Festival Hydro Inc.

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February 10, 2010

BY RESS & COURIER

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

Re: ED Number EB-2009-0263
Festival Hydro Inc. Reply Submission
2010 Electricity Distribution Rates Licence No. ED-2002-0513

Dear Ms. Walli:

Please find accompanying this letter two copies of Festival Hydro's Reply Submission, being delivered pursuant to Procedural Order No. 2.

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

Should you require any further information or clarification of any of the above, please do not hesitate to contact me.

Respectfully submitted,
Original Signed by

W.G. Zehr, President

cc Intervenors of Record

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. to the Ontario Energy Board for an Order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2010.

FESTIVAL HYDRO INC.

2010 ELECTRICITY DISTRIBUTION RATE APPLICATION

REPLY SUBMISSION

FILED FEBRUARY 10, 2010

A. INTRODUCTION

Festival Hydro Inc. ("Festival Hydro") owns and operates the electricity distribution system located in the City of Stratford and the Towns of St. Marys, Hensall, Dashwood, Zurich, Brussels and Seaforth.

On August 28, 2009, Festival Hydro filed its 2010 rebasing application with the Ontario Energy Board (the "Board"), under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) (the "OEB Act"), seeking approval for changes to the rates that Festival Hydro charges for electricity distribution, to be effective May 1, 2010. The Board assigned the File Number EB-2009-0263 to this Application (the "Application").

The Board issued a Notice of Application and Hearing on September 11, 2009. Energy Probe Research Foundation ("Energy Probe"), the School Energy Coalition ("SEC"), and the Vulnerable Energy Consumers Coalition ("VECC") applied for intervenor status and cost eligibility. No objections were received and the Board allowed all interventions.

The Board issued Procedural Order No. 1 on October 16, 2009 to allow for discovery. In accordance with Procedural Order No. 1, Board Staff issued interrogatories to Festival Hydro on November 2, 2009 and intervenors issued interrogatories to Festival Hydro on November 6, 2009. Festival Hydro filed responses to the interrogatories on November 23, 2009.

On December 7, 2009 the Board issued Procedural Order No. 2, which allowed for a supplemental round of interrogatories. Board Staff posed interrogatories to Festival Hydro by December 14, 2009, and intervenors by December 18, 2009. Festival Hydro filed responses to the supplemental interrogatories on January 7, 2010.

Procedural Order No. 2 indicated that the Board had determined that the proceeding would continue by way of a written hearing in that written supplemental interrogatories would be followed by written submissions by Board Staff and intervenors. The record was determined to close with a Reply Submission.

The Board issued their Submission to Festival Hydro on January 22, 2010, and intervenors issued their Submission to Festival Hydro on January 27, 2010. Festival Hydro's reply submission was due by February 10, 2010.

This document represents Festival Hydro's reply submission in accordance with Procedural Order No. 2.

B. THE APPLICATION

As instructed in the Board's supplemental interrogatories, submitted by Festival Hydro on January 7, 2010, Festival Hydro included a summary of the adjustments to the Application arising from the second round of interrogatory responses.

After reporting the changes resulting from the second round of Interrogatories (IR #48b), Festival Hydro revised its total revenue requirement to $10,371,888 which represents a 7.8% increase over the 2006 Board Approved amount of $9,621,612. As the 2006 Board Approved amount was based on 2004 actual amounts, this represents an annual average increase of 1.3% over the 2004 – 2010 period.

After updating for changes arising from round 2 of interrogatories (IR #48b) a Residential customer using 800 kWh per month would have a total bill increase of 1.3%, while a General Service less than 50kW customer using 2,000 kWh per month would have a total bill increase of 1.5%. As part of the Reply Submission, Festival Hydro has agreed with some further changes which will further reduce customer impacts within this submission; however these changes have not been quantified in relation to bill impacts and a decreased revenue deficiency within this document.

Festival Hydro services the City of Stratford and several other small towns in southwestern Ontario. The area has been adversely affected by the economic downturn and the appreciation of the Canadian dollar against the US dollar as the area has significant auto manufacturing and tourism industries. Festival Hydro has managed its capital and OM&A expenditures, as shown in the Comparison of OM&A Costs with other distributors in the same cohort grouping, appropriately, and is working with the various municipalities to attract new businesses.

Comparison of Festival Hydro Inc. OM&A Costs to "Mid Size Southern Medium-High Undergrounding" Cohort Grouping			
Cohort Groupings	**Total OM&A**		
By Distribution Company	**2005-2007 3 Year Avg.**	**2007**	**2008**
ELK Energy Inc.	$ 155.00	$ 182.00	$ 200.18
Wasaga Distribution Inc.	$ 157.00	$ 159.00	$ 161.97
chatam-Kent Hydro Inc.	$ 162.00	$ 164.00	$ 176.96
Peterborough Distribution Incorporated	$ 181.00	$ 192.00	$ 204.06
Festival Hydro Inc.	$ 182.00	$ 185.00	$ 185.82
Kingston Electricity Distribution Limited	$ 189.00	$ 182.00	$ 193.03
Westario Power Inc.	$ 203.00	$ 196.00	$ 231.73
COLLUS Power Corp.	$ 211.00	$ 225.00	$ 249.90
St. Thomas Energy Inc.	$ 216.00	$ 214.00	$ 191.96
Essex Powerlines Corporation	$ 221.00	$ 206.00	$ 196.89
Woodstock Hydro Services Inc.	$ 223.00	$ 228.00	$ 222.77
Niagara Falls Hydro Inc.	$ 247.00	$ 255.00	$ 254.55
Bluewater Power Distribution Company	$ 261.00	$ 256.00	$ 251.50
Erie Thames Powerline Corporation	$ 329.00	$ 356.00	$ 338.01
Average for Cohort Group	**$ 208.00**	**$ 214.00**	**$ 218.52**

In this proceeding, Festival Hydro is requesting the following approvals:

a) Approval to charge rates effective May 1, 2010 to recover a revenue requirement of $10,371,888 as set out in the Festival Hydro summary of changes submitted in response to Board Staff IR #48(b), and subject to the adjustments agreed to by Festival Hydro herein.

b) The schedule of proposed rates is set out in Exhibit 1, Tab 1, Schedule 2 Appendix A and Exhibit 8 Tab 1 Schedule 6 as updated through the proceeding and Decision;

c) Approval of the Applicant's proposed change in capital structure, decreasing the Applicant's deemed common equity component from 43.3% to 40.0% and increasing the deemed debt component from 56.67% to 60.0% comprised of 56% for long term debt and 4% for short term debt, as set out in Exhibit 5, Tab 1, Schedule 2, consistent with Report of the Board on Cost of Capital and 2nd Generation Incentive

Regulation for Ontario's Electricity Distributors dated December 20, 2006 (the "2006 Report");

d) Approval of revised Low Voltage Cost Recovery Adder as proposed and described in the response to Board IR #48b and page 51 of the Reply submission.

e) Approval of the rate adder of $1.00 per customer per month to fund Smart Meter activities as proposed and described in Exhibit 8, Tab 1, Schedule 1;

f) Approval of the proposed loss factors as set out in Exhibit 8, Tab 1, Schedule 1;

g) Approval of revised Retail Transmission rates as proposed on page 52 of the Reply submission.

h) Approval to continue the Specific Service Charges and Transformer Allowance approved in the OEB Decision and Order in the matter of Festival Hydro's 2009 Distribution Rates (EB-2008-00175);

i) Approval to dispose of the following Deferral and Variance Account Balances as at December 31, 2008 with applicable interest to April 30, 2010 over a four-year period using the method of recovery described in Exhibit 9, Tab 1, Schedule 3, and as amended for Account 1588, Cost of Power, as described in the Reply Submission on page 53.

1508 Other Regulatory Assets
1518 Retail Cost Variance Account – Retail
1548 Retail Cost Variance Account – STR
1550 Low Voltage
1580 RSVA - Wholesale Market Service Charge
1582 RSVA - One-time Wholesale market Service
1584 RSVA - Retail Transmission Network Charge
1586 RSVA - Retail Transmission Connection Charge
1588 RSVA – Power

C. EXHIBIT 2 – RATE BASE

Background

A summary of the proposed rate base is provided Table 1 below. In general Board Staff and intervenors had very few issues with the rate base and capital expenditures. The issues which received comment include the elimination of the Provincial Sales Tax ("PST"); the disposal policy and reclassification of assets; and working capital allowance.

Board Staff observed that a correction was required in the table, Exhibit 2, Tab 2, Schedule 1 – Rate Base Overview, provided by Festival Hydro comparing rate base for 2006 Board approved year through the 2010 test year. The table below has been revised so that the proper average net book value amount has been included in the 2006 Board approved column. Festival Hydro confirms that 2006 Actual through to the 2010 Test Year columns included accurate NBV figures and have not been revised in the table below.

Table 1
Summary of Rate Base

Description	2006 OEB Approved	2006 Actual	2007 Actual Year	2008 Actual Year	2009 Bridge Year	2010 Test Year
Gross Fixed Assets	56,920,451	62,593,542	65,198,393	70,067,244	73,469,244	76,826,244
Accumulated Depreciation	28,828,157	33,562,551	35,520,874	38,726,543	41,462,401	44,337,232
Net Book Value	28,092,294	29,030,991	29,677,519	31,340,701	32,006,843	32,489,012
Average Net Book Value	28,092,294	28,890,694	29,354,255	30,509,110	31,673,772	32,247,927
Working Capital	46,050,224	47,968,053	48,360,788	47,080,155	50,100,520	48,904,825
Working Capital Allowance	6,907,534	7,195,208	7,254,118	7,062,023	7,515,078	7,335,724
Rate Base	34,999,828	36,085,902	36,608,373	37,571,133	39,188,850	39,583,651

Capital Expenditures

Festival Hydro proposed a capital spending program which is summarized in the table 2010 Capital Assets by Project as included in Exhibit 2, Tab 3, Schedule 1, Page 1 in the application and below. Board Staff and intervenors completed a detailed review of the capital expenditures by FHI from 2006 through the 2010 test year and have indicated that they do not take issue with the 2010 capital additions.

Board Staff acknowledged that capital spending was stable from 2008 to 2010 and consistent with forecasted spending of 2011 and 2012. Board Staff noted that Festival Hydro had not commenced installing smart meters and as such was not included in this Application. Board Staff took no issue with the capital additions.

Intervenors were supportive of Festival Hydro's proposed spending. Aside from the two issues identified below, Energy Probe accepted that the capital expenditure forecast was appropriate (EP Submissions, p.3). VECC, aside from the PST, indicated it had no issues with the level of spending. SEC made no comment.

2010 Capital Additions by Project

	Uniform System of Accounts #														
	1830	1835	1840	1845	1850	1855	1860	1908	1920	1925	1930	1940	1980	1995	
Project	Poles & Fixtures	O/H Conductor	U/G Conduit	U/G Conductor	Transformers	Services	Meters	Buildings & Fixtures	Hardware	Software	Transportation	Tools	SCADA	Contributed Capital	**Total**
Stratford-M.S. #1 Conversion	88,000	140,000	6,500	55,000	38,500										328,000.00
Stratford-M.S. #8 Conversion			10,000	70,000	10,000										90,000.00
Stratford-Wright Blvd Ph 2-New industrial	77,500	47,500													125,000.00
Stratford-Gibb Rd.-Tie Line	30,000	20,000													50,000.00
Stratford-Delamere-Rebuild	116,000	90,000			18,000										224,000.00
Stratford-Douro Ph 2-Rebuild	88,000	70,000	20,000	30,000	10,000										218,000.00
Stratford-Campbell Court-S/G Replacement				10,000											10,000.00
Stratford-Reinsulate Poles 68M3 Feeder	50,000														50,000.00
Stratford-Reclosers (68M5 Feeder)		70,000													70,000.00
Stratford-Automated Switches				190,000											190,000.00
Stratford-Cap Banks (68M2 Feeder)		50,000													50,000.00
St. Marys-Ontario St N Area - Rebuild	100,000	71,000			16,000										187,000.00
St. Marys-St. George St. Rebuild	44,000	35,000			7,000										86,000.00
St. Marys-Tracy St. Rebuild	23,000	18,500			3,500										45,000.00
Seaforth-West William-Rear Lot Conversion	9,000	52,000			6,000										67,000.00
Seaforth-Brantford-Rear Lot Conversion			22,000	31,000	3,000										56,000.00
Dashwood-Helen St-Secondary Rebuild		81,000													81,000.00
New Transformers					450,000										450,000.00
Customer Driven Capital	115,000	85,000	125,000	85,000	45,000										455,000.00
New/Upgraded Services						150,000									150,000.00
Distribution Meters							20,000								20,000.00
SCADA enhancements													20,000		20,000.00
Tools & Equipment												35,000			35,000.00
Lands & Buildings - Administratin Building								50,000							50,000.00
Lands & Buidlings - Service Centrte								50,000							50,000.00
Vehicles & Trailers											300,000				300,000.00
Hardware Upgrades									25,000						25,000.00
Software Upgrades										25,000					25,000.00
Contributed Capital														-390,000	(390,000.00)
Subtotal	**740,500**	**830,000**	**183,500**	**471,000**	**607,000**	**150,000**	**20,000**	**100,000**	**25,000**	**25,000**	**300,000**	**35,000**	**20,000**	**-390,000**	**3,117,000**
Capitialized Subdivision Asset Transfers			76000	50000	44000	70000	0	0							240,000.00
TOTAL	740,500	830,000	259,500	521,000	651,000	220,000	20,000	100,000	25,000	25,000	300,000	35,000	20,000	-390,000	3,357,000

Festival Hydro submits that its capital expenditure program is consistent with the historical average, supported by a detailed and rigorous internal review process, as documented in the Festival Hydro Asset Management plan in Exhibit 2, Tab 3, Schedule 2, Appendix A as well as in the overall budget process documented in Exhibit 2, Tab 1, Schedule 1 pages 6 and 7 and is needed to replace assets that have reached end of life, and to ensure service quality and reliability are maintained. Further, a significant portion of capital spending is directed towards multi-year projects which need to be completed to achieve the desired improvements (e.g. voltage conversion projects). Festival Hydro submits that the capital spending is appropriate and should be approved by the Board.

Capital Expenditures – Elimination of the Provincial Sales Tax

The proposed elimination of the PST and its replacement with the Harmonized Sales Tax will be effective July 1, 2010. This change was confirmed through the passing of the legislation that occurred during this proceeding. At the time of the filing of the Application the proposed change, although expected, had not been confirmed and so Festival Hydro had not incorporated the change into the Application.

During the interrogatory process, Festival Hydro indicated that it anticipated the Board would provide additional direction to the industry in order that an industry wide standard could be implemented. Festival Hydro further indicated that the impact of the proposed change was not known at this stage and that the cost and time of determining the impact would be significant. In response to EP IRR #1 Festival Hydro had indicated that it took 3 full days to trace the amount of provincial sales tax allocated to capital projects for the month of September.

Board Staff indicated that it may be appropriate to consider establishing a variance account to track any savings that may arise. The Board could determine the materiality of the savings when it reviews the variance account at the time of disposition. Festival Hydro would agree with this approach.

Energy Probe indicated that if a variance account was established, it was willing to accept a decrease of $17,250 that amount being one half of the anticipated savings of

$34,500 that would occur during the six month period. If no variance account was to be established Energy Probe asserted that a reduction of $67,000 was appropriate. Energy Probe arrived at this figure by relying upon Burlington Hydro's evidence that it spends approximately 4% of its capital on PST of which Energy Probe reduced it by half.

VECC suggest a $34,500 reduction in capital spending with the possibility of establishing a variance count to ensure that ratepayers and Festival Hydro realize the result of the actual savings. SEC made no submissions in respect of the elimination of PST and capital spending.

The proposed reductions suggested are based on a one-month review of PST savings completed by Festival Hydro for the month for September 2009 and the evidence of another distributor, Burlington Hydro, which has not been demonstrated to have similar spending patterns. While Festival Hydro believes the September 2009 spending is representative of its normal monthly spending, there is room for variation in spending patterns throughout the year. Further, Festival Hydro indicated that there is still some speculation regarding the actual amount of savings that will actually be realized as suppliers and contractors may not pass along the savings in the manner some have projected. For these reasons, Festival Hydro did not support a deferral account and does not support the reductions suggested.

Festival Hydro submits that the Board should not reduce capital expenditures, but rather, require Festival Hydro to establish a variance account to track the difference between any capital expenditures incurred for which PST would have been paid and for which the distributor is now eligible for an HST input tax credit. A variance account would hold parties harmless and would eliminate speculation regarding the potential amount to be saved.

Capital Expenditures – Asset Disposal Reclassification

In 2008 Festival Hydro changed its accounting policies such that disposal costs are included in depreciable capital asset account versus a non depreciable asset account as was used in prior years. The change in practice was to bring its practices more in line with other electricity distributors. Festival Hydro, in response to Board Staff IR #2, noted that retroactive restatement of financial statements was not necessary to reflect the accounting policy change and was not required by the auditors.

Energy Probe submits that failure to restate the financial results from prior years in the 2010 rate base being $94,613 higher than it should be in the test year. The amount Energy Probe suggests represents the depreciation that would have been booked in prior years had this new depreciation policy been in effect since 2002 when the first disposal cost was capitalized. Energy Probe submits that ratepayers should not provide a return on assets that should have been depreciated in prior years.

Board Staff, VECC and SEC did not comment on this issue.

Festival Hydro would note that depreciation was not charged in prior years and that rate payers had the benefit of such omission from rates. Further, the cost of restating all prior years to 2002 would likely out weight the benefit of any such restatement.

Festival Hydro submits that its accounting treatment of this item is consistent with the recommendation from our auditors to account for this policy change on a prospective basis versus a retroactive basis. Festival Hydro also submits that accounting policy changes occur from time to time due to CICA requirements and as such it is prudent to follow auditor recommendations regarding the application of these policies. Festival Hydro further submits that it is appropriate to follow our auditor's recommendation on this particular item for the rate rebasing process as it is not being implemented retroactively from a financial accounting perspective.

Festival Hydro submits that rate base should not be reduced as suggested by Energy Probe and that no adjustment is necessary as a result of the accounting change.

Service Quality and Reliability

Board Staff submits that Festival Hydro has adequately documented the reasons for the trends in service reliability. The Applicant has also documented how it plans to maintain and improve the level of reliability of the distribution system in its Asset Management Plan. The stability of CAIDI does not point to any concerns with Festival Hydro's efforts to manage outages when they occur or for the need for increased capital expenditures. VECC, SEC and Energy Probe did not make submission regarding service quality and reliability.

Festival Hydro is in agreement with the Board Staff submission.

Working Capital Allowance

During the rate proceeding, the determination of the appropriate amount of working capital allowance had four issues: (a) the 15% factor versus a lead/lag study; (b) the cost of power methodology; (c) the cost of power update; and (d) changes to controllable expenses. Festival Hydro will comment on each, but would note that all participants were in agreement in the use of the most recent controllable expenses for the determination of the working capital allowance.

(a) Requirement for a Lead/Lag Study

Board Staff takes no issue with Festival Hydro's methodology for calculating the working capital allowance ("WCA") but submitted that new evidence should be required at Festival Hydro's next rebasing application to support the requested working capital allowance. Energy Probe submits that the Board should direct Festival Hydro to undertake a lead/lag study in time for its next rate rebasing cost of service application. VECC accepts the methodology used by FHI in calculating the WCA component of rate base. Board Staff, Energy Probe and VECC each requested the WCA be updated as a result of any changes in controllable expenses.

Chapter 2 of the Board's Filing Requirements for Transmission and Distribution Rate Applications, issued May 27, 2009 (the "Rate Guide") indicates that applicants may take one or two approaches in calculating the allowance for working capital: (i) 15% allowance approach; or (ii) lead/lag study. The Rate Guide did not direct an applicant to choose one method over the other nor did it provide a threshold amount, such as a minimum revenue requirement or working capital allowance figure that would trigger a lead/lag study.

Board Staff also noted that distributors are currently involved in a number of initiatives: smart meters; time of use pricing and renewable generation contracts. Over the last decade there has been a considerable amount of change since unbundling and it is likely that change will continue to occur. Therefore, there are recognized factors that would indicate an increased need for WCA.

For a utility the size of Festival Hydro, the Board has not traditionally required a lead/lag study to be performed. Festival Hydro would note that even several larger utilities are not conducting lead\lag studies because the utilities have not been able to internally justify such expenditures. For a small working capital requirement, the cost of an individual study is likely to exceed any adjustment that might result. Festival Hydro submits that this situation would be applicable to any adjustment to our WCA that would result from a lead/lag study undertaken solely on behalf and at the expense of Festival Hydro. In a recent decision of the Board in respect of Welland Hydro-Electric System Corp. it concluded:

> "The Board will also not require Welland to conduct a lead lag study for its next rebasing application. The Board concludes that it would not be cost effective for utilities such as Welland to undertake individual lead lag studies."[1]

With respect to Festival Hydro's next rebasing application, it is premature at this time to order Festival Hydro to prepare a lead/lag study as Festival Hydro is not scheduled to rebase for 4 years – a period of time during which circumstances and policies may change. Festival Hydro has suggested the Board may wish to consider a more generic review of this issue to ensure a cost effective consistent approach across the industry.

Festival Hydro submits that its approach to WCA is correct and that a lead/lag study is not required for its next rebasing application. However, if the Board is inclined to require a lead/lag study, Festival Hydro would request the establishment of a deferral account to

[1] Welland Hydro-Electric System Corp., EB-2008-0247, Decision and Order dated July 7, 2009, page 19.

capture the cost of such study that would be disposed of during the next rebasing application.

(b) Cost of Power Methodology

Festival Hydro's approach to the cost of power was not opposed by Board Staff, VECC or SEC. Energy Probe submits that the use of separate prices for RPP and non-RPP volumes provides a more accurate estimate of the commodity cost of power.

Festival Hydro would note that RPP is intended to capture the approximate cost of power over the long-term and its use for determining the cost of power is a reasonable approximation of the future cost of power. As the Board's website notes, "*The Regulated Price Plan (both tiered and Time-of-Use) is designed to ensure that the price you pay for electricity better reflects the costs paid to electricity generators*."[2] The aggregate actual cost of non-RPP power will vary significantly over time of day, time of year and the number of customers that do not receive RPP pricing. Therefore, Festival Hydro submits it is appropriate to use the RPP price for the calculation of WCA.

(c) Cost of Power Update

Festival Hydro is in agreement with Board Staff, VECC, and Energy Probe submit that the cost of power should be updated to reflect the most recent cost of power forecast of $0.06215/kWh presented to the Board by Navigant dated October 15, 2009 and to reflect the latest Board approved transmission charges at the time of the Board's decision in this proceeding.

(d) Changes to Controllable Expenses

Festival Hydro is in agreement with Board Staff, VECC and Energy Probe that if any changes in controllable expenses are made in the Decision, these changes should be reflected in the calculation of the WCA component of rate base.

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[2] http://www.oeb.gov.on.ca/OEB/Consumers/Electricity/Electricity+Prices/Regulated+Price+Plan+FAQs, date accessed February 7, 2010.

D. EXHIBIT 3 - OPERATING REVENUE

Customer Forecast

Festival Hydro has forecasted 25,874 customer/connections. The test year forecast is approximately 1.8% higher than 2008 actual and was arrived at by using the historical geometric class specific mean from 2001 to 2008. In addition, Festival Hydro included two specific large user customers that are locating to the City of Stratford during 2010. No intervenor took issue with the customer forecast. Festival Hydro submits that its customer forecast is appropriate and should be approved by the Board.

Load Forecast Methodology

Festival Hydro has used an econometric model based on a regression analysis to generate the 2010 proposed billed load forecast of 567.87 GWh. The load forecasting method used by Festival Hydro is similar to the method used by a number of 2009 and 2010 rebased/cost of service applicants. Board Staff and Intervenors have one common issue with the load forecasting methodology used by Festival Hydro. The issue relates to the negative coefficient for the population variable, resulting from the regression analysis, is conceptually counter-intuitive because it implies that load decreases as the number of customers increase.

Festival Hydro was aware of the negative coefficient on the population parameter and was able to rationalize that population was the variable to which the impact of CDM was being attached. As explained in Festival's response to the interrogatories, it is Festival Hydro's belief that "conservation programs are reducing average consumption across the entire customer base, and that small individual reduction exceeds the modest increase associated with new customers". Other LDCs, notably Cambridge North Dumfries and Burlington Hydro, experienced similar results with respect to producing a negative coefficient on the population and number of customers, respectively. Festival Hydro concluded the negative coefficient on the population variable was addressing the results of the CDM programs and to a certain degree the additional economic downturn specific to the Festival Hydro service area that was not captured in the provincial GDP values.

As noted above, similar results arose in the 2010 rate applications of Burlington Hydro and Cambridge and North Dumfries Hydro Inc. It is useful to recall the interrogatory asked by VECC of Cambridge and North Dumfries Hydro Inc. and the response:

> "In VECC interrogatories 14 b and c to Cambridge and North Dumfries Hydro Inc, VECC requested the following information:
>
> *b) Exhibit 3, (this has been added) Page 15 suggests that the negative coefficient for the Population variable is because this variable is also capturing the increasing effect of CDM. Has Cambridge tried any model specifications aimed a separating out the effect of CDM from what one would expect to be the positive correlation between power purchases and population? If yes, what models were tested and why were they rejected?*
>
> *c) If the response to part (b) is no. please provide the results of a model formulation which includes the same explanatory variables as currently proposed by Cambridge and also includes a trend variable to capture CDM. Please provide the resulting statistics and a forecast for 2009 and 2010 based on the model.*

Cambridge's response to b was no and the response to c is as follows:

> *Cambridge and North Dumfries Hydro Inc. has rerun the regression analysis and included a trend variable to capture CDM. The trend variable starts a 1 on January 2006 and grows to 60 by December 2010. The following table provides the resulting statistics and a forecast for 2009 and 2010.*

Regression Statistics	Value
Multiple R	97.8%
R Square	95.7%
Adjusted R Square	95.4%
F- Test	407.4
T-Stats by Coefficient	
Intercept	(6.90)
Heating Degree Days	12.91
Cooling Degree Days	5.74
Ontario Real GDP Monthly	4.07
Number of Days in Month	7.47
Spring Fall Flag	0.13
Population	2.01
Number of Peak Hours	8.78
CDM Flag	(6.83)
Purchased Forecast	
2009 (W N) - kWh	1,468,651,648
2010 (W N) - kWh	1,429,225,393

> The results on the above analysis moved the negative coefficients away from the population variable and assigned it to the CDM flag. The T-Stats by Coefficient indicates not only the statistical significant of the variable but also the sign of the coefficient. For example, the T stat information for the CDM flag of (6.83) indicates the variable is somewhat significant but it is also indicates the coefficient is negative. As shown above the 2010 load forecast for Cambridge and North Dumfries Hydro Inc is 1,429.2 (GWh). In Cambridge and North Dumfries Hydro Inc rate application the 2010 load forecast is 1,522.6 (GWh) which assumes a negative coefficient on the population variable."

Although similar situations existed, VECC chose not to pose a similar question to Festival Hydro. Festival Hydro believes similar result would occur if a CDM flag variable was included in the regression analysis; in such a case the negative coefficient would change from the population variable to the CDM flag and the coefficient for population would be positive. In other words, if the single variable was separated, the results of the regression analysis would produce intuitive coefficients on all variables.

Festival Hydro would expect the 2010 weather normal forecast could even be lower than 576.87 GWh based upon the results of the Cambridge and North Dumfries Hydro Inc analysis. However, as this has not been tested, Festival Hydro is not suggesting the 2010 billed load forecast of 576.87 GWh should be reduced.

Various load forecasts have been proposed in the Submission documents from the Board Staff and intervenors based on alternative load forecasting methodologies. The table below lists the 5 emerging models and their resulting 2010 forecast. There is a range as low as 567.94, based on the IESO provincial forecast model to a high of 627.14, as proposed by Energy Probe.

Forecast Model	2010 Forecast (GWh)
Board Staff #30 e: IESO based	567.94
Festival Hydro Original Submission	576.87
VECC Submission 3.8	600.00 (midpoint of 631.07 & 567.94)
Board Staff # 30 d: 2008 NAC value	600.29
Energy Probe Submission	627.14

As noted in the OEB's submission on Page 6, that the predicted values forecasted by the model must seem reasonable. In order to determine which of the load forecasts is reasonable to be used, Festival Hydro felt it was appropriate to refer to its actual purchases for the past 5 years (non-normalized) as a guide, which are provided in the table below. This table shows the reality of what has actually happen to our purchases over this time period. There has been constant erosion in purchases. As explained in our original submission, conservation and the economic downturn in Q4 of 2008 and most of 2009 are the contributing factors. Festival Hydro is also aware that weather was favourable in 2009 with a milder winter and cooler summer, so the heating and A/C demands were lower than normal. These factors combined together resulted in Festival Hydro experiencing its lowest GWh purchases since 1998.

Year	Actual Purchases (GWh) (non-normalized)	Decrease from previous year (GWh)
2005	650.5	
2006	635.4	15.1 (2.3%)
2007	634.3	1.1 (0.2%)
2008	611.7	22.6 (3.6%)
2009	567.0	44.7 (7.3%)
2010 Forecast (weather normalized)	576.87	9.87 (1.7%)

Festival Hydro proposed 2010 billed load forecast of 576.87 GWh represents a 1.7% increase over the 2009 actual (non-normalized) consumption. Even though the Ontario economy is most recently predicted to grow by 2.3% in 2010, there are other factors which are going to cause customers to cut back and use less in 2010. These will have a direct impact on electricity use and are not necessarily reflected in any of the models. These include:

1. HST Tax – With an automatic increase of 8% to a customer's total bill effective July 1, 2010, many customers, particularly lower income residential customers, will have to cut back on consumption to keep their total bill cost in line.

2. Anticipation of Time of Use (TOU) pricing – Even though Festival Hydro does not expect to introduce TOU pricing in 2010, customers are looking at ways to conserve as many perceive their electrical bills will in fact go up with TOU

3. Conservation - Festival Hydro has a proven record of successful results on its OPA sponsored conservation programs. Festival Hydro has enhanced its conservation efforts through the addition of a .6 FTE conservation officer. This employee will be primarily working with GS>50kW customers throughout 2010 on ERIP initiatives, demand side management, power factor corrections and other energy improvement strategies. The expectation is even greater kWh reductions by GS>50kW customers will materialize.

4. Local economy - According to the local newspaper, the Beacon Herald, in the Friday, Feb 4, 2010 edition it reported that the unemployment rate for the Stratford-Bruce Peninsula area was 7.4% in January 2010, which compares to 6.9% in December 2008 and 5.9% in January 2009. These figures would support there has been no major improvements in the local economy, with continued challenges on commercial business and manufacturing.

5. Permanent load displacement – Festival Hydro wants to reemphasize the load losses related to GS>50kW are often permanently displaced load. In Q4, the one large use customer moved one of its production lines to Mexico. In another example, in 2008 an automotive manufacturer moved its operations to their plant in Mexico. The building of this previous 3,000 kW/month customer has now been replaced with a warehousing company of less than 500kW per month. The companies moving into these buildings use much less electricity than the electricity-intense previous customers, causing permanent lost load. Therefore in these situations there is a reduced load but no reduction in customer numbers.

These factors are not directly incorporated into any of the 5 models used above. The Ontario GDP parameter incorporates some of the impact, but Festival Hydro believes these factors are going to cause even greater erosion of purchases and must be taken into consideration when looking at the results of the 5 forecasts. It is more reasonable to expect Festival Hydro's 2010 purchases to be closer to the IESO based values of 567.9 GWh, as opposed to the top end forecast of 627.14 GWh as suggested by Energy Probe.

With respect to the other four models provided, the IESO forecast of 567.94 GWh is the only other model Festival Hydro believes provides a reasonable 2010 load forecast. Based on the 2010 load forecast filed by Festival Hydro on August 28, 2010, 376 GWh of the total 576.87 GWh purchased by Festival Hydro will be sold to general service greater >50 kW and large use customers. That represents 65% of Festival Hydro's load being sold to these 2 customer groups, many of which are in the manufacturing sector. It is Festival Hydro's belief that having approximately 65% of the load being purchased by these 2 customer groups does in fact constitute a high level of manufacturing. Festival

Hydro would note the Integrated Power System Plan included a breakdown of provincial demand as 30% residential, 40% commercial and 30% industrial. Festival Hydro would argue that the provincial perspective does fairly represent Festival Hydro's situation, especially given the concentration of manufacturing in its service area. Festival Hydro submits that its load forecast of 576.87 GWh is reasonable as it is supported by the results of the IESO approach of 567.94 GWh.

Using the IESO based energy forecast of 567.94 GWh, even though not adjusted for weather, would also be appropriate given that Festival Hydro's load is not highly weather sensitive. Festival Hydro submits that the IESO's energy forecast of 567.94 GWh be accepted as a suitable forecast to use in the 2010 rate application in place of Festival Hydro's forecast of 576.87 GWh.

Festival Hydro agrees with VECC that the NAC forecast is too high because it relies on average consumption in one year only and does not make adjustments for the impact of CDM conservation, which has been in place since 2005, and the effects of the economic downturn experienced in the later part of 2008 and throughout 2009. Festival Hydro submits that the NAC approach recommended by the Board Staff should not be used in Festival Hydro's application.

Energy Probe's solution to its concern with the negative coefficient is to eliminate the population variable from the regression analysis, which results in a 2010 billed load forecast of 627.14 GWh. The removal of the population variable means there is no variable to which CDM attaches to, and so the forecast ignores the consumption reduction impact of CDM. Nor does the forecast reflect the most current Ontario GDP values included the Minister's of Finance 2009 Ontario Economic Outlook and Fiscal Review released on October 22, 2009. The updated Ontario GDP values if applied would produce a lower forecast. Energy Probe's forecast is 50.26 GWh or 8.7% higher than Festival Hydro's actual usage in 2009. Festival Hydro would suggest that such an increase would not pass the reasonableness test as Festival Hydro's actual historical GWh patterns over the past 5 years show a consistent reduction resulting from the impact of CDM and economic slowdown. Festival Hydro does not support removal of the population variable as it leads to an unreasonable result.

Festival Hydro is of the view that VECC's recommendation, in 3.8 of its submission, to use an average of the upper and lower values (627.14 and 567.94) is arbitrary. It is not a principled approach but rather a hopeful attempt that multiple errors may cancel each other and, accordingly VECC's recommendation should be rejected.

Upon final consideration of the results and associated arguments in support of the 5 models proposed, Festival Hydro submits that its original forecast of 579.87 GWh should be accepted as the 2010 purchased energy load forecast. The result of the IESO approach, at 567.94 GWh, along with the actual results of 567.0 GWh for 2009, both support the appropriateness of the Festival Hydro forecast.

Loss factor adjustment

Energy Probe further submits that the use of a loss factor that is calculated over a different period than the regression equation introduces a bias into the estimation of the total billed energy forecast. Energy Probe submits that Festival Hydro should use a loss factor of 2.49% to adjust the total purchased energy forecast to the total billed energy forecast. Neither Board Staff nor SEC or VECC made submissions on this issue.

Festival Hydro has updated its 2010 rate model to include the 1998 loss factor of 2.06% and 2.15% for 1999 as recommended by Energy Probe. The revised loss factor from the model is 2.50%, slightly higher than the 2.49% identified by Energy Probe, which would generate an increase to billing kWh of 476,444 kWh compared to the 536,000 kWh calculated by Energy Probe. Festival Hydro submits it is willing to use the loss factor of 2.50% in calculating the total purchased energy in the draft rate order, which will increase the billed energy forecast by 476,444 kWh.

KW Billing Determinants

Energy Probe proposes use of the 2008 KW/kWh ratios to forecast the kW billing determinants for the 2010 test year in place of the average for 2000 – 2008 period. Festival Hydro will refer Energy Probe to page 14 of their submission whereby they argue the loss factor should reflect the full period of the regression analysis so as not to introduce a bias into the estimation of the total billed energy forecast. Festival Hydro believes this same argument applies to the kW forecast and should remain calculated over the 2000 – 2008 period rather than solely on the results of one particular year. Festival Hydro submits the kW forecast as originally submitted based on the average for the 2000 – 2008 period be accepted by the Board.

Weather Normalization

In VECC's view, Festival Hydro has not adequately substantiated that residential and GS< 50 customers are 100% weather sensitive. Energy Probe suggests that it would be more reasonable to assume that 50% of volumes consumed by residential and GS < 50 kW customers are weather related. The use of the 100% sensitivity was based on the Hydro One model used for the 2006 Cost of Service study.

Festival Hydro submits it is prepared to accept the suggestion of VECC and Energy Probe to assume that 50% of volumes consumed by residential and GS < 50 kW customers are weather related and should be reflected in the approved load forecast. Festival Hydro submits this will not impact the total amount of load forecast, but the distribution related to weather sensitivity.

Other Distribution Revenue

Late Payment Charges

It is suggested by SEC that the factors that lead to an increase in bad debt costs would logically also lead to an increase in late payment charges. Festival Hydro would agree there should be some correlation in the case of residential customers and GS<50kW, but would argue that this is not necessarily the case for General Service especially the GS>50kW customer class. As empirical evidence, the three largest customers that have filed for creditor protection under CCAA over the past 5 years with Festival Hydro had shown no signs of payment problems prior to the CCAA filing. GS>50kW customers generally ensure their utilities are paid because it is essential to continued operations. They also utilize lines of credit to ensure payments are made, whereas residential and smaller general service customers may not have the access to credit to pay their bills and avoid late payment charges.

Festival Hydro in response to the VECC interrogatory # 23 provided the following information regarding Account # 4225 Late Payment Charges:

2009 Original bridge year projection	$125,527
2010 Original test year projection	$128,414
2009 Revised bridge year projection	$130,337
2010 Revised test year projection	$133,335

The 2009 actual total was very close to the revised projection of $130,337. The revised 2010 amount was $133,335, which is $4,921 higher than the original 2010 budget. Festival Hydro submits this $4,921 increase be included as part of the overall net adjustment of $3,841 to Other Distribution Revenue as outlined in the table on page 27.

Non-Utility Operations

Board Staff noted that they have no concerns with the revision Festival Hydro has made to the application in regards to the margin to be charged in 2010 on Street lighting services provided of $14,985. Festival Hydro submits that it concurs with the Board to add the $14,985 to Other Distribution Revenue.

Energy Probe supports SEC as it submits that Festival Hydro should include it's updated forecast for other distribution revenues in the final figures for a total increase in the 2010 other distribution revenue forecast of $36,336 (as this amount includes the related street lighting margin of $14,985, the incremental increase to adjust revenues by is $21,351).

VECC submits that the timing issue noted by Festival Hydro for Street lighting should not result in higher rates to electricity consumers and that 2010 Other revenue should be increased by $36,336 (the amount the forecast has increased by) more than is proposed by Festival Hydro.

Festival Hydro is prepared to use the revised forecast as reported in VECC # 23 interrogatories as the basis to arrive at the total other distribution revenues for 2010, but with some further changes. The intervenors have suggested changes related to the Street lighting margins, Street lighting timing differences and also establishing correct margins on Street lighting and City Water and Sewage revenues.

Festival Hydro has updated the Schedule shown in VECC # 23 (on page 27) to reflect changes to Account # 4375 Revenues from Non-Utility Operations to address these three topics:

1. As shown in the table below, street lighting revenues have been increased by the $14,985 margin (which was previously agreed to by Festival Hydro) plus an amount of $16,081 to remove the negative impact of the timing difference on payments. As a result, street lighting revenue has increased by $31,066 from the original rate application for the 2010 test year. The margin was calculated at 8.01%, which will be updated as part of the draft rate order based on the approved prescribed rates.

2. Festival Hydro has conducted a closer review of margins and returns earned on street lighting and water and sewage billing on behalf of the city. As a result, water and sewage revenue has been decreased by $33,951. As reported in the response to Energy Probe's interrogatory # 45c, Festival Hydro is currently overcharging the City for the provision of water and sewage billing and is earning a return largely in excess of the current rate of return of 8.01%. The reduction of $33,951 is to reflect the corrected water and sewage revenue margin calculated at 8.01%. This rate will be updated as part of the draft rate order based on the approved prescribed rates.

Energy Probe supports the Festival submission by submitting that it is appropriate for Festival Hydro to include a margin on the Street lighting work in the same manner as there is a margin associated with billing and collecting services provided for water and sewer services. Energy Probe and Festival Hydro agrees that this margin should be adjusted to reflect the actual return on equity awarded to Festival Hydro relative the 8.01% used in the estimate.

Festival Hydro submits that the revised 2010 test year for account # 4375 Revenues from Non-Utility operations be set at $696,328, being a $2,885 reduction from the original filed 2010 test year amount.

Scrap Metal

SEC raised a concern with the scrap metal prices used by Festival Hydro based upon the response to VECC IR #23. Festival Hydro based its original 2010 budget on the value of scrap at the end of 2008. The price at that time was depressed. In 2009, there was a recovery of prices. Festival Hydro has revised Account #4390 Miscellaneous Non-operating income, increasing it by $27,593 to reflect the impact of higher prices for scrap. This amount is part of the overall net adjustment of $3,841 to Other Distribution Revenue as outlined in the table on page 27.

Summary Other Distribution Revenue

Upon inclusion of the changes to street lighting and City water and sewage billing revenue, the revised distribution revenues table has a total increase in distribution revenues of $18,466 versus the $36,366 reported in the VECC interrogatory # 23 as illustrated in the table on Page 27. Festival Hydro already agreed to the inclusion of the $14,985, so this leaves a net increase of $3,481 required to more fairly represent 2010 distribution revenues. Festival Hydro submits that 2010 distribution revenues be increased in total $18,466 from the original 2010 test year filed amount of $659,450 to the revised 2010 test year amount of $677,916.

Other Distribution Revenues									Revised 2010	
Festival Hydro Submission					Change			Change	Festioval Hydro	Change
		Actual to	Original 2009	Revised 2009	Revised 2009	Original 2010	Revised 2010	Revised 2010	Submission	Revised 2010
Account	Description	Nov 30/09	Bridge year	Bridge year	vs. Original 2009	Test year	Test year	vs. original 2010	streetlight change	vs. original 2010
					Increase(Decrease)			Increase(Decrease)		Increase(Decrease)
4235	Specific Service Charges	161,168	202,991	174,790	(28,201)	207,660	178,810	(28,850)	178,810	(28,850)
4225	Late Payment Charges	121,079	125,527	130,337	4,810	128,414	133,335	4,921	133,335	4,921
4082	Retail Service Reveneus	22,914	26,772	24,997	(1,775)	27,160	25,572	(1,588)	25,572	(1,588)
4084	STR Revenue	463	987	505	(482)	1,009	517	(492)	517	(492)
4210	Rent from Electric Property	156,617	148,881	170,855	21,974	152,305	173,418	21,113	173,418	21,113
4220	Other Elec Revenue	4,184	5,880	4,564	(1,316)	6,015	4,669	(1,346)	4,669	(1,346)
4355	Gain on Disposals	17,785	18,250	17,785	(465)	13,043	13,043	-	13,043	-
4375	Rev from Non-Utility operations	633,396	690,042	690,977	935	699,213	714,198	14,985	696,328	(2,885)
4380	Expenses Non- Utility Operations	(598,596)	(617,281)	(618,216)	(935)	(631,478)	(631,478)	-	(631,478)	-
4390	Misc Non-Operating Revenue	58,360	31,864	58,360	26,496	32,109	59,702	27,593	59,702	27,593
4405	Interest and Dividend Income	27,760	25,200	30,284	5,084	24,000	24,000	-	24,000	-
		605,130	659,113	685,239	26,126	659,450	695,786	36,336	677,916	18,466
Summary:										
Specific Service Charges		161,168	202,991	174,790	(28,201)	207,660	178,810	(28,850)	178,810	(28,850)
Late Payment Charges		121,079	125,527	130,337	4,810	128,414	133,335	4,921	133,335	4,921
Other distribution Revenues		184,178	182,520	200,921	18,401	186,489	204,176	17,687	204,176	17,687
Other income and expenses		138,705	148,075	179,190	31,115	136,887	179,465	42,578	161,596	24,709
		605,130	659,113	685,239	26,126	659,450	695,786	36,336	677,916	18,466
								Less: $14,985 already agreed to		-14985
*** - Margin on streetlighting revenues to be added to 2010 revenues.								Net required increase in revenue		3,481

Acct # 4375 Revisions for rates of return and streetlight changes						Revised 2010
						for rates of
Revenue from Non-Utility Operations	Original 2009	Revised 2009	Original 2010	Revised 2010	Revised 2010	return &
(from Exhibit 3, Tab 3, Schedule 2 ,Page 6)	Bridge year	Bridge year	Test year	Test year	vs. origin 2010	streetlight change
Adminstration fees from FHSI	32,700	32,700	21,200	21,200	-	21,200
Admin fees from City of Stratford for Water & Sewage	410,126	411,061	420,485	420,485	-	386,534
Streetlighting revenues	247,216	247,216	257,528	272,513	14,985	288,594
	690,042	690,977	699,213	714,198	14,985	696,328

Streetlighitng Revenue & Expenses		Original 2009 Bridge Year	Revised 2009 Bridge Year	Original 2010 Bridge Year	Addition for shortfall of margin $14985 ****	Addition for shortfall of $16,081	Festival Hydro Submission 2010 Bridge Year	Revenue Increase from original 2010 for streelighting
Streetlighting revenue	*Exh 3, Tab 3, Sch 2 ,Pg 6*	247,216	247,216	257,528	272,513	288,594	288,594	31,066
Streetlighting expense	*Exh 3, Tab 3, Sch 2 ,Pg 7*	269,835	269,835	273,609	273,609	273,609	273,609	-
Shortfall in Revenue (due to timing)		22,619	22,619	16,081	1,096	(14,985)	(14,985)	(31,066)

Water & Sewage Revenue & Expenses		Original 2009 Bridge Year	Revised 2009 Bridge Year	Original 2010 Bridge Year	Reduction for $33,951 ROI overcharge		Festival Hydro Submission 2010 Bridge Year	Revenue decrease from original 2010 for streelighting
Admin fee Water & Sewage	*Exh 3, Tab 3, Sch 2 ,Pg 6*	410,126	411,061	420,485	386,534		386,534	(33,951)
Costs for Water & Sewage	*Exh 3, Tab 3, Sch 2 ,Pg 7*	347,446	357,859	357,869	357,869		357,869	-
Net income (return)		62,680	53,202	62,616	28,665		28,665	(33,951)
Return at presribed rate	8.01% ***			28,665	28,665			
Excess return				33,951	-			

*** *Prescribed rate will be updated in the draft rate order based on the approved rate*

E. EXHIBIT 4 – OPERATING COSTS

Festival Hydro does control their OM&A costs in an effective and efficient manner. Festival Hydro's approach to forecasting expenditures is well documented and subjected to internal review prior to review by the Board. SEC and VECC recognize that Festival Hydro has managed its overall OM&A expenditures appropriately.

From 2006 to 2010 the average annual increase was 2.28%. Festival Hydro updated below the Exhibit 1, Tab 2, Schedule 1, Appendix D page 1 of 1 to include 2008 actual from the OEB 2008 yearbook published on September 10, 2009. Using the 2009 bridge year OM&A, costs provided in the Board Staff submission ($3,863,172 divided by 19,758 customers) equals $195.52 per customer and the 2010 test year OM&A costs provided in the board staff submission ($3,968,610 divided by 19,965 customers) equals $198.77 per customer, both well below the 2008 average and even below the 2005-2007 three year average.

Comparison of Festival Hydro Inc.
OM&A Costs to "Mid Size Southern Medium-High Undergrounding"
Cohort Grouping

Cohort Groupings By Distribution Company	**Total OM&A 2005-2007 3 Year Avg.**	**2007**	**2008**
ELK Energy Inc.	$ 155.00	$ 182.00	$ 200.18
Wasaga Distribution Inc.	$ 157.00	$ 159.00	$ 161.97
chatam-Kent Hydro Inc.	$ 162.00	$ 164.00	$ 176.96
Peterborough Distribution Incorporated	$ 181.00	$ 192.00	$ 204.06
Festival Hydro Inc.	$ 182.00	$ 185.00	$ 185.82
Kingston Electricity Distribution Limited	$ 189.00	$ 182.00	$ 193.03
Westario Power Inc.	$ 203.00	$ 196.00	$ 231.73
COLLUS Power Corp.	$ 211.00	$ 225.00	$ 249.90
St. Thomas Energy Inc.	$ 216.00	$ 214.00	$ 191.96
Essex Powerlines Corporation	$ 221.00	$ 206.00	$ 196.89
Woodstock Hydro Services Inc.	$ 223.00	$ 228.00	$ 222.77
Niagara Falls Hydro Inc.	$ 247.00	$ 255.00	$ 254.55
Bluewater Power Distribution Company	$ 261.00	$ 256.00	$ 251.50
Erie Thames Powerline Corporation	$ 329.00	$ 356.00	$ 338.01
Average for Cohort Group	**$ 208.00**	**$ 214.00**	**$ 218.52**

Festival Hydro in its Application filed August 28, 2009 requested approval of $3,968,610 in respect of OM&A for the 2010 Test Year and during this proceeding; Festival has agreed to make the following adjustments to its Application:

Festival Hydro Inc.
Summary of Proposed Changes

		Regulated Return on Capital	Regulated Rate of Return	Rate Base	Working Capital	Working Capital Allowance	Amortization	PILs	OM&A	Service Revenue Requirement	Base Revenue Requirement	Gross Revenue Deficiency
	Original Submission August 2009	$2,928,832	7.40%	$39,583,651	$48,904,825	$7,335,724	$2,655,496	$908,589	$4,018,664	$10,511,581	$9,852,131	$979,468
OEB IR#40	IFRS reduction in ongoing compliance cost estimate from $25k/yr to $14k/yr	$2,928,710	7.40%	$39,582,001	$48,893,825	$7,334,074	$2,655,496	$908,564	$4,007,664	$10,500,434	$9,840,984	$968,331
	Change	$ (122)		$ (1,650)	$ (11,000)	$ (1,650)	$ -	$ (25)	$ (11,000)	$ (11,147)	$ (11,147)	$ (11,137)
EP IR#45	Streetlighting margin added of $15k	$2,928,832	7.40%	$39,583,651	$48,904,825	$7,335,724	$2,655,496	$908,589	$4,018,664	$10,511,581	$9,837,146	$964,497
	Change	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (14,985)	$ (14,971)
EP IR#49	PILs Correction for addition reclass on application software, inclusion in UCC of FMV bump, Ontario corporate rate change, application of Ontario small business rate	$2,928,708	7.40%	$39,581,974	$48,893,647	$7,334,047	$2,655,496	$780,198	$4,007,486	$10,371,887	$9,697,453	$824,790
EP IR #50	Change	$ (124)		$ (1,677)	$ (11,178)	$ (1,677)	$ -	$(128,391)	$ (11,178)	$ (139,694)	$ (154,678)	$(154,678)
EP IR #51												
EP IR #52												
	Proposed at January 7, 2010	$2,928,708	7.40%	$39,581,974	$48,893,647	$7,334,047	$2,655,496	$780,198	$4,007,486	$10,371,887	$9,697,453	$824,790

Festival Hydro would note that there appears to be two different approaches to dealing with the OM&A expenditures: the envelope method and the specific account method. Festival would submit that the Board should be wary of trying to pick out individual accounts for reduction without acknowledging certain accounts may increase. As spending patterns for individual accounts may vary significantly while overall costs remain consistent.

In the envelope method, individual accounts are not reviewed in detail but overall spending is considered to determine if OM&A expenditures are reasonable. Festival Hydro would submit that if the Board proceeds by way of the envelope review that the Board should consider labour and non-labour expenses separately. Further, labour costs should increase by 3%, in accordance with the increase for unionized employees and that non-labour expenditures should increase by 2.7% which is in line with Energy Probe's maximum suggested increase. Festival Hydro cannot agree that this limitation should be applied to the labour component of the expenses. If the Board accepts Festival Hydro's application in respect of the inflationary factor applied to OM&A (3%

labour, 2.7% remainder), Festival Hydro would accept one further adjustment to reduce OM&A by $38,000 (LEAP $7,600, Regulatory Costs $4,000, IFRS $11,000 Total: $23,600) is appropriate.

However, if the Board is inclined to review individual accounts, Festival Hydro would make the following submissions in respect the OM&A forecasted expenditures.

Inflation

Festival Hydro approached the forecasting of OM&A by using a constant inflation factor across all accounts. Board Staff has no concerns with the inflationary increases applied by Festival Hydro. In general VECC and SEC recognized that the increases resulting from inflation were acceptable, the lone exception being the price of fuel. Energy Probe, however, made extensive comments regarding inflation.

Energy Probe submits that the increase of 2.7% forecast by Festival Hydro for the increase in the 2010 level of expenses as compared to the forecast for 2009 is the maximum increase that the Board should allow given the slowdown in the rate of inflation during the recession. Festival Hydro notes that a 2.7% increase is not appropriate for labour costs but may be appropriate for the remainder of expenses. While the proposed escalation may be slightly higher than the year over year inflationary rate, Festival Hydro would highlight that its cost increase over the past several years is reflective of the pace of inflation and therefore is reasonable in the circumstances.

SEC submits that the inflationary factor applied to fuel costs is unreasonable. Festival Hydro fundamentally disagrees with the approach taken to arbitrarily select a single account for special consideration. Festival Hydro would note that OM&A expenditures, on an account by account basis, may vary significantly from season to season and year to year depending upon the circumstances. Therefore, Festival Hydro would suggest that where one account may be slightly higher than a typical year, other accounts may be slightly lower. As noted above, Festival Hydro has maintained its overall spending in an appropriate manner and the selection of a single account, fuel cost, for such special consideration should be rejected.

Labour

Energy Probe was the only participant that made submissions in respect of a decrease in the proposed labour cost. Festival Hydro has supported its labour cost based upon a 3% increase for both union and non-unionized staff. Energy Probe submits that non-unionized personnel should only receive a 2% increase but has provided no compelling support for differentiating between union and non-union personnel. Such an approach appears to be results based rather than principal based – anything to lower costs - as Energy Probe, later in its submissions indicated that the actual expenditures should be used as opposed to the Board's method of a determining return on equity. Festival Hydro is committed to a 3% increase for unionized staff and non-unionized staff so all will receive a similar increase. Matching increases has been the practice of Festival Hydro and many others within the distribution sector.

Festival Hydro disagrees with Energy Probe's submission that a reduction in total wages and benefits costs of $40,000 is appropriate. Festival Hydro submits that there should be no ($0) reduction in total wages and benefits costs. Union staff, as per their contract, will receive a 3% increase in both 2009 and 2010. It is unreasonable to expect non-union employees to receive a lower % increase over the same time period. It could be perceived that Festival Hydro "values" its union staff greater than its non-unionized staff, which is not the case. To be fair and equitable to all staff, Festival Hydro submits all staff will receive the same percentage salary increase. Differentiating between unionized and non-unionized staff could lead to morale related issues (i.e. lower productivity, increased sick time) which has the potential to more than offset the savings achieved through salary reductions. Further, such treatment would act as a disincentive to any employee seeking to progress through the organization.

Festival Hydro had an increase in relation to the employee salaries and benefits it pays to its senior employees. Festival Hydro provided information from the MEARIE Survey in, Board Staff IR #13 that its executive employees were not compensated fairly, when compared to similar sized utilities. The increase brought these employees in line with the average remuneration as identified in the MEARIE survey.

Festival Hydro submits that they are in agreement with Board Staff, in terms of there being sufficient information in support of its labour expenditures.

Other Expenses

Festival Hydro is in agreement with the Board Staff submission; that Festival Hydro has sufficiently explained the trends for the other expenses cost driver. No other submissions were made by SEC, VECC or Energy Probe.

Energy Conservation

Festival Hydro is in agreement with the Board Staff submission; that Festival Hydro has sufficiently explained the trends in this cost driver. No other submissions were made by SEC, VECC or Energy Probe.

Depreciation Rates

Festival Hydro uses the accepted depreciation rates found in the EDR handbook for all accounts, except for a single deviation in respect of buildings and fixtures. Festival Hydro depreciates certain fixed assets, the HVAC system, over a 30 year period. Board Staff and VECC submit that such assets should be amortized over 50 years in accordance with the EDR handbook which would result in a $7,000 reduction in the 2010 depreciation expense for Buildings and Fixtures. Energy Probe indicated that based upon the evidence and the limited impact that the Board should accept Festival Hydro's proposal.

Festival Hydro submits that the amortization period for building fixtures should remain at 30 years as used in the Application, even though it is contrary to the EDR Handbook. The nature of the items which Festival Hydro places into the 30 year category includes HVAC units and roof replacements. Festival Hydro is not able to replace its roofs or requisition HVAC equipment with a useful life of 50 years. Its experience indicates the useful life of such assets is 20 to 30 years and so Festival Hydro submits that it is not appropriate to amortize such assets over 50 years – a period that is almost twice the useful life. The auditor has accepted this practice. Festival Hydro will review its depreciation policies to ensure compliance with 2006 EDR Handbook at the time of the next rebasing.

Festival Hydro would note that in other instances, the Board has chosen to deviate from the 2006 EDR Handbook. In EB-2008-0241, the Board did not direct Peterborough Distribution Inc. to make adjustments to their revenue requirement for the two cases where their amortization rates differed from the 2006 EDR Handbook.

Energy Probe submits that depreciation rates used by Festival Hydro are consistent with the rates found in Appendix B of the 2006 Electricity Distributors Rate Handbook with the exception of Account 1908 Buildings & Fixtures. Given the rationale provided and the limited impact of this deviation, Energy Probe submits that the Board should approve the Festival Hydro proposal.

Festival Hydro submits that its use of the depreciation rates provided in the 2006 Electricity Distribution Rate Handbook and its deviation in respect of one account is supported by the evidence, accepted by the auditor and should be approved by the Board.

Depreciation on Additions – ½ Year Rule

Festival Hydro has not historically applied the half-year rule. Festival Hydro submits that its depreciation policy is intended to average the depreciation for any particular asset by taking one full year of depreciation in the year of purchase, and not taking any depreciation in the year of disposal. Board Staff, VECC and SEC did not make submissions in this respect. This practice has been accepted by Festival Hydro's auditor.

Energy Probe suggested a reduction of $94,000 to the depreciation expense but did not provide the calculation of this amount. Festival Hydro tried to reproduce the figure arrived at by Energy Probe but was unable to arrive at the same figure. Festival Hydro determined the amount at issue to be approximately $85,000.

Further, Festival Hydro would note that the Board has permitted deviations from the half-year rule in similar situations. In EB-2008-0226, Collus Power Corp., the Board made the following finding in respect of a deviation from the half year rule:

> The Board accepts the submission of COLLUS that its depreciation policy has been consistently applied and accepted by its external auditors and, on this basis, finds the depreciation rates used are reasonable.[3]

Festival Hydro would submit the present situation is analogous to Collus. Therefore, Festival Hydro would submit no change from its current practice is required for this proceeding. While this practice has been accepted by Festival Hydro's auditor, Festival Hydro will update its practice and reduce its depreciation to reflect the half year rule in its next rebasing application.

International Financial Reporting Standards ("IFRS")

Section 8.1 of the Board Report on the transition to IFRS states that, "Prudently incurred incremental administrative costs directly related to the ongoing compliance with IFRS will be recovered from ratepayers on the same basis as other current operating costs." Board Staff submits that the Applicant has appropriately implemented sections 8.1 and 8.2 of the report.

Energy Probe would not be opposed to the inclusion of the $11,000 in the 2010 revenue requirement (and the estimate of $44,000 for one-time transitional costs) assuming that the deferral account would be changed to a variance account to track differences between the forecasted amount and actual one-time transitional costs related to IFRS. VECC is supportive of the establishment of a deferral account to track actual, one-time costs of IFRS conversion.

Festival Hydro is in agreement with using a variance account to track actual one-time costs to IFRS conversion in addition to the inclusion in our application of $56,000 ($14,000 per year) for ongoing compliance costs as a result of the conversion to IFRS.

[3] EB-2008-226, page 19.

Low Income Energy Assistance Program ("LEAP")

As there has been no further guidance from the Ministry regarding a program for low-income energy consumers, Festival Hydro acknowledges that $7,600 in costs related to LEAP programs should be removed at this time. This removal was supported by the Board Staff, Energy Probe and VECC submissions. Festival Hydro would note that there were no incremental costs associated with the administration of LEAP programs and so no other cost reductions are warranted. Festival Hydro further submits that should LEAP or similar programs be introduced that Festival Hydro be allowed to establish a new variance account to record any incremental costs associated with operating such programs.

Festival would note that the intent of the LEAP Program was in part, to help low-income households avoid late payments or disconnection for non-payment. Therefore, if this program is not implemented, it is likely to have an adverse impact, although not necessarily quantifiable upon late payment and bad debt related costs.

Regulatory Costs

Festival Hydro requested the approval of the $160,000 expense related to the 2010 cost of service application. Festival Hydro submits, and Board Staff is in agreement, that these costs are reasonable. Board Staff notes that similar amounts were approved for written proceedings in 2009. Energy Probe was the only intervenor to make submissions that the requested regulatory costs were too high. Energy Probe submits that a 10% reduction to $144,000 is appropriate.

As the Board noted in the EB-2008-0226, intervenors should not assume that an oral hearing is more or less expensive than a written hearing. In the absence of an oral hearing, there were additional costs associated with a second round of interrogatories and the written response to hearings can take additional time to respond. In the final Board decisions for Innisfil Hydro Distribution Systems Limited (EB-2008-0233) and Collus Power Corp (EB-2008-0226), the final approved amounts to be amortized over 4 years were $148,000 and $140,000 respectively.

Festival Hydro recognizes that the Board Staff submits that the $160,000 expense related to the 2010 cost of service application and other regulatory related matters is reasonable. However, Festival Hydro submits that the 10% reduction in regulatory costs to $144,000 is not necessarily unreasonable. This submission is based on the assumption that after this submission, Festival Hydro will proceed to the draft rate order and any further costs by intervenors will be kept to a minimum. Festival Hydro submits that a reasonable comparable is the average of the approved cost from Innisfil and Collus which is $144,000. Festival Hydro would suggest the cost of $144,000, to be amortized over 4 years, for an annualized cost of $36,000.

Adjustments or Write-offs

Festival Hydro submits that the bad debt cost for 2010 should be revised from $121,395 to $106,136, a reduction of $15,259, as outlined in the revised table below.

Bad Debt Expense for 2010 Rate year (Revised)						
	2006	2007	2008	Test Year 2009	Four Year Total	Test Year 2010
Acutal & BridgeBad Debt expense	152,889.00	111,956.00	74,700.00	85,000.00	424,545.00	
Add: Large customer CCAA filing (allow 50%) increase to original 2009 budget				-	-	
Total bad debt expense	152,889.00	111,956.00	74,700.00	85,000.00	424,545.00	106,136.25

One of Festival Hydro's larger customers filed for creditor protection under CCAA on August 4, 2009, just shortly before our rate application submission on August 28, 2009. As part of the bad debt cost calculation, Festival Hydro included 50% of the unbilled revenue ($61,037) for this customer as uncollectable. This amount was taken into consideration in the four year average calculation. Subsequent to the August 28, 2009 filing date, the customer has paid the amount owing in full, so Festival Hydro has removed this amount from the calculation.

In response to the OEB's direction for clarification, Festival Hydro submits that the bad debt cost drivers as illustrated in Exhibit 4/Tab 2/Schedule 3 correctly shows the cost driver peaked in 2006 and 2009; not 2006 and 2008 as stated in the rate application.

In response to the OEB's invitation to comment on the 4 year average, the 4 year average incorporates the recent trends in bad debt costs for the Company. Festival Hydro noted that the local economy is dependent upon both the auto and tourism sectors – both of which have been significantly and adversely impacted. Festival Hydro's annual bad debt costs are generally the result of residential and GS<50kW losses. A peak occurred in 2006 when a loss was incurred on a GS > 50kW customer which entered into creditor protection. Given the current difficulties being faced by the manufacturing sector, it is reasonable to include the impact of this peak to reflect the probability that Festival Hydro will suffer losses associated with the GS>50kW class. Further, Festival Hydro would note it has agreed to eliminate the LEAP Program funding $7,600 which would have been directed towards low-income residential customers to help alleviate late payment and bad debt.

In response to SEC's recommendation, and VECC's concurrence, Festival Hydro submits that the $90,000 does not allow for the impact of a bad debt associated with even a single GS>50kW customer and therefore submits that the $90,000 proposed by SEC is not reasonable given the current economic conditions. Festival Hydro believes the revised submission of $106,136 is a more appropriate forecast in this economic climate and submits that bad debt cost of $106,136 be approved by the Board.

Payments in Lieu of Taxes ("PILs")

Festival concurs with Board Staff that Festival Hydro should flow through applicable changes in operating and capital costs, and update the PILs allowance to determine the revenue requirement and rates resulting from the Board's Decision in its draft Rate Order filing.

Festival Hydro agrees with the Energy Probe submission that ratepayers should not be required to pay higher rates because the utility incurred a tax penalty/interest charge. Festival Hydro will remove from our PILs allowance calculation the addition of interest and penalties to net income for tax purposes.

As noted by Energy Probe on page 30 of their submission, and agreed to by Festival Hydro in EP IR #50 and Board Staff IR #48, the FMV bump should not reduce the UCC balance in calculating the CCA used for tax purposes.

Energy Probe raised certain concerns regarding specific line items in relation to the effective tax rate calculation. Festival Hydro submits the following detailed tax calculation which indicates why an effective tax rate is necessary and how this rate is calculated in addition to how this tax rate has incorporated the impact of Apprentice tax credits.

Description	2009 Bridge Actual	2010 Test Existing Rates	2010 Test - Required Revenue
Income Tax Expense Calculation:			
Accounting Income	1,609,273	1,223,615	2,048,404
Tax Adjustments to Accounting Income	539,766	526,532	526,532
Taxable Income	**2,149,040**	**1,750,147**	**2,574,937**
Income Tax Expense	709,183	530,289	780,198
Income tax expense - first 6 months 2010		280,024	411,990
Income tax expense - second 6 months of 2010			
First $500k		112,500	112,500
Remaining		128,463	269,708
Net tax expense expected for 2010		520,986	794,198
Less: federal apprentice tax credit		-4,000	-4,000
Less: Ontario apprentice tax credit		-10,000	-10,000
		506,986	780,198
Combined tax rate - (January - June 2010)		32.00%	32.00%
Tax rates (July - December 2010)			
Federal Tax		18.00%	18.00%
Provincial Tax			
Tax rate when taxable income is above $1.5M		12.00%	12.00%
Tax rate when taxable income is below $1.5M			
First $500k		4.50%	4.50%
Remaining		16.25%	16.25%
Combined			
Tax rate when Taxable income is above $1.5M		30.00%	30.00%
Tax rate when taxable income is below $1.5M			
First $500k		22.50%	22.50%
Remaining		34.25%	34.25%
Effective Tax Rate	33.0%	30.30%	30.30%

Capital Tax

Festival Hydro is in agreement with Energy Probe that a revised capital tax calculation will be prepared to reflect any changes in paid up capital in the draft Rate Order.

Impact of Harmonized Sales Tax

As noted above confirmation of the implementation of the HST did not occur until after the Application was prepared. Therefore, Festival Hydro did not incorporate the proposed change into its Application.

Board Staff submits, and Festival Hydro agrees that the amounts associated with PST costs could be significant. Accordingly, Board Staff suggested the Board may wish to consider establishing a variance account to track any savings that may arise. The Board could determine the materiality of the savings when it reviews the variance account at the time of disposition. VECC believes that the Board should consider the establishment of a deferral or variance account or accounts to capture test year OM&A savings if the Board does not reduce the OM&A expense. Energy Probe also recognized that a variance account would be appropriate. Festival Hydro is in agreement and suggests a variance account be established to track the difference between the input tax credit and the amount of PST that would have been paid.

SEC and Energy Probe suggest a reduction of OM&A expenses of $51,750 to reflect the impact of savings resulting from implementation of the HST effective July 1, 2010. VECC submits the same argument but with a reduction amount of $103,000. The proposed reductions are based on a one-month review of PST savings completed by Festival Hydro for the month of September 2009. While Festival Hydro believes this is representative of our normal monthly spending, there is room for variation in spending patterns throughout the year. Further, Festival Hydro submitted that the actual savings may differ from the projected savings because suppliers and contractors may change their pricing and therefore the amount of savings is speculative.

Festival Hydro submits that rather than making an adjustment to OM&A expenses for the speculative impact of the HST, that Festival Hydro establish a variance account to track the difference between any expenses incurred for which PST would have been paid and for which the distributor is now eligible for an HST input tax credit. A variance account would hold all parties, Festival Hydro and ratepayers, harmless should the actual savings deviate significantly from this estimate. Both VECC and Energy Probe support the establishment of a variance account if an OM&A adjustment is not made. Festival Hydro submits that its approach is appropriate, eliminates the risk of the change, and sees no reason to arbitrarily reduce the OM&A.

F. EXHIBIT 5 - COST OF CAPITAL AND RATE OF RETURN

Festival Hydro currently has a deemed capital structure of 56.67% debt with a return of 7.25%, and 43.33% equity with a return of 9% as approved in the 2009 IRM rate decision EB-2008-0175.

Festival Hydro prepared the rate application with a deemed capital structure of 56% Long Term Debt, 4% Short Term Debt, and 40% Equity to comply with the Report of the Board on Cost of Capital and 2nd Generation Incentive Regulation for Ontario Electricity Distributors dated December 20, 2006 (the "Cost of Capital Report"). Festival Hydro is seeking approval of 1.33% in respect of short term debt, 7.25% in respect of the existing long term debt and a return on equity determined in accordance with the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* dated December 11, 2009, EB-2009-0084.

Festival Hydro's actual current Debt to Equity ratio, with the addition of the Infrastructure Ontario loan, will approach the deemed rate of 60% Debt and 40% Equity, as set for this Application. Festival Hydro has undertaken to bring the actual debt to equity ratio in line with the new deemed rates. All future debt funding will be third party funding. Board Staff and intervenors made submissions in respect of the capital structure; long-term debt rate; short term debt rate and return on equity. Festival Hydro will respond to each.

Capital Structure

Energy Probe takes issue with allocating 4% of the capital structure to short-term debt on the basis that Festival Hydro is effectively receiving long term debt rates in respect of short term assets. Energy Probe submits that the evidence in this proceeding indicates that the 4% deemed level of short-term debt is not reasonable and that the incremental costs imposed on ratepayers, by Energy Probe's estimation $173,000, are neither just nor reasonable.

Festival Hydro would note that Energy Probe has tied the aggregate amount of working capital allowance directly to short-term debt. Festival knows of no basis upon which such a direct relationship can be made. Festival Hydro would agree that working capital will fluctuate and that short-term debt may be used to manage such fluctuations. Short-term debt, however, is not directly linked to the aggregate amount of working capital allowance.

As the Board is well aware, the capital structure of utilities has evolved from the original Board policy based upon distributor size and the Board is right to be cautious about any further changes regarding its application of the capital structure policy. As the Board stated:

> The Board's current policy with regard to capital structure for all regulated utilities continues to be appropriate. As noted in the Board's draft guidelines, capital structure should be reviewed only when there is a significant change in financial, business or corporate fundamentals. The Board's current policy is as follows:
> The Board has determined that a split of 60% debt, 40% equity is appropriate for all electricity distributors." (EB-2009-0084, Page 49/50)

Further, the Board specifically acknowledged short term debt:

> "The Board adopted a deemed short term debt rate that would apply to a deemed 4% of the capital structure." (EB-2009-0084, Page 56)

Festival Hydro would note that the Board turned its mind to whether the policy should be changed and the Board did not find any compelling reason to alter its policy. Furthermore, the Board has cautioned against the apparent benefit of over utilizing short-term debt. In the December 2006 Report on page 13 of 50, it noted:

> "Based on filings of distributors pursuant to the Board's Electricity RRR and in 2006 rate applications, it is clear that many distributors use short-term debt. The actual average for the industry is about 4%. Some distributors use it extensively as a substitute for long-term debt. This may

> be advantageous in a period characterized by low inflation and interest rates, but such practice exposes both the distributor – and its customers – to inordinate risk if rates climb."

Festival Hydro disagrees with Energy Probe and submits that Energy Probe has not provided sufficient justification to depart from existing Board policy. Festival Hydro would note there have been no changes to the actual equity share structure since the 2006 EDR Rate application and there have been no changes to the actual debt structure since the 2006 EDR Rate application. Therefore, Festival Hydro submits that its requested deemed capital structure is appropriate.

Long Term Debt Rate

Festival Hydro's long term debt is currently held by the City of Stratford. Festival Hydro plans to enter a long term debt arrangement in 2010 with Infrastructure Ontario in respect of the installation of smart meters.

Infrastructure Ontario Loan

Board Staff submits that Festival Hydro should use the latest information available on the record of this proceeding with respect to the level of that actual rate for its third party debt. Accordingly, staff submits that the rate of 4.72% should be used for the Infrastructure Ontario loan instrument. SEC believes the most up to date forecast, 4.42%, should be used. Energy Probe submits that the Board should use the most recent rate of 4.72% for the $2.5 million loan from Infrastructure Ontario.

Festival Hydro is in agreement with the principal that the best and most current information available should be used to set the long term debt rate for this new debt. Festival Hydro submits that the % rate applicable on the $2,500,000 Infrastructure Loan be determined as the rate posted on the Infrastructure Ontario Website as of the same day the Board announces the deemed rates applicable for the 2010 calendar year. This will be most current and accurate rate available to Festival as this rate is changed frequently. Festival Hydro had indicated that it intended to utilize a 15 year loan.

Promissory Notes

The primary issue is whether the actual or deemed cost of long term debt should be used. Board Staff and VECC favour actual, Energy Probe the deemed rate. The Board's December 2009 Cost of Capital Report, section 4.4.1, states that "The Board will primarily rely on the embedded or actual cost of existing long-term debt instruments." The promissory notes are existing long-term debt instruments.

VECC submits that the rate on the promissory note with the City of Stratford, 7.25%, should be applicable for 2010 unless the Board's deemed rate is less based on the Board's December 2009 Report on the Cost of Capital for Ontario's Regulated Utilities. Energy Probe submits that all of the affiliate long term debt held by Festival Hydro is from an affiliate and is callable within the year. As such, the deemed long term debt rate as calculated based on the methodology outlined in Appendix C of the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities should apply to the promissory notes.

Festival Hydro submits that the Board has approved the debt rate of 7.25% in respect of the promissory notes held by the City of Stratford in prior rate proceedings. Festival Hydro submits that the 7.25 % actual debt rate should be applicable on the $1,700,000 Promissory Note dated November 7, 2002 and on the $13,900,000 Promissory Note dated November 1, 2000 based on EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities and this is in keeping with the Board's statement to rely upon the actual cost of existing or long-term debt.

Short Term Debt Rate

The short term debt rate of 1.33% was used in the Application with Festival Hydro indicating that such amount should be updated in accordance with Appendix D of the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities. Energy Probe submits that the short term debt rate should be updated to reflect the Board's methodology as outlined in Appendix D of the EB-2009-0084 Report of the

Board on the Cost of Capital for Ontario's Regulated Utilities. Board Staff, VECC and SEC did not make submissions regarding the short term debt rate.

Festival Hydro submits it is reasonable to use the updated short-term debt rate as determined by Appendix D of the EB-2009-0084 Report of the Board on the Cost of Capital for Ontario's Regulated Utilities.

Allowed Return on Equity

Festival Hydro submitted in its application a ROE of 8.01% subject to the Board's direction regarding return on equity for 2010 and beyond. In the Board 2009 Report, the Board provided an approach to determining return on equity that, using September 2009 data would result in a return on equity of 9.75%. Festival accepts the Board's methodology and submits that the Board should use the most up to date information available at the time the Board renders a decision in this proceeding.

Energy Probe takes issue with the methodology used by the Board and its application to Festival Hydro and submits that inclusion of the implicit 50 basis points for transactional costs is not appropriate for this distributor. SEC and VECC made no submissions in respect of the return on equity.

Festival Hydro would like to highlight that the position now advanced by Energy Probe appears inconsistent with Energy Probe's prior statements in its Final Written comments dated October 30, 2009 in the Consultation on the Costs of Capital – Issues list page 10 wherein Energy Probe stated: "When utility regulators determine the allowed ROE, they typically add 50 basis points to such "bare bones" estimates of the costs of equity to account for **floatation costs and /or financial integrity concerns**." This dual purpose is being conveniently ignored by Energy Probe in their submissions in this proceeding.

Further, Energy Probe then went to state: "While the Board's formula does not do this explicitly, the adjustment is contained in the formula's base-year ROE calculation and so is carried forward to future years implicitly". Energy Probe, at that time, acknowledged that certain specific factors were included, not explicitly, but implicitly by using the selected formulaic approach. Now, Energy Probe is attempting to identify specific implicit factors for removal. Festival Hydro submits that is inappropriate to now try to remove such factors and the Board should disregard the concerns highlighted by Energy Probe.

Festival Hydro is concerned that the current Energy Probe proposal effectively creates a double standard for return on equity based upon utility size. Many smaller utilities will not have transactional and floatation costs in a specific year and would be put a significant disadvantage. The Board has rejected the notion of multiple return on equity standards by adopting the formulaic approach that it did in EB-2009-0084.

Festival Hydro submits that the Board endorsed approach in EB-2009-0084 in the December 2009 Report is appropriate and that Energy Probe has failed to provide compelling evidence to deviate from Board policy.

G. EXHIBIT 7 – COST ALLOCATION

Loss Factors

Festival's proposed total loss factor of 1.0307 is based on a 5-year historical average. The SFLF increase reflects the partially embedded nature of the Applicant's distribution system. The increase in TLF is a result of the increase in the SFLF. Given that the historical data exhibits stability, VECC accepts the loss factors as reasonable for the 2010. Board Staff has no concerns with the provision made for the test year DLF, SFLF and TLF. Energy Probe submits the total loss factor as estimated by Festival Hydro and the request to increase the SFLP to 1.0075 is appropriate. As such, Board Staff and intervenors support the loss factors as reported.

Festival Hydro submits that the loss factors as set out in Exhibit 8, Tab 1, Schedule 1 be accepted by the Board.

Customer Classes

Board Staff submits that the rate class descriptions provided in tariff sheets should correspond to those provided in the Applicant's Conditions of Service. Board Staff invites the Applicant to confirm that this is the case.

There has been no substantive change to the descriptions of the rate classes. The changes made relate to the rules for the process and frequency of reclassification as outlined in the Amendments to the DSC, Board file # EB-2007-0722. Festival Hydro submits that upon final Board approval of the 2010 rate application Festival Hydro will update its Conditions of Service.

Revenue to Cost Ratios

Street lighting and Sentinel Lights

Festival Hydro acknowledges that the cost ratio for the street lighting and sentinel light classes are significantly below the range of costs ratios outlined in the Board's report. Festival Hydro concurs with the Board, VECC and Energy Probe and submits to move halfway to the bottom of the range in the 2010 test year, and to move to the minimum of the target range over the following 2 years (test year plus 2 years). This is consistent with 2009 approved applications. Moving to the minimal levels by 2011 (test year plus one) as suggested by SEC is too aggressive in the opinion of Festival Hydro.

Festival Hydro agrees with Energy Probe and submits to reduce the USL ratio in 2010 to 120%. Festival Hydro also submits that the ratios for the classes that are above unity will be reduced as a result of the additional revenue created by moving the street lighting and sentinel light classes to the bottom of their ranges, as recommended by Energy Probe.

Below is a table which contains the revised revenue to costs ratio. This table will be updated accordingly as part of the draft rate order process.

Customer Class	2010 Cost Allocation Study	2010 Proposed Rev Cost Ratio	2011 Proposed Rev Cost Ratio	2012 Proposed Rev Cost Ratio	2013 Proposed Rev Cost Ratio
Residential	108.44%	108.14%	**107.90%**	**107.68%**	**107.48%**
Residential - Hensall	71.52%	82.65%	**91.10%**	**99.55%**	**107.48%**
GS < 50 kW	116.03%	114.00%	**113.00%**	**111.87%**	**111.87%**
GS >50	79.93%	80.00%	**80.00%**	**80.00%**	**80.00%**
Large Use	114.10%	114.00%	**113.00%**	**111.87%**	**111.87%**
Sentinel Lights	31.40%	50.70%	**60.35%**	**70.00%**	**70.00%**
Street Lighting	32.88%	49.90%	**59.95%**	**70.00%**	**70.00%**
USL	143.83%	120.00%	**113.00%**	**110.00%**	**110.00%**

Cost allocation by class resulting from ratio changes

Customer Class		2010 Rate Application inc Misc Rev	2011 Rate Class Allocation	2012 Rate Class Allocation	2013 Rate Class Allocation
Residential		5,854,344	5,841,356	5,829,624	5,818,567
Residential - Hensall		115,268	127,053	138,837	149,896
GS < 50 kW		1,766,645	1,751,149	1,733,637	1,733,637
GS >50		2,291,123	2,291,123	2,291,123	2,291,123
Large Use		341,602	338,606	335,220	335,220
Sentinel Lights		7,119	8,474	9,829	9,829
Street Lighting		101,043	121,393	141,743	141,743
USL		34,436	32,428	31,567	31,567
TOTAL		10,511,581	10,511,581	10,511,581	10,511,581

Hensall Residential Rates

Festival Hydro acknowledges that the bill impact for 42 Hensall residential customers will exceed the 10% threshold. Board Staff submits that the increase is reasonable as it will facilitate the movement towards harmonization and eventually simplify Festival Hydro's billing and customer care operations.

VECC agrees with Festival's long term goal of harmonizing its Residential rates but submits that increasing the revenue to cost ratios for the Residential-Hensall class is not the correct way to achieve this. In VECC's view, these two customer classes should be merged prior to full harmonization. VECC further submits that the 2010 adjustment to the Residential-Hensall class should be no more than 50% of the way to the 85% minimum. Energy Probe submits that the ratio for this class should be increased to 82.65% or whatever level results in a 10% total bill impact for the smallest customers.

This ratio should then be increased in each of 2011 through 2013 such that the maximum impact on the smallest customers is a 10% total bill impact.

Festival Hydro would propose to harmonize Hensall residential rates over the four year period so the rates are fully harmonized at the time of the next rate rebasing application. The revenue arising from the increase in the Hensall rates will be applied as a reduction to regular residential rates, as recommended by Energy Probe. In each of the four years, a 500 kWh customer will have an increase of less than 10% per year. In 2010, the bill impacts for a 250 kWh customer will reduce from the original reported increase of 14.39% to 12.85% or an amount of $4.47 per month. Increase in the three subsequent years for 250 kWh customers will be less than 10%. Festival Hydro submits that as part of the draft rate order, the 2010 rate increase for a 250 kWh customer will not exceed the 14.39% presented in the original COS application, which was accepted by the Board Staff.

Page 49 contains the revenue to cost ratios, which illustrates the harmonization with regular residential rates being achieved in 2013. Festival Hydro submits that the Board allow Festival Hydro to harmonize these rates over a four year period (test year plus three).

H. EXHIBIT 8 – RATE DESIGN

Monthly Fixed Service Charges

The Board has noted that it will not require that an existing Monthly Service Charge above the ceiling be brought down to or below the ceiling. Festival Hydro's proposed monthly fixed charges described in the application are consistent with previous Board decisions for other distributors.

VECC disagrees with the proposition that the Board has not set a ceiling for the monthly service charge based on the 3rd paragraph of section 4.2.2 of EB-2007-0667. VECC submits that the Board's expectation is that if the current MSC is below the "ceiling" it should not be increased to a value that is greater than the ceiling (i.e., the upper end of the prescribed range). VECC also submits that based on this paragraph, distributors whose monthly service charges currently exceed the upper end of the range, should not increase them further.

VECC states that for several customer classes, the monthly service charges established using the current fixed/variable split doesn't fall below the ceiling. These classes include the GS<50 kW class where the proposed monthly service charge is being increased to a value above the calculated ceiling ($30.15 vs. $28.02); GS>50 kW where the current charge exceeds the guideline the proposal is to increase it further (from $209.76 to $238.49); and Large Use where the current charge exceeds the Guideline and the proposal is to increase it further (from $10,447.04 to $10,977.20). In VECC;s submission in the first case, the Board should limit the service charge to no more than the ceiling value, while in the next two the Board should maintain the existing service charge for 2010.

Festival Hydro recognizes that there are three fixed monthly rates which are above their proposed ceilings. In arriving at these amounts, Festival Hydro has followed a structured approach consistent with previous years. For the three customer classes identified, the total bill impacts on all classes are well within the Board's thresholds. Festival Hydro submits that the proposed levels of fixed monthly charges, based on maintaining the same fixed/variable splits as calculated from the current fixed/variable revenue proportions, be acceptable by the Board.

Low Voltage Rates

Board Staff agrees that the ST charge determined is reasonable. The approach is similar to that taken by COLLUS Power Corp. in the 2009 cost of service application (EB-2009-0226) and subsequently approved by the Board. Board Staff also submits that allocation of ST charges on the basis of 2010 Retail Transmission Connection is appropriate.

Festival Hydro submits that it agrees with the low voltage amount of $103,917.68 (Scenario 2 –the rate rider in place for one year) as determined for the response to the Board Staff interrogatory # 43. Festival Hydro further submits it will allocate LV charges to classes in the same proportion as the 2010 test year Retail Transmission Connection Charges, as outlined in Festival Hydro's response to Board Staff interrogatory # 24 and consistent with VECC's submission.

Retail Transmission Service Rates ("RTSR")

Board Staff notes that in 2009 IRM, Festival Hydro proposed and received an 11.3% network rate increase for all classes and a 5.5% connection rate increase for all classes. Staff suggests that it is appropriate to apply the same adjustment for all customer classes in 2010 that being a network charge decrease of 4.1% and connection charge increase of 0.4%. Staff notes that an analysis of Festival Hydro's RTS variance account balances (1584 and 1586) suggest that these adjustments would offset the observed overcharging and undercharging respectively.

In VECC's view the adjustment to the Retail Transmission charges should be based on a combination of the percentage of over/under payment over the first six months of 2009 in combination with the percentage change in UTR as of July 1, 2009. Based on the suggestion of VECC, Festival Hydro has recalculated the RTSR rates based on the combination of the percentage of over/under payment over the first six months of 2009 in conjunction with the percentage change in UTR at July 1, 2009. When comparing it to the trends throughout 2009, Festival Hydro believes this is a better approach to arrive at the applicable rates, as compared to the original approach used as detailed under Exhibit 8, Tab 1, Schedule 3. The following are the new rates proposed by Festival Hydro:

	Network Charge	Connection Charge
Over /(under) collection for the 6 months Jun 30/09 *(taken from original Exhibit 8, Tab 1, Schedule 3, Page 3)*	12.58%	(3.32)%
Increase (decrease) in UTR Jul 1 09	3.50%	(2.20)%
Net increase in RTRS rates	9.08%	1.12%

Festival Hydro requests an increase in the network charge of 9.08% and an increase in the connection charge of 1.12%, be applied across all customer classes.

I EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

Accounts Designated for Disposition

Acct #	Account Description	Total ($)
1508	Other Regulatory assets – OEB assessments	97,265
1508	Other Regulatory assets – Pension contributions	277,090
1518	Retail Cost Variance – Retail	59,934
1548	Retail Cost Variance – Retail	27,232
1550	Low Voltage	77,573
	Subtotal	**419,226**
1580	RSVA - Wholesale Market	-1,486,026
1582	RSVA – One Time Wholesale Market	40,192
1584	RSVA – Retail Transmission Network Charge	-982,096
1586	RSVA – Retail Transmission Connection Charges	-1027,267
1588	RSVA – Power (excluding Global Adjustment)	311,144
1588	RSVA – Power (Global Adjustment)	-575,470
	Subtotal	**-2,568,583**
	Total	**-2,149,357**

The above table provides the deferral and variance account balances representing principal balances at December 31, 2008 and projected interest to April 30, 2010. The table was included in the Board's submission, but there were no comments by either Board staff or intervenors on the specific balances. In the submissions, there were specific comments by the Board and intervenors related to the disposition method for #1588 Cost of Power, which has been addressed separately. Festival Hydro submits that the Board approve the disposal of the total ($2,149,357) in deferral and variance account balances over a four year period.

Account 1588 – Global Adjustment Sub-Account

Board Staff notes that Festival Hydro has proposed new rate riders to dispose of the deferral and variance account balances, excluding the Global Adjustment sub-account and separate rate riders to dispose of just the Global Adjustment sub-account. The Applicant has not provided the details of its calculations to determine the new rate riders and staff invites the Applicant to provide the details with its reply submission.

Energy Probe submits that the Board should adopt a separate rate rider for recovery of the Global Adjustment sub-account whenever the distributor is able to apply different rate riders to different customers within a rate class, as this follows the cost causality principle. However, Energy Probe is concerned with the potential costs that may be incurred to do this and that these costs may outweigh the benefits in the test year. At the same time, however, Energy Probe is aware that the Global Adjustment is an adjustment sub-account and is likely to have balances that need to be cleared on an annual basis going forward. Over the long term, therefore, a significant expenditure may be justified. Energy Probe submits that the Board should direct Festival Hydro to investigate the cost of being able to have different rate riders for different customers within a rate class. The Board should initiate a consultative to review who can and who cannot dispose of the Global Adjustment to non-RPP customers only, and what is the likely cost and benefits for those distributors and their ratepayers that currently cannot follow the principled approach.

As recommended by the OEB staff, the following table provides the split out of two rate riders: Rate Rider for Global Adjustment and Rate Rider Excluding Global Adjustment. The calculation is based on applying the Global Adjustment to all customers in each class. Festival Hydro is not able to apply the rate rider specifically to non-RPP customers. Festival Hydro submits it is prepared to establish two separate rate riders, with the understanding the rate rider will be applied to all customers within a rate class.

Split out of GA as separate rate rider

		Residential	GS < 50 KW	GS > 50	GS > 50 TOU	Residential Hensall	Large Users	Scattered Load	Sentinel Lighting	Street Lighting
Original 2010 Rate Riders		$ 0.0004	$ 0.0003	$ 0.1753		$ 0.0004	$ 0.2193	$ 0.0005	$ 0.0659	$ 0.1805
		kWh	kWh	kW	kW	kW	kW	kWh	kW	kW
		$ -	$ -	$ -	$ -		$ -	$ -		$ -
		# metered cust.	# metered cust.	# metered cust.			# metered cust.			
2010 Rate Riders with Split GA:										
Variable	RSVA (no GA)	$ (0.0013)	$ (0.0013)	$ (0.5326)		$ (0.0013)	$ (0.7806)	$ (0.0013)	$ (0.4635)	$ (0.4651)
Variable	Global Adj only	0.0001	0.0001	0.1354		0.0001	0.1776	-	-	0.0868
Variable	Non RSVA	$ 0.0004	$ 0.0003	$ 0.0399	$ -	$ 0.0003	$ 0.0417	$ 0.0005	$ 0.0659	$ 0.0937
Fixed, per month		$ -	$ -	$ -	$ -		$ -	$ -		$ -
Total kWh/kW rate rider		$ (0.0009)	$ (0.0010)	$ (0.3573)	$ -	$ (0.0010)	$ (0.5612)	$ (0.0008)	$ (0.3976)	$ (0.2846)
Rate Rider for Global Adjustment		$ 0.0001	$ 0.0001	$ 0.1354	$ -	$ 0.0001	$ 0.1776	$ -	$ -	$ 0.0868
Rate Rider excluding Global Adjustment		$ (0.0010)	$ (0.0011)	$ (0.4927)	$ -	$ (0.0011)	$ (0.7389)	$ (0.0008)	$ (0.3976)	$ (0.3714)
Total		$ (0.0009)	$ (0.0010)	$ (0.3573)	$ -	$ (0.0010)	$ (0.5612)	$ (0.0008)	$ (0.3976)	$ (0.2846)
Original 2010 Rate Riders										
Variable	RSVA	$ (0.0013)	$ (0.0013)	$ (0.3972)		$ (0.0013)	$ (0.6029)	$ (0.0013)	$ (0.4635)	$ (0.3783)
Variable	Non RSVA	$ 0.0004	$ 0.0003	$ 0.0399		$ 0.0003	$ 0.0417	$ 0.0005	$ 0.0659	$ 0.0937
Fixed, per month		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total kWh/kW rate rider		$ (0.0009)	$ (0.0010)	$ (0.3573)	$ -	$ (0.0010)	$ (0.5613)	$ (0.0008)	$ (0.3976)	$ (0.2846)

In response to Energy Probe’s submission, Festival Hydro currently cannot apply a rate rider specifically to a select group of customers within a rate class. Festival Hydro has no idea at this time how much it would cost to make the necessary computer changes.

Festival Hydro allocated the total GA variance amount across the classes based on the non –RPP quantities in each class, so those rate classes with a higher concentration of non-RPP customers got a proportionate larger share of the total. GS > 50 kW and large users were allocated 88.9% of the total GA variance ($511,716 of the $575,469). With the change in MUSH pricing effective November 1, 2009, virtually all customers in these two rate classes are now on non-RPP pricing, so the cost causality for these two classes of customers is closely met.

The remaining $63,753 of the total $575,469 was allocated to all the remaining rate classes. The GA only rate rider for the remaining classes works out to only $0.0001 per kWh. For a residential or GS < 50 kW customer with average monthly use of 800 kWh, it would only be $0.08 cents per bill or $0.96 per year. This does not justify the cost of system enhancements to implement a customer specific rate rider mechanism as proposed by Energy Probe.

Given that for the GS> 50 kW and Large User classes the cost causality principle is closely met, and given the marginal impact on customers in the remaining rate classes, Festival Hydro submits that the Board allow Festival Hydro to apply the Global Adjustment Rate rider to all customers within their respective rate class.

CDM Expenditures and Recoveries and CDM Contra Account (1565 and 1566)

Board Staff notes that clearing the accounts to zero is an accounting exercise and has no rate consequences. Accounts 1565 and 1566 are tracking accounts and are not intended to be disposed. Board approval is not required for addressing accounting deficiencies of this nature. If Board approval is required, Festival Hydro requests such an order. Festival Hydro will process the proper accounting entries to clear these account balances. There is no impact on our revenue requirement.

Interest Rates for Deferral and Variance Accounts

Energy Probe has expressed concerns with the interest rate used by Festival Hydro to calculate the interest on the accounts from January 1, 2010 through April 30, 2010. Energy Probe submits that the interest for the January 2009 through April 2010 period should be based on the rates of 2.45% in the first quarter of 2009, 1.0% for the second quarter of 2009 and 0.55% for the subsequent periods to match the actual prescribed rates. Festival Hydro submits the impact of such a change is not significant.

In the response to Energy Probe’s Interrogatory # 46, the following information was provided:

“In the Cost of Service Filing, Festival Hydro used 1% for the entire period of 2009 and 2010 for calculation of interest on variance accounts. On Exhibit 9, Tab 1, Schedule 2, Page 5, the amount of interest expense on accounts designated for disposition for 2009 was $20,863 and $7,015 for 2010. By using a rate of 1.1375% for 2009 (i.e. the weighted average of 3 months @ 2.45%, 3 months @ 1.00% and 6 months @ .055%), the interest expense increases to $23,731 for 2009. By using the rate of 0.55% for the first four months of 2010, the interest expenses drops to $3,858 for 2010. The net difference for the 2 years added together is $289 less expense."

Festival acknowledges the interest expense for the 4 months in 2010 using the 1% totals $7,015 compared to an amount of $3,858 using the rate of .055%, a difference of $3,157. Festival Hydro submits that the Board accepts the interest expense for the 4 months in 2010 as calculated using the 1% interest rate.

All of which is respectfully submitted.