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January 7, 2010

**BY RESS & COURIER**

David MacIntosh, Consultant  
Energy Probe  
225 Brunswick Avenue  
Toronto, ON M5S 2M6

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

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Dear Mr. MacIntosh:

On August 28, 2009, Festival Hydro Inc., referred to herein as the Applicant, filed its application for 2010 electricity distribution rates and, subsequently, on December 18, 2009, the Board Staff submitted its second round interrogatories to the Applicant as per the Board's Procedural Order #2 dated December 7, 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*

A handwritten signature in black ink, appearing to read "W.G. Zehr", is written over a horizontal line.

W.G. Zehr, President

Cc All Intervenors



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January 7, 2010

**BY RESS & COURIER**

Mr. Randy Aiken  
Aiken & Associates  
578 Mcnaughton Ave. W.  
Chatham, ON N7L 4J6

**Re: ED Number EB-2009-0263  
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W.G. Zehr, President

Cc All Intervenors

**Ontario Energy Board**

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

**AND IN THE MATTER OF** an Application by Festival  
Hydro Inc. for an order approving just and reasonable rates  
and other charges for electricity distribution to be effective  
May 1, 2010.

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**SECOND ROUND  
INTERROGATORIES OF  
ENERGY PROBE RESEARCH FOUNDATION  
("ENERGY PROBE")**

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**December 18, 2009**

**FESTIVAL HYDRO INC.  
2010 RATES REBASING CASE  
EB-2009-0263**

**ENERGY PROBE RESEARCH FOUNDATION  
SECOND ROUND INTERROGATORIES**

**Interrogatory # 41**

**Ref: Energy Probe Interrogatory # 1**

- a) Is Festival Hydro agreeable to the creation of a deferral or variance account into which the resulting savings or variance in savings would be placed and rebated to customers in the future? If not, why not?

**RESPONSE:**

In principle FHI accepts the use of deferral accounts to protect both consumers and utilities in cases of changes to external items such as tax rates. In some cases the effects of such changes are readily determinable. The cost impact to FHI on the transition to HST however, is unknown at this time and may never be accurately determined. The cost impact will consist of the (effective) removal of an 8% tax component on both capital goods and other operating supplies and services, offset by the fact that depending on market conditions for each of those goods and services, prices will increase as suppliers fail to pass through the full tax reduction in prices. Information on the degree to which prices fail to reflect the full tax change will necessarily be speculative and in all probability could not form the basis for accounting entries. Therefore FHI does not accept that accurate entries could be made in such a deferral account if it were established.

- b) Based on the September figure of \$11,500 in PST costs, would Festival Hydro accept a reduction in OM&A costs of \$103,500 ( $\$11,500 \times 12 \times 75\%$ ) and a reduction in the capital expenditures of \$24,500 ( $\$11,500 \times 12 \times 25\%$ ) as an approximation for the impact in 2010, assuming the Board approved a variance account around these amounts? If not, why not?

**RESPONSE:**

FHI has not contemplated the method the OEB may implement to account for the tax legislative change in July 2010. Our high level analysis performed to provide the \$11,500 may not be reflective of the actual

decrease to capital/OM&A as it is anticipated that some suppliers may use this legislated tax change as a mechanism of building additional margin into their product and therefore we cannot assume that our taxable supplies cost will decrease 8% exactly. As such, FHI would not accept a reduction in OM&A of \$103,500 and a reduction in capital of \$24,500.

## Interrogatory # 42

### Ref: Energy Probe Interrogatory # 3 b

- a) What is the impact on the rate base calculation of the change in the accounting practice of charging disposals to the accumulated depreciation account and now charging them directly to the applicable asset account?

#### RESPONSE:

The accumulated depreciation account that was used to track disposals (2105) was in a debit position. The adjustment made at the end of 2008 spread this asset balance from one account to the various capital asset cost accounts. The net impact on net book value of capital assets due to this adjustment was zero. Rate base will be impacted as a result of the change in this accounting policy due to the fact that previously account 2105 was not amortized and therefore the gross cost of the disposals was included in net book value. As asset disposal costs will now be booked directly to gross asset cost accounts, these costs will be depreciated, therefore reducing the rate base that otherwise would have been reported under the previous accounting method.

- b) Please provide an example that shows the impact on gross assets, accumulated depreciation and net book value of each of the two approaches.

#### RESPONSE:

	2008								
	Opening Cost	Additions	Disposals	Ending Cost	Opening Acc. Dep.	Additions	Disposals	Ending Acc. Dep.	NBV
Previous Approach	65,198,393	4,912,873	194,316	69,916,950	35,520,874	2,423,591	(625,773)	38,570,238	31,346,712
Revised Approach	65,198,393	5,063,167	194,316	70,067,244	35,520,874	2,579,897	(625,773)	38,726,544	31,340,700
Difference									6,012

The table above indicates a reduced net book value of \$6,012 under the revised approach which is equal to the depreciation that is now being calculated on the asset disposal cost that is being booked directly to the asset cost account versus account 2105 which was not depreciated in the past and was netted against accumulated depreciation accounts. The additions column for both cost and accumulated depreciation differ under the previous approach versus the revised approach due to the fact that

previously the disposal cost was debited to an accumulated depreciation account and under the revised approach the amount is debited to an asset cost account. The difference noted in the example above is \$150,294 on the cost side reflecting this disposal cost being added to the asset cost. The difference on the accumulated depreciation side of the calculation is an increase of \$150,294 reflecting the fact that this debit was removed from accumulated depreciation, as well as an increase of \$6,012 reflecting the depreciation booked on the \$150,294 now included in the asset cost. This totals the \$156,306 difference noted for accumulated depreciation between the previous approach and the revised approach. 2008 figures were used as an example as this was the year when the revised approach was included in FHI's audited financial statements.

- c) What was the reason for the increase in customer driven projects of \$55,000 in the May 2009 approved budget?

**RESPONSE:**

The increase relates to the change in accounting policy documented above. Originally asset disposal costs were not included in the budget approved by the Board of Directors. When the adjustment was made to the 2008 financial statements we revised our budgeting process as well to reflect this change. In total \$200,000 was added to the budget for asset removal costs. Of this \$200,000, \$55,000 was allocated to customer driven projects which include a combination of overhead and underground work which will require the removal of some assets.

**Interrogatory # 43**

**Ref: Energy Probe Interrogatory # 3 c**

**Is Festival Hydro requesting the Board include in its 2010 revenue requirement the increases related to the Board approved budget of May 2009? If yes, please provide further detail on the operating and maintenance expense increase of \$26,773 and the \$30,000 increase in administration expense to justify these additions.**

**RESPONSE:**

No, FHI is not requesting an **increase** related to the Board of Directors approved budget of May 2009 in our 2010 rate application. As demonstrated in the table below, the expenses we have included in our 2010 rate application are less than those included in what was presented to our Board of Directors in May of 2009.

	OM&A Expenses in Application	2010 OM&A Budget approved in May 2009	Difference
Operating & Maintenance Expense	1,445,997	1,472,730	(26,733)
Admin expense as presented to FHI Board of Directors	2,522,349	2,457,994	64,355
Reclass of Collection <b>credit</b> included in the expense balance	-	95,274	(95,274) <i>(Note below)</i>
Admin expenses not including the collection credit	2,522,349	2,553,268	(30,919)
	3,968,346	4,025,998	(57,652)

\*\*Note that the admin expense total in our 2010 Rate application did not ever include the collection credit, this amount was properly grouped with revenues in our application but was presented as a net to expense in the budget that was taken to our Board of directors in May of 2009

### Interrogatory # 44

#### Ref: Energy Probe Interrogatory # 10 d

**Please provide the model that excluded the population variable. Please provide the regression statistics for this equation in the same format as shown in Table 4 in the original evidence. Please also provide the 2009 and 2010 kWh forecast in the format shown in Table 5 in the original evidence.**

#### **RESPONSE:**

**Attached below is a table which contains the load forecast model that excludes the population variable.**

		<u>Heating</u>	<u>Cooling Degree</u>	<u>Ontario Real</u>	<u>Number of</u>	<u>Spring Fall</u>	<u>Number of</u>	<u>Predicted</u>
	<u>Purchased</u>	<u>Degree Days</u>	<u>Days</u>	<u>GDP Monthly %</u>	<u>Days in</u>	<u>Flag</u>	<u>Peak Hours</u>	<u>Purchases</u>
					<u>Month</u>			
Jan-98	51,018,028	629.3	0	100.40	31	0	336	50,988,031
Feb-98	46,268,713	522.7	0	100.80	28	0	320	47,169,818
Mar-98	50,209,423	517.6	1	101.20	31	1	352	50,624,500
Apr-98	44,154,709	311	0	101.60	30	1	336	46,701,809
May-98	44,633,793	67.1	30.4	102.00	31	1	320	45,427,518
Jun-98	46,349,722	65.8	74.4	102.40	30	0	352	49,081,628
Jul-98	45,612,894	7.4	77	102.80	31	0	352	49,157,606
Aug-98	48,364,165	7.1	88.1	103.20	31	0	320	48,390,621
Sep-98	46,175,407	49.3	40	103.60	30	1	336	46,255,197
Oct-98	46,878,180	234.6	0	104.00	31	1	336	46,722,784
Nov-98	48,330,562	416.9	0	104.40	30	1	336	48,482,125
Dec-98	49,121,753	560.2	0	104.80	31	0	336	50,833,568
Jan-99	53,791,132	767.7	0	105.44	31	0	320	52,758,055
Feb-99	47,995,956	563.7	0	106.10	28	0	320	48,540,998
Mar-99	51,804,580	601.3	0	106.76	31	1	368	53,290,193
Apr-99	45,475,668	315.6	0	107.42	30	1	336	47,700,834
May-99	45,790,093	113.3	16	108.08	31	1	320	46,086,359
Jun-99	50,412,165	39.6	87.6	108.74	30	0	352	50,607,067
Jul-99	50,105,483	3	135.7	109.40	31	0	336	53,109,210
Aug-99	49,455,038	25.9	38.5	110.06	31	0	336	47,403,157
Sep-99	47,919,668	75.5	27.8	110.72	30	1	336	46,969,623
Oct-99	49,056,899	296.8	0	111.38	31	1	320	47,916,151
Nov-99	50,258,087	403.4	0	112.04	30	1	352	50,303,472
Dec-99	51,763,883	596.3	0	112.70	31	0	336	52,563,870
Jan-00	55,153,263	737.5	0	113.27	31	0	320	53,645,983
Feb-00	51,611,044	596.1	0	113.80	29	0	336	51,557,270
Mar-00	52,221,022	434.5	0	114.33	31	1	368	52,423,826
Apr-00	47,091,667	353.2	0	114.86	30	1	304	47,831,580
May-00	49,234,362	134	17.8	115.39	31	1	352	49,165,667
Jun-00	50,471,123	39.4	48.1	115.92	30	0	352	49,287,052
Jul-00	48,074,327	23.1	50.7	116.45	31	0	320	48,387,257
Aug-00	52,404,956	29.7	52.3	116.98	31	0	352	50,180,632
Sep-00	48,909,902	114.7	38.4	117.51	30	1	320	48,435,321
Oct-00	49,750,781	223.6	1	118.04	31	1	336	48,918,581
Nov-00	52,441,619	458.6	0	118.57	30	1	352	52,051,593
Dec-00	53,919,676	801.2	0	119.10	31	0	304	54,642,897
Jan-01	55,871,300	701.2	0	119.23	31	0	352	55,679,494
Feb-01	50,757,672	622.3	0	119.40	28	0	320	51,426,762
Mar-01	54,139,855	611.9	0	119.57	31	1	352	54,715,052
Apr-01	47,938,861	306.3	0	119.74	30	1	320	48,787,848
May-01	49,297,354	114	6.8	119.91	31	1	352	48,955,755
Jun-01	51,385,300	44.8	59.5	120.08	30	0	336	49,988,198
Jul-01	49,946,058	23.3	84.5	120.25	31	0	336	51,905,525
Aug-01	55,601,127	2	103.5	120.42	31	0	352	53,602,920
Sep-01	48,919,171	105.3	18.7	120.59	30	1	304	46,824,566
Oct-01	51,171,631	252.8	0.5	120.76	31	1	352	50,437,696
Nov-01	50,515,679	335.6	0	120.93	30	1	352	50,891,547
Dec-01	50,515,677	541.5	0	121.10	31	0	304	51,711,128
Jan-02	54,557,427	616.9	0	121.43	31	0	352	54,978,661
Feb-02	50,362,485	566.8	0	121.80	28	0	320	51,119,277
Mar-02	53,082,278	551.8	0	122.17	31	1	320	52,857,746
Apr-02	50,642,621	333.8	8.6	122.54	30	1	352	51,669,095
May-02	50,608,524	240.1	7.3	122.91	31	1	352	51,052,999
Jun-02	51,866,787	39.9	70.7	123.28	30	0	320	50,358,099
Jul-02	55,319,351	4.8	128.2	123.65	31	0	352	55,710,523
Aug-02	56,699,817	7.6	89.4	124.02	31	0	336	52,626,018
Sep-02	52,723,343	38.2	56.8	124.39	30	1	320	49,743,937
Oct-02	54,395,870	314.1	9.6	124.76	31	1	352	52,424,137
Nov-02	54,891,660	475.3	0	125.13	30	1	336	52,567,159
Dec-02	54,199,354	661.5	0	125.50	31	0	320	54,671,506



Jan-03	60,682,148	821.9	0	125.65	31	0	352	58,230,846
Feb-03	55,102,398	719.4	0	125.80	28	0	320	53,679,060
Mar-03	56,411,683	585.7	0	125.95	31	1	336	54,674,057
Apr-03	51,768,969	378.9	2.3	126.10	30	1	336	51,660,046
May-03	48,041,345	189.3	0	126.25	31	1	336	49,753,825
Jun-03	47,973,756	51.5	34.9	126.40	30	0	336	49,550,629
Jul-03	52,352,810	7.1	73.5	126.55	31	0	352	52,775,683
Aug-03	53,057,452	8.4	88.2	126.70	31	0	320	52,214,237
Sep-03	51,560,940	72.9	14.2	126.85	30	1	336	48,692,529
Oct-03	54,047,370	294.8	0.3	127.00	31	1	352	51,960,901
Nov-03	55,039,342	400.7	0	127.15	30	1	320	51,169,666
Dec-03	54,296,253	599.1	0	127.30	31	0	336	54,960,467
Jan-04	60,191,796	843.7	0	127.53	31	0	336	58,063,658
Feb-04	55,093,544	654.1	0	127.80	29	0	320	53,785,908
Mar-04	57,723,435	514.1	0	128.07	31	1	368	55,643,987
Apr-04	51,791,725	342.8	1	128.34	30	1	336	51,488,273
May-04	52,028,830	161.8	13.4	128.61	31	1	320	49,851,786
Jun-04	52,155,245	61.4	29.6	128.88	30	0	352	50,498,071
Jul-04	51,113,907	10.2	65.7	129.15	31	0	336	52,001,059
Aug-04	54,603,230	33	41.9	129.42	31	0	336	50,836,937
Sep-04	53,000,453	49.7	36	129.69	30	1	336	50,229,158
Oct-04	52,092,514	238	0	129.96	31	1	320	50,184,362
Nov-04	53,916,856	409.5	0	130.23	30	1	352	53,322,105
Dec-04	55,597,005	668.6	0	130.50	31	0	336	56,349,218
Jan-05	59,519,040	782.7	0	130.81	31	0	320	57,049,587
Feb-05	53,401,240	635	0	131.10	28	0	320	53,478,388
Mar-05	56,026,000	644.3	0	131.39	31	1	352	57,033,021
Apr-05	50,073,520	316.2	0	131.68	30	1	336	51,632,328
May-05	50,162,960	208.5	0.3	131.97	31	1	336	50,938,508
Jun-05	56,597,760	11.2	126.8	132.26	30	0	352	56,515,384
Jul-05	53,676,610	2.2	140.7	132.55	31	0	320	56,377,413
Aug-05	57,518,680	5.9	94.1	132.84	31	0	352	55,070,795
Sep-05	52,250,000	44	30.4	133.13	30	1	336	50,362,686
Oct-05	52,711,210	243.4	13.7	133.42	31	1	320	51,671,446
Nov-05	53,362,010	418.9	0	133.71	30	1	352	54,002,809
Dec-05	55,501,710	699.1	0	134.00	31	0	320	56,517,658
Jan-06	56,528,710	576.3	0	134.22	31	0	336	55,793,963
Feb-06	52,548,160	628.2	0	134.50	28	0	320	53,943,090
Mar-06	56,081,470	571.1	0	134.78	31	1	368	57,443,785
Apr-06	48,548,560	307.9	0	135.06	30	1	304	50,531,040
May-06	51,563,020	163.2	23.9	135.34	31	1	352	53,141,335
Jun-06	52,813,920	42.2	42.8	135.62	30	0	352	52,175,952
Jul-06	54,008,040	7	127	135.90	31	0	320	56,119,678
Aug-06	55,895,490	9.8	57.3	136.18	31	0	352	53,350,505
Sep-06	49,552,320	108.2	6.1	136.46	30	1	320	49,391,936
Oct-06	52,532,530	312.6	0.3	136.74	31	1	336	53,014,902
Nov-06	53,385,930	394.5	0	137.02	30	1	352	54,232,344
Dec-06	51,983,542	533.1	0	137.30	31	0	304	54,226,132
Jan-07	57,509,800	433.3	0	137.55	31	0	352	55,284,645
Feb-07	54,145,600	504.7	0	137.80	28	0	320	52,928,818
Mar-07	55,841,344	402.6	0	138.05	31	1	352	55,080,616
Apr-07	49,890,898	277.2	0	138.30	30	1	320	51,425,105
May-07	50,950,599	85.8	20.9	138.55	31	1	352	52,502,089
Jun-07	52,949,918	25.2	62.8	138.80	30	0	336	52,977,508
Jul-07	50,695,162	8.9	43.9	139.05	31	0	336	52,217,982
Aug-07	55,177,149	9.1	66.5	139.30	31	0	352	54,423,732
Sep-07	49,919,310	27.6	23.9	139.55	30	1	304	49,243,665
Oct-07	52,289,030	107.7	12.2	139.80	31	1	352	52,432,807
Nov-07	52,590,120	287.2	0	140.05	30	1	352	53,377,462
Dec-07	52,363,990	421.2	0	140.30	31	0	304	53,308,738
Jan-08	56,931,880	430	0	140.24	31	0	352	55,683,826
Feb-08	53,808,360	477	0	140.20	29	0	320	53,559,032
Mar-08	54,411,970	421	0	140.16	31	1	304	53,364,381
Apr-08	49,720,310	160	0	140.12	30	1	352	51,791,812
May-08	48,905,780	140	0	140.08	31	1	336	51,357,842
Jun-08	50,409,100	25	34	140.04	30	0	336	51,356,767
Jul-08	51,274,000	1	53	140.00	31	0	352	53,598,700
Aug-08	49,872,730	14	18	139.96	31	0	320	50,013,743
Sep-08	48,308,210	59	11	139.92	30	1	336	50,422,585
Oct-08	49,255,560	227	0	139.88	31	1	352	53,184,726
Nov-08	49,017,380	282	0	139.84	30	1	304	50,992,178
Dec-08	49,751,919	448	0	139.80	31	0	336	55,077,089

Jan-09	667	0	139.49	31	0	336	57,773,643		
Feb-09	590	0	139.20	28	0	304	53,467,671		
Mar-09	532	0	138.91	31	1	352	56,855,596		
Apr-09	309	1	138.62	30	1	320	51,963,165		
May-09	147	12	138.33	31	1	320	51,181,788		
Jun-09	41	61	138.04	30	0	352	53,686,122		
Jul-09	9	89	137.75	31	0	352	55,592,534		
Aug-09	14	67	137.46	31	0	320	52,699,816		
Sep-09	68	28	137.17	30	1	336	51,124,238		
Oct-09	250	3	136.88	31	1	336	52,430,048		
Nov-09	389	0	136.59	30	1	320	52,569,705		
Dec-09	594	0	136.30	31	0	352	57,096,424		
Jan-10	667	0	136.54	31	0	320	56,534,044		
Feb-10	590	0	136.80	28	0	304	53,079,479		
Mar-10	532	0	137.06	31	1	368	57,318,811		
Apr-10	309	1	137.32	30	1	320	51,752,894		
May-10	147	12	137.58	31	1	320	51,060,478		
Jun-10	41	61	137.84	30	0	352	53,653,772		
Jul-10	9	89	138.10	31	0	336	54,886,699		
Aug-10	14	67	138.36	31	0	336	53,607,835		
Sep-10	68	28	138.62	30	1	336	51,358,771		
Oct-10	250	3	138.88	31	1	320	51,991,095		
Nov-10	389	0	139.14	30	1	336	53,744,605		
Dec-10	594	0	139.40	31	0	368	58,360,285		
Weather Normal							8,143,304,020		
1996									
1997			139.71						
1998	567,117,349					579,835,206	12,717,857	2.2%	
1999	593,828,652					597,248,988	3,420,336	0.6%	
2000	611,283,741					606,527,659	(4,756,082)	-0.8%	
2001	616,059,685					614,926,490	(1,133,195)	-0.2%	
2002	639,349,517					629,779,158	(9,570,359)	-1.5%	
2003	640,334,466					629,321,947	(11,012,519)	-1.7%	
2004	649,308,540					632,254,522	(17,054,018)	-2.6%	
2005	650,800,740					650,650,023	(150,717)	0.0%	
2006	635,441,692					643,364,661	7,922,969	1.2%	
2007	634,322,920					635,203,168	880,248	0.1%	
2008	611,667,199					630,402,679	18,735,480	3.1%	
2009						646,440,750			
2010						647,348,768			
2010 With RBC and UoW						649,333,691			
Total to 2008	6,849,514,502					6,849,514,502	0		
							8,143,304,020	0	
Check totals above should be zero									

Below are tables 4 and 5 revised for the population variable removed.

Table 5 shows the forecasted purchases for 2009 and 2010 of 646,440,750 kWh and 647,348,768 kWh, respectively. To give some perspective on our actual 2009 purchases to date, Festival Hydro to the end of November 2009 has purchased 516,491,426 kWh. If we purchase the same amount in December 2009 as we did in December 2008, that will bring our 2009 total purchases to 566,156,306, a major decrease from our 2008 purchases of 611,667,199 (7.4% decrease).

**Table 4**  
**Statistical Results after Populaton Removed**

Statistic	Value
R Square	73.6%
Adjusted R Square	72.3%
F Test	58.1
T-stats by Coefficient	
Intercept	(1.2)
Heating Degree Days	12.5
Cooling Degree Days	7.9
Ontario Real GDP Monthly %	12.4
Number of Days in Month	3.0
Spring Fall Flag	0.3
Number of Peak Hours	5.0

**Table 5**  
**Total System Purchases with Population Variable Removed**

Year	Actual	Predicted	% Difference
1998	567,117,349	579,835,206	-2.19%
1999	593,828,652	597,248,988	-0.57%
2000	611,283,741	606,527,659	0.78%
2001	616,059,685	614,926,490	0.18%
2002	639,349,517	629,779,158	1.52%
2003	640,334,466	629,321,947	1.75%
2004	649,308,540	632,254,522	2.70%
2005	650,800,740	650,650,023	0.02%
2006	635,441,692	643,364,661	-1.23%
2007	634,322,920	635,203,168	-0.14%
2008	611,667,199	630,402,679	-2.97%
2009 (B)		646,440,750	
2010 (T)		647,348,768	

## Interrogatory # 45

### Ref: Energy Probe Interrogatory # 17 c

- a) The requested table was not provided. Please provide the requested table for the period 2006 through 2010.

#### RESPONSE:

Below is a table which shows the breakdown of streetlighting revenues and expenses for the City of Stratford and the small towns.

#### Interrogatory # 45 a Streetlighting Revenues

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Streetlighting capital and maintenance revenues</u>					
City of Stratford	242,001.00	263,311.00	169,659.00	191,599.00	201,133.00
Small towns	19,630.00	68,839.00	55,338.00	55,617.00	56,395.00
Total revenue	<u>261,631.00</u>	<u>332,150.00</u>	<u>224,997.00</u>	<u>247,216.00</u>	<u>257,528.00</u>

#### Streetlighting capital and maintenance costs

City of Stratford	257,898.00	256,009.00	213,146.00	214,218.00	217,214.00
Small towns	19,630.00	68,839.00	55,338.00	55,617.00	56,395.00
Total expenses	<u>277,528.00</u>	<u>324,848.00</u>	<u>268,484.00</u>	<u>269,835.00</u>	<u>273,609.00</u>

Net revenues (deficit)	(15,897.00)	7,302.00	(43,487.00)	(22,619.00)	(16,081.00)
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#### Breakdown of City of Stratford costs:

(refer to Exhibit 4, Tab 2, Schedule 4, Page 5)

Labour & related burden	82,359.00	113,137.00	74,022.00	90,500.00	93,500.00
Vehicles	25,157.00	31,345.00	19,993.00	25,900.00	26,000.00
Stock burden	10,857.00	14,722.00	9,716.00	12,067.00	11,183.00
Festival Hydro charges for streetlighting	118,373.00	159,204.00	103,731.00	128,467.00	130,683.00
Materials belonging to the City charged through our accounts (pass through)	139,525.00	96,805.00	109,415.00	85,751.00	86,531.00
Total City of Stratford streetlight expense	<u>257,898.00</u>	<u>256,009.00</u>	<u>213,146.00</u>	<u>214,218.00</u>	<u>217,214.00</u>

#### Margins to be built into Festival Hydro streetlighting work

Festival Hydro charges for streetlighting	130,683.00
Small town streetlighting	56,395.00
Total on which to apply margin	<u>187,078.00</u>
Margin of 8.01%	<u>14,984.95</u>

- b) The response indicates that there is no margin built into the price. Do any of the capital and maintenance expenses incurred by Festival Hydro related to street lighting services get included directly or indirectly into the

costs to be recovered through distribution rates? For example, are any OM&A costs included in the working capital component of rate base?

**RESPONSE:**

No, there are no capital or maintenance expenses incurred by FHI related to street lighting services that are included directly or indirectly into the costs to be recovered through distribution rates.

- c) Please explain why Festival Hydro has no margin on street lighting maintenance, but does appear to have a positive margin associated with administration fees for City of Stratford water billing & collections. Please provide a table for the 2006 through 2010 period showing the revenues, costs and margins associated with this activity.

**RESPONSE:**

FHI has not historically charged a margin on street lighting services provided. Going forward we will begin to charge a margin on these services. As noted in the table above, Festival Hydro would collect \$14,985 in 2010 using a rate of return of 8.01% (2009 COS rate application approved rate of return). No margin would apply to the City's material costs as that is a pass through. The Summary of Changes spreadsheet submitted with our responses to the OEB interrogatories includes the addition of the \$14,985 to our revenue offsets in our revised 2010 figures.

The table below highlights the margin charged to the City of Stratford for water billing and collections services for the years 2006 – 2010.

	2006	2007	2008	2009	2010
Admin fee charged for Water & Sewage Billing	411,250	394,215	397,814	410,126	420,485
Costs for Water & Sewage Billing	322,788	317,816	340,955	347,446	357,869
Net revenue from Water & Sewage Billing	88,462	76,399	56,859	62,680	62,616

**Interrogatory # 46**

**Ref: Energy Probe Interrogatory # 18**

- a) Please confirm that the interest expense on variance accounts and other regulatory assets should NOT be included in the revenue requirement. What is the amount included in the 2010 revenue requirement associated with interest expenses on variance accounts, deferral accounts and other regulatory asset accounts? Please reconcile this figure with those shown in the table prepared in response to part (b) of the response.

**RESPONSE:**

Interest expense on variance and other regulatory accounts are not included in the revenue requirement.

The total amount of interest included in 2010 for regulatory accounts total a net expense of \$ 266, which is made up of interest expense of \$11,468 and interest income of \$11,202. The net amount has been included in account 6035.

- b) Please explain how the figure of (266) shown as the interest expense for 2010 for acctg is derived from the figures provided in the table.

**RESPONSE:**

Below is a revised table which shows the build up of the interest income and expense amounts.

Eenergy Probe # 46 Breakdown of Interest on Deferral and Variance Accounts				
Account Description	Account Number	Interest Jan1-10 to Apr30-10 on Dec 31, 2008 Principal Balances	Interest Jan1-10 to Apr30-10 on new 2009 & 2010 Principal Additions	Total
RSVA - Wholesale Market Service Charge	1580	\$ (4,617)	-222 \$	(4,839)
RSVA - One-time Wholesale Market Service	1582	\$ 120	0 \$	120
RSVA - Retail Transmission Network Charge	1584	\$ (3,030)	-222 \$	(3,252)
RSVA - Retail Transmission Connection Charge	1586	\$ (3,080)	-53 \$	(3,133)
RSVA - Power	1588/1589	\$ 2,444	56 \$	2,500
		\$ -	0 \$	-
Sub-Totals		\$ (8,162)	-442 \$	(8,604)
Other Regulatory Assets	1508	\$ 1,075	0 \$	1,075
Retail Cost Variance Account - Retail	1518	\$ (190)	-20 \$	(210)
Retail Cost Variance Account - STR	1548	\$ 79	7 \$	86
Smart Meters Revenue and Capital	1555	\$ -	0 \$	-
Smart Meter Expenses	1556	\$ -	0 \$	-
Low Voltage	1550	\$ 243	28 \$	271
Other Deferred Credits	2405	\$ (60)	26 \$	(34)
Sub-Totals		\$ 1,147	41 \$	1,188
Smart Meters & reg recovery assets		0	7150 \$	7,150
Total		\$ (7,015)	\$ 6,748	(266)
Total Interest Expense			\$	(11,468)
Total Interest Income			\$	11,202
Net interest expense			\$	(266)

- c) Please reconcile the bank interest of \$24,000 shown in the table in response to part (b) with the figures of \$19,754 for 2009 and \$18,300 for 2010 shown in the table in Exhibit 3, Tab 3, Schedule 2, page 7.

**RESPONSE:**

The total interest income # 4405 for 2010 consists of \$18,300 in bank interest and \$5,700 of miscellaneous interest (in 2009, \$19,754 bank interest and \$5,446 miscellaneous interest income).

**Interrogatory # 47**

**Ref: Energy Probe Interrogatory # 19 &  
Exhibit 3, Tab 2, Schedule 1, Tables 8 & 9**

Please confirm that the customer/connection data shown in Table 8 & 9 is based on the average for the year and not year-end figures. Please also confirm that the figures provided in response to the interrogatory are monthly figures for September in each year and not year-to-date averages for September.

**RESPONSE:**

The customer /connection data shown in Table 8 & 9 is based on the average for the year and not year-end figures. The customer/connection data used in the response to Energy Probe Interrogatory # 19 represent the month-end actual data for September 30, 2008 and 2009, respectively.

**Interrogatory # 48**

**Ref: Energy Probe Interrogatory # 27**

Is the \$40,000 in costs that are charged directly to FHSI included in the total OM&A included in the revenue requirement for Festival Hydro?

**RESPONSE:**

No.

**Interrogatory # 49**

**Ref: Energy Probe Interrogatory # 29**

Please confirm that the special rules related to computers and software is for systems software that is normally included with computer expenditures and is not intended to apply to software that is normally included in CCA Class 12.

**RESPONSE:**

Yes, the legislative changes are for systems software versus application software.

**Interrogatory # 50**

**Ref: Energy Probe Interrogatory # 32 f**

- a) Is the proposed treatment of the FMV reduction consistent with the direction provided by the OEB in the 2006 Electricity Distribution Rate Handbook? If not, what would be the impact on the 2010 revenue requirement if Festival Hydro treated the FMV as per the Handbook?

**RESPONSE:**

Per section 7.2.4 of the handbook, this FMV bump amount should not reduce the UCC balance in calculating the CCA used for tax purposes. If this amount is included in the UCC balances the CCA will increase and our tax expense will decrease by approximately \$64,000.

- b) Please explain why the FMV adjustment has been applied to CCA Class 47 which is for distribution system assets acquired post Feb. 22, 2005. Did the FMV occur before or after this date? If after this date, should the FMV adjustment be applied to CCA Class 1 rather than Class 47? What is the impact on the 2010 revenue requirement if the FMV adjustment is made to Class 1 rather than Class 47?

**RESPONSE:**

Based on our response to (a) above, the entire FMV bump has been added back into the UCC balance.

- c) The FMV adjustment shown is \$1,847,262. Is this the original FMV bump or the remaining UCC associated with the original amount? If the former, please explain why this amount has not been reduced over the years for CCA purposes.

**RESPONSE:**

Based on our response to (a) above, the entire FMV bump has been added back into the UCC balance.



## Interrogatory # 51

Ref: Energy Probe Interrogatory # 33 b &  
Energy Probe Interrogatory # 37

- a) Please provide the calculation utilizing the 13% provincial income tax rate, as requested in part (b).

### RESPONSE:

See calculation below.

Tax Exhibit		2010
Deemed Utility Income		1,268,260
Tax Adjustments to Accounting Income		662,491
<b>Taxable Income prior to adjusting revenue to PILs</b>		<b>1,930,751</b>
Tax Rate		31.0%
Total PILs before gross up		598,533
<b>Grossed up PILs</b>		<b>867,439</b>

- b) What is the basis for the Festival Hydro assertion that the savings on the first \$1.5 of taxable income are not retained by corporations with taxable incomes in excess of \$1.5 million? Please provide copies of any such materials relied upon.

### RESPONSE:

The benefit of Ontario's small business deduction has been clawed back when taxable income of associated corporations exceeds \$500,000 and eliminated when taxable income, on an associated basis, reaches \$1,500,000 in previous years. The Ontario budget proposed eliminating this clawback to ensure that all CCPC's, regardless of size, had the benefit of the small business deduction in Ontario. This budget proposal was substantively enacted November 16, 2009 and therefore the first \$500,000 of FHI income will be taxed at the lower rate of 4.25% after July 1, 2010.

- c) In the response to Energy Probe Interrogatory # 37, Festival Hydro alludes to taxable capital being in excess of the threshold for the provincial small business tax rate. Please provide copies of any materials relied on to determine the taxable capital limited applicable to the Ontario small business deduction applicability.

### RESPONSE:

As noted in (b) above – the clawback of the small business rate for CCPC's with income in excess of \$1.5M has been removed from legislation thereby providing that all CCPC's are eligible for the small business rate on the first \$500k of taxable income.

**Interrogatory # 52**

**Ref: Energy Probe Interrogatory # 35 a**

**Has Festival Hydro included the impact of the \$2,000 federal apprenticeship tax credit in its income tax calculation?**

**RESPONSE:**

The tax adjustment calculation for 2010 includes an addback for \$4,000 for the 2009 expected federal apprenticeship credit. The revised tax calculation also includes the federal apprentice tax credit as a reduction to our total estimated tax payable.