydro Inc. Response to Board Staff Interrogatories  
2010 Electricity Distribution Rates, Licence No. ED-2002-0513**

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Dear Ms. Walli:

On August 28, 2009, Festival Hydro Inc., referred to herein as the Applicant, filed its application for 2010 electricity distribution rates and, subsequently, on November 2, 2009, Board staff submitted its interrogatories to the Applicant as per the Board's Procedural Order #1 dated October 16, 2009. The Applicant now submits its responses to those interrogatories.

A copy of this package has been electronically filed through the Ontario Energy Board's RESS system and emailed to the Board Secretary. The original has been couriered to the Board's offices.

Should you require any further information or clarification of any of the above, kindly contact the writer.

Respectfully submitted,

*Originally Signed by*

W.G. Zehr

President

Cc All Intervenors

**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 totaling \$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.

**Response**

**Per note 2 of our December 31, 2008 financial statements, CICA Handbook section 3031 was applied on a prospective basis. The adjustment at December 31, 2008 is a reclass entry to ensure that presentation on the financial statements is accurate (i.e. that spare part long term assets are properly classified as capital versus inventory). This adjustment does not impact the profit and loss statement as depreciation was not taken on the amount adjusted to capital. We anticipate similar major spare parts values going forward in 2009 and 2010.**

- 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?

### Response

a) The table below summarizes how the \$968,310 accumulated.

Year	Amounts originally charged to accumulated depreciation (reclassified to gross assets in 2008)
2002	2,380
2003	152,099
2004	138,766
2005	181,982
2006	146,752
2007	196,036
2008	150,295
Total	968,310

b) The 2008 audited financial statements do not reference this adjustment specifically as the impact to the financial statements on the depreciation booked for this adjustment on a prospective basis was immaterial to disclose. The matter was included in the FHI Finance and Audit Subcommittee report and was discussed in KPMG's presentation of the final financial statements to this subcommittee.

c) An excerpt from our audit report from KPMG is as follows:

#### **Accumulated depreciation – Account 2105**

- As a result of a discussion with KPMG, management changed from setting up the costs associated with removing assets in a contra accumulated depreciation account to setting them up as part of the cost basis of the asset.
- KPMG discussed the issue with management and the conversation was centered around the fact that no depreciation is ever taken on the costs within the 2105 account. As a result, this asset would continually increase in value and would never decrease resulting in an overstated net book value associated with property plant and equipment and also an artificially increased rate base.

#### **Actions Taken by Management**

- Management determined the costs within the 2105 account and determined the actual depreciation expense which should have been recorded if this amount had been depreciated each year.
- Management determined that they had not depreciated assets by \$94,613 during the prior years as the costs were in a non-depreciable account.
- Management determined that as the costs were transferred in 2008, the only depreciation expense to be taken is the 2008 portion. Management determined that the remaining \$94,613 will be depreciation on a prospective basis.

#### **Effect on the Audit**

- KPMG examined the documentation associated with the adjustment.
- KPMG examined the analysis over the depreciation expense prior to the adjustment.
- As the depreciation expense has not been taken in prior years, the net book value of the assets identified is overstated and the accounting treatment is not appropriate. As such, KPMG has taken the \$94,613 adjustment to the uncorrected misstatement schedule.

d) **We do not have, nor did our auditors provide precedent cases for the prospective treatment of this item. As noted in "c" above - a prospective treatment was accepted due to the immaterial amount of the item to our statements as a whole.**

**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?

**Response**

The land for the new industrial subdivision referred to as Wright Blvd. Ph 1 is owned by the City of Stratford. The new transformer station planned for Stratford will be in this subdivision, therefore, the main feeder lines extending in and out of the subdivision will be used primarily to connect the new transformer station to the existing 27.6 kV infrastructure in Stratford. Since these circuits are required whether or not any of the subdivision lots are developed, the owner (City of Stratford) will not be contributing to the cost of the main feeder lines. The costs for servicing the lots will be consistent with the requirements of the Distribution System Code (DSC).

***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.

**Response**

Since the reliability numbers for 2008 are lower than the 3 year average (and essentially the best for the past 5 years), it has been assumed that Board staff is interested in 2006 and 2007, not 2007 and 2008 as requested.

**2006:**

Loss of Supply is the leading cause of the longer duration outages affecting large groups of customers, which adversely impacts both SAIDI and SAIFI. Festival Hydro is embedded to Hydro One in Seaforth, Dashwood, Brussels, Hensall, and Zurich. Most of these locations are supplied by longer rural radial feeders from Hydro One, and experience frequent outages triggered by adverse weather. To mitigate these outages, Festival Hydro has a “Mutual Aid” agreement with Hydro One and will assist with repairs in the area upon request from Hydro One (at their cost). In discussion with

Hydro One regarding the reliability of the delivery by Hydro One to these embedded points, Hydro One has indicated the performance of these feeders is within the acceptable range. Hydro One has no plans for capital improvements to these feeders.

A large number of outages in 2006 were classified as “unknown” since no obvious cause of the outages was determined at the time. In 2007, it was determined that many of these outages (the ones in St Marys) were due to sympathetic tripping of feeder breakers (fault on one feeder causing a voltage imbalance at the transformer station which the relays interpreted as a fault on adjacent feeders causing them to open their breaker). Once this problem was identified, changes were made to the relay settings at the St Marys transformer station, and the number of “unknown” outages dropped significantly in 2007. The project to review and change the relay settings was conducted under Operating and Maintenance activities in 2007.

The “unknown” outages in Stratford were suspected to be caused by animal contacts (mainly squirrels). To mitigate these outages, Festival Hydro met with the tree trimming contractor hired by the City of Stratford to improve the tree trimming program. Historically, trees were trimmed to meet the minimum clearance recommended by the EUSA Safe Practice Guide. It was suggested that with these minimum clearances, squirrels were still able to jump from tree branches to overhead powerlines where they could cause outages by shorting out equipment. Therefore, the tree trimming contractor was directed to trim the trees to obtain the maximum clearance possible while still maintaining the integrity of the tree. This was formally documented in August 2006 as the new Tree Trimming Policy (see Exhibit 2, Tab 3, Schedule 2, page 25). There was no additional cost for this change (since it takes the same amount of time to trim an incrementally larger amount from a tree). Since the tree trimming is done on a three year cycle, the immediate effect of this practice was only a marginal decrease in the number of outages due to animal contacts (including unknown). At the same time, line crews were provided with additional instructions on what to look for during line patrols following an outage, when the initial patrol did not reveal an obvious outage cause. The practice was changed so that once the power has been restored, a detailed patrol of the feeder is conducted (typically the next working day during daylight hours) looking for evidence of animal contacts (burn marks on hardware, carrion near the base of the pole, interviews with customers) in the area where the outage was thought to have originated. The practice has resulted in very few outages been listed as “unknown” going forward, and an increase in outages attributed to animal contacts.

There were several outages that resulted in feeder lockouts in Stratford that would last 15 to 45 minutes in duration as the line crews patrolled the feeder looking for the outage cause. To improve this performance, a project was initiated in 2006 to test the use of automated switches, which would transfer a section of a feeder to an adjacent feeder if the original feeder locked out (see Exhibit 2, Tab 2, Schedule 3, page 13, line

6). As noted, this project was deemed successful and additional automated switches have been added to the Stratford system and more planned in coming years.

2007:

As with 2006, Loss of Supply continues to be the leading cause of outages. No further action was taken regarding these outages.

A major storm hit Stratford on May 15 which caused numerous outages related to broken tree limbs and fallen trees. This single storm increased SAIDI by 1.14 and SAIFI by 0.29. The revised tree trimming program had just started in mid-2006, but future storms are expected to have less of an impact going forward by increasing the clearance between tree limbs and powerlines.

Animal contacts continued to cause numerous outages, particularly on the St Marys M4 feeder. A detailed examination of the system construction revealed that the 15 kV rated insulators (standard for the 13.8 kV system) were much shorter than the 35 kV rated insulators (standard for the 27.6 kV system) used in Stratford. Several of the animal contact outages occurred when squirrels climbed from the powerline, along the insulator to the metal bracket or steel crossarm, causing a short circuit from the line to the metal. In consultation with other utilities that had 13.8 kV overhead systems, it was discovered that some had seen improvements through the use of a fiberglass extension rod which attaches to the 15 kV insulator making it much longer. A capital project was initiated in 2008 to install these devices on the St Marys M4 feeder (see Exhibit 2, Tab 2, Schedule 3, page 21, line 22). The success of this program led to the use of these devices in Stratford, starting with the M3 feeder in 2009 (see Exhibit 2, Tab 2, Schedule 3, page 27, line 4).

To improve the overall performance of the St Marys system, reclosers were added to the two longest feeders to reduce the number of customers affected by an outage (see Exhibit 2, Tab 2, Schedule 3, page 22, line 10). To improve the overall performance of the Stratford system, additional automated switches were added to automatically restore power to affected areas (see Exhibit 2, Tab 2, Schedule 3, page 22, line 24 also Exhibit 2, Tab 2, Schedule 3, page 28, line 19).

There was a significant improvement in both SAIDI and SAIFI as a result of the actions taken as outlined above. The installation of automated switches and insulated brackets will continue into the coming years, subject to annual review to set priorities and determine necessity.

**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?

**Response**

The “better” tree trimming is in reference to the tree trimming practices as outlined in the Tree Trimming Policy created in 2006 (see Exhibit 2, Tab 3, Schedule 2, page 25) , which moved the program to a three year cycle starting in 2006. By the beginning of 2008, approximately two-thirds of the Stratford system had been trimmed under this new policy with the final third completed during the 2008 calendar year. The result of this “better” tree trimming was seen in the reduction of the number of tree contacts and squirrel related outages. The Policy does not need to be changed.

***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.

**Response**

The load increase from the modest customer growth is less than the reduction in load resulting from reduced average consumption across the entire customer population. This reduction across the entire consumer population is primarily the result of two factors: conservation and reduced manufacturing demand related to plant closures. Over the past five years, residential sales per customer (i.e. population) have been on the decline. We attribute this decline to the conservation efforts of the Province as well as the conservation efforts by Festival Hydro. As part of the CDM third tranche funding, Festival Hydro undertook a number of programs to assist in the reduction of residential electrical use, such as the distribution of LED light bulbs, LED seasonal lights, LED night lights and general education of conservation at home shows, schools and other conservation booths. For general service customers, a number of seminars were held on topics such as lighting, variable speed motors and power factors. Since the introduction of the OPA programs in 2007, Festival Hydro has always made its targets on refrigerator retirements, ERIP incentives and power savings blitz installations. We have also been very close to our PeakSaver targets.



This negative coefficient also reflects the impact of a number of plant closures, particularly related to the automotive industry. So while our population is growing, the impact of the loss of one major customer more than offsets the usage created by an increased population. We expect the modest growth and average consumption reduction to continue.

**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.

<b>Year</b>	<b>Population on Jan. 1</b>	<b>Population Increase</b>	<b>% Change</b>
1998	41,047		
1999	41,287	240	0.58%
2000	41,539	252	0.61%
2001	41,799	260	0.63%
2002	42,039	240	0.57%
2003	42,279	240	0.57%
2004	42,519	240	0.57%
2005	42,749	230	0.54%
2006	42,977	228	0.53%
2007	43,223	246	0.57%
2008	43,469	246	0.57%
2009 B	43,715	246	0.57%
2010 T	43,961	246	0.56%

**Response**

- a) The data and calculations in the above table are the amounts Festival Hydro believes are appropriate for use in our forecasting model, because we believe it reflects the typical population growth for Festival Hydro's service area. As shown on the table, in the previous 8 years the annual % change has been in the range of .53% to .63 %. As such, the use of .57% for 2007 to 2009 and .56% in 2010 represents reasonable growth for our service territory.
- b) Our population information is based on the Statistic Canada Census surveys conducted in 2006, 2001, 1996, 1991 for the City of Stratford and Town of St. Marys. Between 1991 and 1996, the combined populations increased by 1,797 or 5.4% in the 5



year period. From 1996 to 2001, the increase was 1,114 or 3.2% increase. For 2001 to 2006, it was 1,005 or 2.8% increase in the 5 year period. This was the basis for Festival Hydro stating that population is increasing at a decreasing rate, as this has been the trend in the past 15 year period.

Since 2006 was the last date a census was completed, we then projected population growth for the period 2007 to 2009. For this period, we used the average of the past 10 years and projected that amount for the 2007 to 2009 period. We felt the average of growth over the past 10 years would fairly represent the growth over the forthcoming four years. We are not aware of any great economic shifts which would greatly impact population growth over the forthcoming period. Population growth as a result of the two large customers added in our model (university satellite and bank back office facility) we expect will be offset by shrinkage in the manufacturing sector.

#### Population Growth Based on Stats Canada Census Reports

	<u>2006</u>	<u>2001</u>	<u>1996</u>	<u>1991</u>
Stratford - Stats Canada	30461	29780	29007	27666
St. Marys - Stats Canada	6617	6293	5952	5496
Total	<u>37078</u>	<u>36073</u>	<u>34959</u>	<u>33162</u>
Change in 5 yrs	1005	1114	1797	
% Change in 5 yrs	2.79%	3.19%	5.42%	

*Note: The towns of Brussels, Seaforth, Hensall, Dashwood and Zurich do not have census data for their own towns (part of the municipality). The populations for each town was received from the Municipal offices. We assumed the same growth rate for these towns as was experienced for the combined Stratford/St. Marys.*

#### 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.

- 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.
- 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.

### Response

- a) The variables used by Festival Hydro are what we believed were the key variables in determining our forecast. The use of heating and cooling days directly impact usage by residential and general service less than 50 kW, and to some degree the General Service > 50 categories. The heating and cooling days used was for the Stratford MOE location. We have used the Ontario GDP index in that we felt it would fairly represent the GDP for the Stratford area. The number of days in a month, peak hours, population and summer/fall flags were also used as these variables also impact usage patterns.

The two major factors we believe have been impacting our load trends in recent years are conservation and a shrinking manufacturing sector. Over 50% of our kWh load is sold to approximately 90 General Service > 50 kW and Large Use customer, so the loss of one or more of these customer can greatly impact our usage. Festival Hydro will continue to monitor the situation and assess whether other drivers may be appropriate to be included in the next Cost of Service Application.

- b) Festival Hydro's annual budget process does not involve the use of a statistical model to project future year's load. Our budgets are based on recent previous years' results, adjusted for what we feel are expected growth patterns for our service territory. The expected growth projections are based on data from third party sources such as the Bank of Canada, IESO 18 month outlook and local economic developments. Our approach to date has been fairly reliable.

Provided below are extracts from our annual budgets presented and approved by our Board of Directors for the past three years. Also provided are the final financial statement results. For the most part we have been close to our projections except for 2008, when we were hit by a major economic downturn, which was also missed by the major economic predictors (Bank of Canada, chartered bank economists) in Canada. This is the same

Below is an extract from our recent budgets presented and approved by the Festival Hydro Boards and the results at the end of the period.

### For fiscal 2009:

2009 budget presented to the Festival Hydro Board of Directors states:

*Service Revenue is projected to increase by \$548,455 to \$53,023,861 representing a 1.0% increase over 2008.*

*In our projections we have assumed the price of electricity will increase by around 2%. We have projected residential volumes will remain the same as 2008 and that general service sales will decline by 2% due to economic conditions.*

The actual 2009 results to September 30, 2009 are as follows (unaudited):

	2008 YTD Actual	2009 YTD Budget	2009 YTD Actual	Variance (09A-09B) 9 months
Service Revenue	\$39,605,446	\$39,767,896	\$38,924,664	(\$843,232)
Cost of Power	32,680,051	32,906,139	32,075,428	(\$830,711)
Gross Margin	\$6,925,395	\$6,861,756	\$6,849,236	(\$12,521)

2008 budget presented to Festival Hydro's Board of Directors. Also shown are the final December 31, 2008 internal financial statements.

2008 budget presented to Festival Hydro's Board of Directors:

*Service Revenue is projected to increase by \$1,164,250 to \$54,939,743 representing a 2.2% increase over 2006.*

*In our projections we have assumed the price of electricity will increase by around 5%. OPG has requested an increase for April 1, 2008 which is expected to add as much as \$3.50 to a customer's bill using 1,000 kWh. Offsetting the electricity price increase will be reduced prices to customers for network and connections charges. Festival Hydro has applied for a 14.7% and 18.4% decrease in network and connection charges, respectively, effective May 1, 2008. In terms of volumetric sales, we have projected our residential sales to be the same as 2007 and general service volumetric sales to increase by 1% over 2007.*

The actual 2008 results to December 31, 2008 are as follows (unaudited):

	2007 YTD Actual	2008 YTD Budget	2008 YTD Actual	Variance (08A-08B)
Service Revenue	\$53,775,494	\$54,939,743	\$52,475,403	(\$2,464,341)
Cost of Power	<u>44,549,337</u>	<u>45,605,822</u>	<u>43,327,319</u>	<u>(2,278,502)</u>
Gross Margin	\$9,226,157	\$9,333,922	\$9,148,083	(\$185,839)

For the most part, actual results were close to 2008 projections except for the later part of the year, when we were hit by a major economic downturn. Even the major economist (Bank of Canada, chartered bank economists) did not predict the fallout in the economy.

- c) One variable included in the original modeling but was removed was a Black out Flag reflecting the impact of the August 14, 2003 black out. It was removed because it had no major impact on the model. We also tried the model removing the population variable from the model, but it produced an even lower adjusted R square value.

Upon completion of the forecasting model we are satisfied with the load forecast results, and felt they closely represented the volumes which would have been derived had we followed what we refer to as our sound business approach to arrive at the budget.

**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?

**Response**

One of the large customers has acquired the property and by the end of 2009 will have the basic services extended to the property line. The preliminary construction schedule indicates they will require up to 500 kW of construction power starting around mid-2010 and moving to initial production by November 2011.

The other large customer has had some difficulty acquiring their desired property and has not started construction. They anticipate getting the necessary property by the end of 2009, and possibly using temporary facilities (existing buildings in Stratford) in 2010, with construction of their new building starting in mid-2010 with completion by September 2011.

The impact to the load forecast based on these two customers remains unchanged.

**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.

**Response**

Cost savings and productivity improvements related to the reduction in the number of municipal stations have been factored into 2010 operating expenditures and proposed rates. The cost savings are incremental and include a slight reduction in property taxes, and expenses for station operations and maintenance. These municipal stations required very little cost to operate and maintain, therefore the amount saved in direct expenses is marginal. Cost savings were approximately \$600 in 2007 (compared to 2006), approximately \$600 in 2008 (compared to 2007), and approximately \$3200 in 2009

(compared to 2008). The reduction in the number of stations has reduced the amount of time required by the Stations and Services technician to inspect and maintain the stations, and has allowed the technician to spend more time on metering.

**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.

**Response**

- a) **These amounts relate to existing programs. In 2006 – 2008, Festival Hydro undertook its own program in conjunction with selected local agencies and provided \$4,000 (increased to \$4,400 in 2008) annually in funding to assist in electrical energy assistance. It was the local agencies' responsibility to assess the qualifications of each applicant. Festival Hydro would then provide the agency with up to \$200 per customers for those customers who qualified. The application includes 0.12% of the distribution revenue requirement for these programs for 2010 due to proposed legislative changes that were issued by to the OEB for stakeholder comment at the time of submission of this application. FHI anticipates continuing on with it's existing program at \$4,400 per year to the extent reported for 2010 in our application (\$7,600 extra) as the proposed changes for temporary financial assistance under the LEAP program have not been finalized to date. The \$12,000 included for 2010 in this cost of service application are costs the utility intends on spending in order to meet the requirement and guidelines of the Ontario Energy Board. Festival Hydro acknowledges that recently (letter dated September 28, 2009) the Board's initiatives are changing and are deferring further work on LEAP at this time based on the Ministry of Energy's intervention. However, the utility expects it will incur costs associated with development of the Ministry's integrated program.**
- b) **The funds are included in account 5605 as FHI wanted to ensure that the amounts were considered in the application and did not identify a more appropriate account to include them in.**

**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.

## Response

The \$25,000 over four years was requested for one time administration costs as well as on-going compliance costs. Section 8.2 of the July 28, 2009 Board Report on the Transition to IFRS along with the recently released frequently asked questions document highlights that a deferral account will be set up to record the incremental one-time conversion costs to IFRS. FHI anticipates using this deferral account mechanism to record such costs, however feels that there will be significant on-going compliance costs related to IFRS reporting that should be considered and so applied for such costs in this application. In addition to the specific issues being faced by the Rate Regulated Industry in the conversion to IFRS, we are aware of significant changes to many of the IFRS standards to be implemented in the upcoming years as noted in the table below (the information is per IASB plans at October 30, 2009)

2011	2012	2013	Unknown Implementation Date
Consolidation	Derecognition	Financial statement presentation	Earnings per share
Discontinued operations	Financial Instruments	Financial instruments with characteristics of equity	Extractive activities
Joint Ventures	Fair value measurement	Insurance contracts	Common control transactions
Non-financial liabilities	Income taxes	Leases	Government grants
Related Party Disclosures	Rate Regulated Activities	Post-employment benefits	Intangible assets
		Revenue recognition	
		Emissions trading schemes	

It is anticipated that many of these standard changes will impact FHI and that we will incur significant incremental consulting costs to ensure the proper implementations of the changes in each standard.

Due to the fact that the original application was filed under the assumption that \$100,000 would include both one-time conversion costs as well as ongoing compliance costs, and one time conversion costs will now be included in a deferral account, FHI feels it is prudent to decrease the on-going compliance costs included in this application to \$56,000 in total or \$14,000 each year for four years. The change will be incorporated into the model at the rate order stage.

**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.

[Response](#)  
[\(next page\)](#)



a)

	2006	2007
<b>Number of Employee (FTEs including Part-time)</b>		
Executive	3	3
Management	7	6
Non-Union	14	14
Union	21	21
<b>Total</b>	<b>45</b>	<b>44</b>
<b>Number of Part-Time Employees</b>		
Executive	0	0
Management	0	0
Non-Union	1	1
Union	0	2
<b>Total</b>	<b>1</b>	<b>3</b>
<b>Total Salary and Wages</b>		
Executive	313,236	332,107
Management	486,253	426,707
Non-Union	646,327	654,587
Union	1,336,445	1,375,535
<b>Total</b>	<b>2,782,261</b>	<b>2,788,937</b>
<b>Total Benefits</b>		
Executive	43,580	46,258
Management	70,020	67,049
Non-Union	102,529	109,062
Union	197,346	205,606
<b>Total</b>	<b>413,475</b>	<b>427,975</b>
<b>Total Compensation (Salary, Wages, &amp; Benefits)</b>		
Executive	356,817	378,366
Management	556,273	493,756
Non-Union	748,856	763,649
Union	1,533,791	1,581,141
<b>Total</b>	<b>3,195,736</b>	<b>3,216,912</b>
<b>Compensation - Average Yearly Base Wages</b>		
Executive	104,412	110,702
Management	69,267	71,118
Non-Union	46,166	46,756
Union	62,832	65,502
<b>Total</b>	<b>282,677</b>	<b>294,078</b>

Compensation - Average Yearly Overtime		
Executive	0	0
Management	169	218
Non-Union	958	966
Union	5,496	5,584
Total		6,623
Compensation - Average Yearly Incentive pay		
Executive	0	0
Management	0	0
Non-Union	0	0
Union	0	0
Total	0	0
Compensation - Average Yearly Benefits		
Executive	14,527	15,419
Management	9,974	11,175
Non-Union	7,324	7,790
Union	9,278	9,791
Total	41,103	44,175
<b>Total Compensation</b>	<b>3,195,736</b>	<b>3,216,912</b>
<b>Total Compensation Charged to OM &amp; A</b>	<b>2,726,655</b>	<b>2,355,637</b>
<b>Total Compensation Capitalized</b>	<b>469,081</b>	<b>861,275</b>

- b) FHI has historically increased compensation according to the union contract for all union, non-union, management and executive employees, which on average has been 3% per year. In 2007 and 2008 executive wage increases were greater than 3% to reflect pay amounts that are competitive with other LDC's in the Southwestern Region.
- c) The inflationary increases of 3% on average are based on the union contract, most recently signed in 2008 and in effect until May 2011.
- d) The greater than 3% increase in 2010 over 2009 does relate to the addition of the Energy Conservation Officer for all of 2010.
- e) The 2009 management compensation figures include \$10,000 that was anticipated to be paid to the Energy Conservation Officer for the part of the fiscal year in which he was employed with FHI. Based on the final employment contract that was signed, and the final agreement with the City of Stratford to pay for 40% of the cost of this shared position, FHI feels this estimate is accurate. This additional cost in 2009 has caused the inflationary increase to exceed the historical 3% amount.

**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.

**Response**

- a) The new regulatory position is a management position and the new engineering position is a non-management position.
- b) The new regulatory position was filled to help the Secretary Treasurer with various projects such as the 2010 Rate Rebasing Application, the conversion to IFRS, accounting and regulatory reporting for smart meters, tax filing preparation in addition to the transition of other regulatory reporting duties from the Secretary Treasurer role to the Regulatory Analyst role. This regulatory position was introduced after the retirement of an administrative staff member who acted as the executive secretary to the President of FHI. The engineering staff hired is a distribution engineer and replaced an engineering technician. The distribution engineer brings additional design and engineering skills needed to ensure compliance with Ontario Regulation 22/04 and to meet the growing need for automation and new technology on the distribution system.

**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.

**Response**

The physical buildings we own are amortized over 50 years as per OEB depreciation rates. Included in the fixtures account are major repair/upgrade items to the buildings such as HVAC systems, a new roof etc. that we feel are more justifiably amortized over a thirty year life as they are not expected to have the same useful life as the physical building structures.

**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%.

**Response**

This tax rate change as proposed in the Ontario 2009 budget was introduced by the Ministry of Finance on Monday Nov 16/09 to the legislature. Since it has not received Royal Assent to date, changes to the future tax calculations have not been completed at this time. The legislated changes will be incorporated into the model at the rate order stage.

**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.

**Response**

The phase out of the Ontario capital tax at July 1, 2010 has been considered in the capital tax calculation for 2010 included in the second reference noted above. The first reference has mistakenly not been linked to the capital tax calculations included throughout the application, however this oversight does not impact the revenue requirement calculated as the revenue requirement calculated includes the correct amount of capital tax for 2010. The first reference above is a supplementary schedule supporting the calculation of current income tax for the noted years.

***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?

**Response**

The purpose of the document in the second reference is to provide certification of the resolution of the debt holder, The City of Stratford, to redeem shares in exchange for an additional \$1.7M in debt and change the interest rate to 7.25%.

The note in issue is a promissory note held by the City of Stratford. The promissory note is payable on demand at any time to The City of Stratford. There is no provision within the current note agreement to allow Festival Hydro to renegotiate the rate of the 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.

### Response

FHI confirms that the Infrastructure Ontario loan is included in our debt structure for 2010 as well as is included in the Smart Meter variance account on the asset side of the transaction. The loan is required as it is anticipated that the initial outlay for the purchase of the physical meters will be significantly greater than the rate adder that has already been collected. To date approximately \$300k has been collected through the smart meter adder, however it is anticipated that when meter shipment is received in 2010, payment will be required therefore the \$2.5M loan is needed to finance and pay for the meters.

### ***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.

### Response

Thank you for bringing this discrepancy to our attention. Festival Hydro has revised the schedule with the correct distribution revenues. To adjust for the transformer allowance, \$358,095 has been removed from the General Service > 50 kW class and \$88,849 has been removed from the Large Use class for a total of \$446,944. Below is a revised version of the 2006 Run model with the Transformer allowances removed.



# 2006 COST ALLOCATION INFORMATION FILING

## FESTIVAL HYDRO INC.

EB-2005-0364 EB-2007-0002

February 28, 2007

Sheet 01 Revenue to Cost Summary Worksheet - Second Run 2006 Run 2 T.A. removed Rev

### Class Revenue, Cost Analysis, and Return on Rate Base

		Total	1 Residential	2 GS <50	3 GS>50-Regular	6 Large Use >5MW	7 Street Light	8 Sentinel
Rate Base Assets	crev	Distribution Revenue (sale)	\$8,871,609	\$4,871,034	\$1,651,291	\$1,895,237	\$308,631	\$2,524
	mi	Miscellaneous Revenue (mi)	\$607,764	\$396,666	\$103,370	\$83,803	\$7,184	\$322
		<b>Total Revenue</b>	<b>\$9,479,373</b>	<b>\$5,267,700</b>	<b>\$1,754,661</b>	<b>\$1,979,040</b>	<b>\$315,815</b>	<b>\$2,846</b>
Expenses	di	Distribution Costs (di)	\$931,586	\$516,720	\$162,408	\$177,198	\$23,411	\$1,837
	cu	Customer Related Costs (cu)	\$1,178,876	\$798,181	\$205,645	\$141,416	\$2,816	\$544
	ad	General and Administration (ad)	\$1,140,413	\$694,461	\$198,956	\$186,263	\$16,227	\$1,293
	dep	Depreciation and Amortization (dep)	\$2,036,190	\$919,463	\$358,860	\$615,305	\$65,694	\$2,456
	INPUT	PILs (INPUT)	\$1,339,573	\$593,094	\$233,996	\$414,611	\$48,251	\$1,581
	INT	Interest	\$1,268,744	\$561,735	\$221,624	\$392,689	\$45,700	\$1,498
		<b>Total Expenses</b>	<b>\$7,895,382</b>	<b>\$4,083,654</b>	<b>\$1,381,490</b>	<b>\$1,927,481</b>	<b>\$202,099</b>	<b>\$9,209</b>
Direct Allocation		\$9,000	\$8,820	\$0	\$0	\$0	\$0	\$0
NI		Allocated Net Income (NI)	\$1,574,992	\$697,326	\$275,119	\$487,475	\$56,731	\$1,859
Revenue Requirement (includes NI)		\$9,479,374	\$4,789,799	\$1,656,609	\$2,414,956	\$258,829	\$187,127	\$11,068
		Revenue Requirement Input equals Output						
Rate Base Calculation								
Net Assets	dp	Distribution Plant - Gross	\$53,731,109	\$23,931,495	\$9,425,191	\$16,572,946	\$1,806,211	\$63,536
	gp	General Plant - Gross	\$4,573,711	\$2,042,563	\$802,664	\$1,397,929	\$158,742	\$5,494
	accum dep	Accumulated Depreciation	(\$28,828,157)	(\$12,810,143)	(\$5,054,843)	(\$8,961,502)	(\$941,891)	(\$33,624)
	co	Capital Contribution	(\$1,384,370)	(\$722,940)	(\$265,188)	(\$317,708)	(\$12,267)	(\$2,229)
		<b>Total Net Plant</b>	<b>\$28,092,294</b>	<b>\$12,440,976</b>	<b>\$4,907,826</b>	<b>\$8,691,665</b>	<b>\$1,010,795</b>	<b>\$33,177</b>
Directly Allocated Net Fixed Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0
COP		Cost of Power (COP)	\$42,648,111	\$9,521,240	\$4,822,597	\$22,390,356	\$5,272,291	\$11,396
		OM&A Expenses	\$3,250,875	\$2,009,362	\$567,009	\$504,877	\$42,454	\$3,674
		Directly Allocated Expenses	\$9,000	\$8,820	\$0	\$0	\$0	\$0
		<b>Subtotal</b>	<b>\$45,907,986</b>	<b>\$11,539,422</b>	<b>\$5,389,606</b>	<b>\$22,895,233</b>	<b>\$5,314,744</b>	<b>\$15,070</b>
Working Capital		\$6,886,198	\$1,730,913	\$808,441	\$3,434,285	\$797,212	\$46,853	\$2,260
Total Rate Base		\$34,978,492	\$14,171,889	\$5,716,266	\$12,125,950	\$1,808,007	\$626,140	\$35,437
		Rate Base Input equals Output						
Equity Component of Rate Base		\$17,489,246	\$7,085,945	\$2,858,133	\$6,062,975	\$904,003	\$313,070	\$17,719
Net Income on Allocated Assets		\$1,574,991	\$1,175,227	\$373,171	\$51,560	\$113,716	(\$97,974)	(\$6,363)
Net Income on Direct Allocation Assets		\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income		\$1,574,991	\$1,175,227	\$373,171	\$51,560	\$113,716	(\$97,974)	(\$6,363)
RATIOS ANALYSIS								
REVENUE TO EXPENSES %		100.00%	109.98%	105.92%	81.95%	122.02%	30.30%	25.71%

**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?

**Response**

**The Board's Filing Instructions for the 2010 3<sup>rd</sup> Generation Incentive Regulation Mechanism (IRM3) dated August 24, 2009 under Section SD1.2 allows for the adjustment if so ordered by the Board. If not ordered by the Board, Festival Hydro will consider requesting the Board to allow Festival Hydro, as part of the 2011, 2012 and 2013 3rd generation IRM filings, to adjust each of the three classes to bring the revenue to cost ratios within the target range by the 2013 rate year. The revenue offsets will be to the classes which are on the higher side of their ranges.**

**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?

**Response**

- a) Below is an extract of the Mitigation Plan submitted to the Board as part of Festival Hydro's 2006 EDR Manager's Summary. The request was to increase the monthly fixed rate for Hensall Residential from \$5.37 to \$9.00. The final Board approved Hensall Residential monthly service charge rate was \$9.31, effective May 1, 2006.**

**CHAPTER 13 from 2006 EDR Managers Summary:**

***SCHEDULE 13-1: DESCRIPTION OF MITIGATION PLAN***

***The distributor must provide a detailed description of its mitigation plan by completing this Schedule. The following information should be provided:***



1. *A specification of all customer classes or groups of customers that were initially identified as having increases in excess of 10% and the magnitude of these increases.*

Festival Hydro has submitted our rate application to include two groups of customers within a class to be in excess of 10%.

Both involve the Hensall residential class.

The first grouping at 100 kWh per month involve 16 customers whose average consumption is less than 100 kWh per month. Presently, they have a monthly bill of \$13.08. This will increase to \$16.96 for a \$3.88 monthly increase or 23% of the total bill. The historical fixed cost of \$5.37 was unacceptably low and in an attempt to correct this we moved the monthly rate to \$9.00.

The second grouping involve 19 customers whose average consumption is between 101 and 250 kWh per month. They have a monthly bill of \$24.64 per month. This will increase to \$28.98 for a \$4.26 monthly increase or 15% of the total bill. Again, with the historical fixed cost of \$5.37 an attempt to correct this we moved the monthly rate to \$9.00.

The logic on the \$9.00 monthly rate was to give the approximately 93% of the 491 Hensall residential customers an increase that is less than 10% permitted amount.

2. *The mitigation measures undertaken, e.g. reductions to the revenue requirement, inter or intra class shifts and their impacts.*

To achieve the above we transferred \$14,542 to the Hensall residential revenue from the Co- application revenue (i.e. the other residential group).

3. *A justification for all mitigation measures proposed.*

We believe it is best for our Hensall customers to pay fair charges. The approach taken should not be too material for these customers because the absolute amount is minimal. I.e. \$3.88 and \$4.26.

4. *A detailed description of all mitigation adjustments made to the 2006 EDR model.*

To achieve the above we transferred \$14,542 to the Hensall residential revenue from the Co- application revenue.

- b) The proposed 2010 rates as presented in this 2010 Cost of Service application are as follows:

Residential Monthly Service Charge \$15.53    Distribution Volumetric \$.0172

Residential Hensall Monthly S.C.    \$13.06    Distribution Volumetric \$.0140

The Boards Filing Instructions for the 2010 3<sup>rd</sup> Generation Incentive Regulation Mechanism (IRM3) dated August 24, 2009 under Section SD1.2 allows for Revenue to Cost Ratio adjustments so ordered by the Board. If not ordered by the Board, Festival Hydro will consider requesting the Board to allow Festival Hydro, as part of the 2011, 2012 and 2013 3rd generation IRM filings, to adjust the Hensall Residential class to bring the revenue to cost ratio within the target range by the 2013 rate year. The revenue offset will be to the classes which are on the higher side of their ranges.

## ***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.

## **Response**

- a) **Grand Bend is not part of Festival Hydro's service territory; it is supplied by Hydro One. In the schedule we are referring to the Hydro One's transformer station located in Grand Bend which feeds our Dashwood distribution system.**
- b) **The remainder includes only Hensall and Zurich as Dashwood is served from the Grand Bend TS.**
- c) **The reference to (1,2,3) is wrong. Common ST Line charges are only on the bills for 1 and 3 (Seaforth and Grand Bend TS.)**
- d) **Same as c). above. Incremental capital is only on the bills for 1 and 3.**
- e) **The rates used are the new Hydro One delivery rates effective May 1, 2009 (applied to consumption starting June 1, 2009). Table 9 includes all charges on Festival Hydro's bill with the exception of the Regulatory Asset Recovery 2008 rate rider. This rate rider credit, calculated at a rate -.01 per kW, appears only on the Seaforth**

(1) and Grand Bend bills (3), being a credit amount of approximately \$ 82 per month or \$984 per year. The OEB issued new Frequently Asked Questions in October 2009 which address the appropriate G.L. accounts to be used for certain new charges under Questions # 17 and #18. We will be following these new requirements for Rate rider # 5 and rate rider # 3.

**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.

**Response**

**See table below allocated based on 2010 Retail Transmission Rates:**

<b>2010 Test year kWh/kW</b>	<b>Total Connection Charged to customers</b>	<b>Allocation</b>	<b>Low Voltage Charges</b>
<b>Residential</b>	585,517	24%	19,816
<b>Residential - Hensall</b>	17,275	1%	585
<b>G.S. &lt; 50 kW</b>	254,281	11%	8,606
<b>G.S. 50 kW to 4999 kW</b>	235,842	10%	7,982
<b>G.S. 50 kW to 4999 kW (interval Metered)</b>	1,060,953	44%	35,906
<b>Larger Use</b>	237,130	10%	8,025
<b>Unmetered Scattered Load</b>	2,537	0%	86
<b>Sentinel Lighting</b>	688	0%	23
<b>Street Lighting</b>	12,071	1%	409
<b>TOTALS</b>	2,406,295	100%	81,437

***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.

- Was Festival Hydro's connection status 100% directly connected to the IESO controlled grid in 2006?
- 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?
- If no, please explain why the approved SFLF in 2006 was 1.0045.

### Response

- a) The Stratford and St. Marys connections have always been directly connected to the IESO controlled grid and the smaller locations have always been embedded in Hydro One.
- b) The explanation as described on Page 12 is correct.
- c) In 2001, Festival Hydro adopted the provincial wide SFLF loss factor of 1.0045. In 2006, the amount was left at 1.0045 and not properly adjusted to equal the weighted average of the IESO directly connected points (1.0045) and the Hydro One embedded points (1.0340). This was an over site on our behalf in filing the 2006 return.

### **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.

### Response

As part of the 2010 Cost of Service Rate application, Festival Hydro is requesting an increase in its Total loss factors. For Secondary Metered < 5000 kW, Festival is requesting a change from 1.0281% to 1.0307%. As stated, this is one of the contributing factors to having a debit balance in the cost of power account.

Another factor that impacts the cost of power variance is the calculation of unbilled revenue at quarter and year ends. For customers other than interval metered, meters are only read once a month. When Festival Hydro does its unbilled revenue, it assumes the same level of consumption on a daily basis (i.e. the read divided by number of days in the reading cycle). Depending on factors such as the weather, daily usage can vary and an average is only a best estimate. When smart meters are fully deployed the calculation of unbilled revenue will have a much higher degree of accuracy as all meter reads will be available on a daily basis.

### ***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.

## Response

The table below is a comparison of billed charges from the IESO in the month compared to billed quantities in the month. At quarter end and year end accruals are booked to put billed versus sales on the same basis. The table demonstrates an ongoing over-collection of network charges and until the May 1, 2008 rate changes, an ongoing over-collection of connection charges.

Month	Network Charge Billed to Customers (Acct. 4066)	Network Charge from IESO/Hydro One (Acct. 4714)	Difference to Variance Acct # 1584	Connection Charge Billed to Customers (Acct 4068)	Connection Charge from IESO (Acct. 4716)	Difference to Variance Acct # 1586
Jan-07	(288,474)	228,565	(59,909)	(258,214)	226,599	(31,615)
Feb-07	(297,269)	279,553	(17,716)	(266,907)	229,598	(37,309)
Mar-07	(297,145)	273,905	(23,240)	(266,335)	223,913	(42,422)
Apr-07	(285,321)	247,243	(38,078)	(254,130)	211,922	(42,208)
May-07	(276,090)	246,850	(29,240)	(243,622)	201,653	(41,969)
Jun-07	(268,659)	254,832	(13,827)	(237,165)	211,462	(25,703)
Jul-07	(284,355)	334,718	50,363	(250,636)	270,303	19,667
Aug-07	(288,893)	304,598	15,705	(254,523)	275,733	21,210
Sep-07	(291,134)	266,146	(24,988)	(258,621)	221,243	(37,378)
Oct-07	(279,029)	255,221	(23,808)	(243,752)	211,094	(32,658)
Nov-07	(277,807)	216,647	(61,160)	(243,808)	206,633	(37,175)
Dec-07	(312,413)	270,202	(42,211)	(278,246)	247,309	(30,937)
Jan-08	(287,962)	198,685	(89,277)	(258,263)	194,051	(64,212)
Feb-08	(296,019)	225,656	(70,363)	(263,572)	213,815	(49,757)
Mar-08	(289,964)	214,613	(75,351)	(259,764)	204,028	(55,736)
Apr-08	(281,821)	209,054	(72,767)	(249,073)	199,087	(50,036)
May-08	(263,104)	200,624	(62,480)	(228,920)	193,657	(35,263)
Jun-08	(183,391)	233,728	50,337	(134,336)	228,419	94,083
Jul-08	(242,619)	215,277	(27,342)	(199,453)	210,820	11,367
Aug-08	(246,496)	220,055	(26,441)	(203,611)	212,835	9,224
Sep-08	(245,065)	222,213	(22,852)	(200,189)	209,162	8,973
Oct-08	(236,705)	190,049	(46,656)	(193,686)	187,260	(6,426)
Nov-08	(230,674)	207,653	(23,021)	(191,681)	196,210	4,529
Dec-08	(187,793)	230,252	42,459	(139,629)	218,591	78,962
Jan-09	(249,179)	204,832	(44,347)	(205,491)	193,913	(11,578)
Feb-09	(252,578)	219,089	(33,489)	(210,661)	206,669	(3,992)
Mar-09	(242,278)	222,271	(20,007)	(202,271)	209,824	7,553
Apr-09	(233,741)	197,571	(36,170)	(193,511)	202,547	9,036
May-09	(228,664)	198,160	(30,504)	(185,868)	192,171	6,303
Jun-09	(222,960)	232,986	10,026	(178,145)	216,118	37,973
Jul-09	(244,017)	208,287	(35,730)	(190,535)	190,708	173
Aug-09	(270,542)	258,381	(12,161)	(208,355)	221,457	13,102
Sep-09	(249,510)	220,659	(28,851)	(192,377)	197,650	5,273

**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?

**Response**

**Festival Hydro does not include any specific rates or charges in the Conditions of Service document. All rates and charges are published separately on the Festival Hydro website.**

***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.

**Response**

**The rate class descriptions included in the FHI application indicate that we have amended our process of classifying customer groups in accordance with the Distribution System Code, Board File No: EB-2007-0722 and therefore the rate application classes are not exactly the same as the descriptions in the Tariff of Rates and Charges effective May 1, 2009.**

**Noted below are the proposed Service Classification descriptions as presented in the 2010 Cost of Service Rate Application, with the changes from 2009 highlighted in red.**

**Residential:**

**A customer is classified as residential when all the following conditions are met:**

- (a) The property is zoned strictly residential by the local municipality**
- (b) The account is created and maintained in the customer's name**
- (c) The Building is used for dwelling purposes. This classification refers to the supply of electrical energy to residential customers in detached or semi-detached units, as defined in the local zoning by-law. (added).**

**Exceptions may be made for properties zoned for farming use under the following conditions: (a) the principal use of the service is for the residence and (2) the service size is 200 amperes or less, and the service is 120/240 volt single phase.**

#### General Service Less than 50 kW:

This classification refers to a non-residential account whose peak demand is less than 50 kW based on the process for and frequency of reclassification as outlined in Amendments to the Distribution System Code, Board File No: EB-2007-0722 (added). *(Replaces “in eight of the past twelve months and never reaches 100 kW in a month”).* For a new customer with no prior history, the peak demand is estimated by Festival Hydro. Customers who are classed as General Service but considers themselves residential must provide Festival Hydro with a copy of their tax assessment, which clearly demonstrates the zoning is for residential use only.

#### General Service 50 to 4999 kW:

This classification refers to a non residential account whose monthly peak demand is equal to or greater than 50 kW based on the process for and frequency of reclassification as outlined in Amendments to the Distribution System Code, Board File No: EB-2007-0722 (added). *(Replaces “in eight of the past twelve months, or with a peak demand above 100 kW in any month”).* For a new customer with no prior history, the peak demand will be estimated by Festival Hydro.

#### Large Use:

This classification refers to an account whose monthly average peak demand is equal to or greater than 5,000 kW based on the process for and frequency of reclassification as outlined in Amendments to the Distribution System Code, Board File No: EB-2007-0722 (added). *Replaces “for twelve consecutive months, or is forecast to be equal or greater than 5,000 kW”.*

#### Unmetered Scattered Load:

This classification refers to an account whose average monthly maximum demand is less than *(removed – or is forecast to be less than),* 50 kW and the consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, and traffic lights, pedestrian cross walk signal/beacons railway crossing. The level of consumption will be agreed to by the distributor and the customers, based on detailed manufacturer information *(removed -/documentation)* with



regard to electrical consumption of the unmetered load, or periodic monitoring of the actual consumption.

#### Sentinel Lighting:

This classification refers to an account that has an unmetered lighting load supplied to a sentinel light. *(no change)*.

#### Street Lighting:

This classification applies to accounts for roadway lighting with a Municipality, Regional Municipality, and Ministry of Transportation and provides roadway lighting controlled by photocells. The consumption of these customers will be based on the calculated connected load times the required lighting times established in the approved OEB street light load shape template. If connected to the *(removed – municipal or Province of Ontario)* street lighting system, decorative lighting and tree lighting services will be treated as a street lighting class of service. Decorative or tree lighting connected to Festival Hydro's distribution system will be treated as General Service less than 50 kW class customers.

### **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.

#### Response

- a) The threshold for winter month consumption was used in the commodity pricing for regular residential customers versus the two tiered approach for spring/summer months. Given the assumption used in creating this schedule, there is no delivery bill impact to note.
- b) The example provided was for an interval customer not eligible for the lower tier as most of our customers in the GS > 50 category are not eligible for the two tiered RPP pricing.

### ***Deferral and Variance Accounts***

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

#### **Response**

- 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.

- a) Confirmed**
- b) Confirmed**

**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.

#### **Response**

**Festival Hydro believes it should be able to recover the lost revenue should Festival Hydro's rate application is not approved subsequent to May 1, 2009. We are optimistic that when May 1, 2010 arrives new rates will be in place. However, we are requesting that the potential shortfall arising between May 1, 2010 and the implementation date of new 2010 rates be placed into a variance account for future recovery. Reference to EB-2008-0663 – appears to be a misquote.**

**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 RSVA Power and Account 1588 RSVA Power Sub-account Global Adjustment. Please confirm whether or not Festival Hydro plans on making any changes to its filing with respect to Account 1588.

#### **Response**

**The only issue Festival Hydro has is that interest was booked to USOA account # 4405 when it was both interest revenue and interest expense. The account for the most part has been in a debit position resulting in interest income. No adjustments are planned for Account # 1588 pursuant to the bulletin. In the application, Festival Hydro is**

**proposing the disposition of the balance in 1588 RSVA Power Subaccount Global Adjustment at December 31, 2008 based on Non-RPP kWh volumetric sales.**

- 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.

**Response**

**Festival Hydro does not want to dispose of account # 2405 at this time. Page 5 Table of Accounts Requested for Disposition includes account # 2405 in error. The table called "Method of Disposition of Accounts" excludes Account # 2405, which is the intent of Festival Hydro. Total being requested for disposition is \$2,149,357.**

**Ref:**

- 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 identifies 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.

**Response**

**Festival Hydro has a credit balance of \$670,873 in account # 1565 representing the funds collected through rates to fund our CDM programs. In Account # 1565, Festival Hydro has a debit balance of \$670,873 which represents the spending on CDM activities undertaken by Festival Hydro. As this nets to zero and there is no net amount requiring disposition, we are requesting that Festival Hydro may debit account # 1565 and credit account # 1566 so the balances in these G.L. accounts are set to zero. However, Festival Hydro will continue to carry the balances in 1565 and 1566 until such time as directed by the OEB. (As advised by a Board staff member today (11/18/09), EDDVAR does not have this reference as noted in Interrogatory # 35).**

- 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.

**Response**

**This is a typo in Table 3 of this appendix and the determinant for Residential Hensall customer class should be kWh.**

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.

<b>Variance Accounts Approved for Recovery at 12/31/04</b>				
		<b>12/31/2004 balance per 2006 EDR Rate Application</b>	<b>01/01/2005 balance per 2010 COS Rate Application</b>	<b>Difference</b>
1580	RSVA - Wholesale market Service Charge	752,428	752,428	-
1582	RSVA - One-time Wholesale Market Service	151,215	151,215	-
1584	RSVA - Retail Transmission Network Charge	(162,869)	(162,869)	-
1586	RSVA - Retail Transmission Connection Charge	(297,045)	(297,045)	-
1588	RSVA - Power	(461,254)	(461,254)	-
1508	Other Regulatory Assets	12,145	12,145	-
1518	Retail Cost Variance Account - Retail	108,254	108,254	-
1548	Retail Cost Variance Account - STR	76,493	76,493	-
1525	Misc. Deferred Debits - Incl. Rebate Cheques	44,424	44,424	-
1571	Pre-Market Opening Energy Variances Total	(230,672)	(182,229)	48,443
1572	Extra-Ordinary Event Losses	-	-	-
1574	Deferred Rate Impact Amounts	-	-	-
2425	Other Deferred Credits	-	-	-
1570	Qualifying Transition costs	280,719	280,719	-
2405	Other regulatory liabilities	-	(162,675)	(162,675)
1590	Recovery of regulatory assets	(332,988)	(332,988)	-
		(59,150)	(173,382)	(114,232)

Response

Account #1571 Pre Market COP Variance on the 2010 COS rate application should be \$230,672. This amount was approved as part of the 2006 EDR rate application and fully recovered. Account 2405 Other regulatory liabilities represents a payable to Hydro One for Regulatory Asset Recovery 2006. It was not on the 2006 EDR Application and it should not have been on the 2010 COS rate application. Note that it is included on Page 5 Accounts Requested for Disposition but if you go to Appendix A to the Method of Disposition of Accounts you will see it has been dropped from the 2010 disposition.

## ***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.

### **Response**

**Festival Hydro has full expectation to have all smart meters installed in 2010. There is no new information to be supplied, but FHI will provide updates as our smart meter information becomes available.**