



P.O. Box 397, Stratford, Ontario N5A 6T5

187 Erie Street, Stratford  
Telephone: 519-271-4700  
Toll-Free: 1-866-444-9370  
Fax: 519-271-7204  
www.festivalhydro.com

February 14, 2011

**BY RESS & COURIER**

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

**Re: EB-2010-0083  
Festival Hydro Inc. Reply Submission  
2011 3<sup>rd</sup> Generation IRM Rate Application**

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Dear Ms. Walli:

Please find accompanying this letter two copies of Festival Hydro's Reply Submission to Board Staff and VECC submissions due February 16, 2011.

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

1           **IN THE MATTER OF** the Ontario Energy Board Act, 1998, S.O.  
2           1998, c. 15, (Schedule B);

3  
4           **AND IN THE MATTER OF** an Application by Festival Hydro Inc. to  
5           the Ontario Energy Board for an Order approving just and  
6           reasonable rates and other charges for electricity distribution to be  
7           effective May 1, 2011.

8  
9                           **FESTIVAL HYDRO INC.**

10  
11                   **2011 3<sup>rd</sup> GENERATION IRM RATE APPLICATION**

12  
13                           **REPLY SUBMISSION**

14  
15                           **FILED FEBRUARY 14, 2011**

16  
17   **A.   INTRODUCTION**

18  
19           Festival Hydro Inc. ("Festival Hydro") owns and operates the electricity distribution  
20           system located in the City of Stratford and the Towns of St. Marys, Hensall, Dashwood,  
21           Zurich, Brussels and Seaforth.

22  
23           This is the reply submission of Festival Hydro in regard to its 2011 3<sup>rd</sup> Generation IRM  
24           for an order approving just and reasonable rates for the distribution of electricity effective  
25           May 1, 2011 (Application). Festival Hydro's submission is filed in reply to submissions  
26           filed by Ontario Energy Board Staff ("Board Staff") January 26, 2011 and Vulnerable  
27           Energy Consumers Coalition (VECC) January 26, 2011.

28  
29           Festival Hydro filed the Application on October 29, 2010 under section 78 of the Ontario  
30           Energy Board Act, 1998. Festival Hydro submitted its responses to interrogatories from  
31           Board Staff and VECC on January 7, 2011.  
32

1 **B. REPLY SUBMISSION**

2  
3 **RETAIL TRANSMISSION SERVICE RATES (“RTSR”)**

4  
5 Board Staff requested Festival Hydro to explain the data entries on Sheet B1.2 -2009  
6 Distributors Billing Determinants. In the Response to Board Staff interrogatory #1,  
7 Festival reconciled the amounts to the 2009 Reporting and Record Keeping  
8 Requirements. In the Board Staff submission, it was indicated that Board Staff is  
9 satisfied that the data in the application is correct. VECC did not address the RTSR  
10 matter.

11  
12 Festival agrees with the Board Staff Submission and requests the Board accept the  
13 RTSR as determined, with the understanding that the Board will update the applicable  
14 data at the time of this Decision based on then available updated Uniform Transmission  
15 rates.

16  
17  
18 **TAX SHARING MODEL**

19  
20 Festival Hydro agrees with the Board Staff Submission regarding the updated tax  
21 sharing model. VECC did not address the changes to the tax savings model. Festival  
22 Hydro requests that the Board accept the adjusted Tax Sharing Model.

23  
24  
25 **REVENUE TO COSTS RATIOS**

26  
27 VECC submitted that:

- 28
- The adjustments to the Transformer Ownership Worksheet are in accordance
  - 29 with the Board’s EB-2009-0263 Decision and;
  - 30 • The (updated) Revenue-Costs-Ratio Adjustment Work Form has been completed
  - 31 appropriately.
- 32

1 Board Staff expressed no concerns with the proposed adjustments.

2  
3 Festival Hydro agrees with the position put forth by both Board Staff and VECC. Festival  
4 Hydro requests that the Board accept the adjusted revenue to costs ratios.

5  
6  
7 **DISPOSITION OF DEFERRAL AND VARIANCE ACCOUNT BALANCES**

8  
9 Board staff noted that Festival Hydro's total claim per kWh is \$0.00062. When rounded,  
10 it equals but does not exceed the preset disposition threshold of \$0.001 per kWh  
11 contained in the EDDVAR Report. Board Staff also noted that there was a request in  
12 Festival Hydro's 2010 rate application for a determination of the cost of system  
13 enhancements required to implement a separate rate rider that would prospectively  
14 apply to non-RPP customers. Board Staff noted that this system enhancement has not  
15 occurred yet. Board Staff submitted that there was an appreciable debit balance in  
16 Festival Hydro's Global Adjustment sub-account and that the Board's general policy is to  
17 dispose of the Global Adjustment sub-account balance by means of a separate rate rider  
18 that would apply prospectively to non-RPP customers only. For these reasons, Board  
19 Staff submits that the disposition of Festival Hydro's Group 1 account balances is not  
20 warranted at this time.

21  
22 VECC made no submission on the disposition of deferral and variance account  
23 balances.

24  
25 Festival Hydro agrees with Board Staff that the total claim per kWh of \$0.00062 does not  
26 exceed the preset disposition threshold of \$0.001 per kWh contained in the EDDVAT  
27 report and agrees that the disposition of Festival's Group 1 account balances is not  
28 warranted at this time. Festival Hydro requests that the Board remove the proposed  
29 2011 Deferral and Variance Account Rate Rider.

30  
31 With regards to a separate rate rider that would prospectively apply to non-RPP  
32 customers for the Global Adjustment sub-account balance, the Board stated in the 2010

1 Decision and Order (dated April 1, 2010) its expectation that Festival Hydro must  
2 determine the cost of system enhancements and file this information in a future rate  
3 proceeding. Since Festival Hydro agrees with Board staff that the disposition of  
4 Festival's Group 1 account balances is not warranted at this time, Festival has deferred  
5 determining the cost of system enhancements until a future rate proceeding.  
6  
7

#### 8 **SMART METER FUNDING ADDER**

9

10 VECC submits that using a single smart meter funding adder for all customers results in  
11 a major ongoing cross-subsidy of the Commercial GS<50 Class by the Residential class.  
12

13 VECC submits

- 14 • The original aggregate SMFA of \$1.52 per customer per month over-collects  
15 from residential customers.
- 16 • The class-specific residential SMFA shown in VECC IRR Table 2d will recover  
17 the revenue requirement in 2011 and is significantly fairer to residential  
18 ratepayers than an aggregate SMFA (\$1.12 vs. \$1.52) as proposed by Festival.
- 19 • The class-specific SMFA of \$1.12 per residential customer/month should be  
20 approved.  
21

22 As previously stated in Festival Hydro's Response to VECC Interrogatories dated  
23 January 7, 2011, Festival notes the Board Findings in EB-2010-0209, PowerStream, that  
24 a class specific calculation of the residual amounts for disposition of smart meter costs  
25 for each rate class is unwarranted as there is insufficient benefit given the additional  
26 complexity. Festival agrees with the Board finding and would oppose the use of a class  
27 specific rate rider.  
28

29 Board Staff submitted that Festival Hydro has complied with the policies and filing  
30 requirements for the Smart Meter Guideline, and stated that Board Staff takes no issue  
31 with Festival Hydro's proposal to increase its smart meter funding adder to \$1.52 per  
32 metered customer per month. Festival Hydro submits that it is in agreement with Board

1 Staff and requests a smart meter rate adder of \$1.52/metered customer/month be  
2 accepted by the Board as filed.  
3  
4

5 **LOST REVENUE ADJUSTMENT MECHANISM (LRAM) AND SHARED SAVINGS**  
6 **MECHANISM (SSM)**  
7

8 VECC submits that Festival Hydro has misinterpreted and misapplied the Board's  
9 direction to use Best Available Input Assumptions at the time of the third party  
10 independent review.  
11

12 VECC submits that for LRAM claims the use of best available assumptions should apply  
13 retroactively to prior years. The Board Guidelines adopted the "go forward" approach for  
14 SSM, but not for LRAM.  
15

16 Festival Hydro recognizes and seeks to be in compliance with OEB's direction letter,  
17 Conservation and Demand Management ("CDM") Input Assumptions Board File No.:  
18 EB-2008-0352, January 27, 2009. As such, the distributor sought interpretation on the  
19 appropriate application of assumptions and measures for both LRAM and SSM  
20 calculations.  
21

22 In its October 8th decision and order regarding Horizon Utilities' recovery of amounts  
23 related to Conservation and Demand Management, the OEB indicated that:  
24

25 "...the filing guidelines cannot reasonably be expected to address every possible  
26 scenario that may be faced by Ontario's 80 regulated distributors. What is clear is the  
27 underlying principle of LRAM, which is that distributors are to be kept whole for revenue  
28 that they have forgone as a direct consequence of implementing CDM programs.  
29 Accordingly, in the absence of clear direction from the filing guidelines to the contrary,  
30 utilities should always use the most current input assumptions which have been adopted  
31 by the Board when preparing their applications because these assumptions represent  
32 the best estimate of the impact of the programs."

1  
2 In response to this direction, Horizon Utilities recalculated LRAM using the most recent  
3 assumptions and measures as directed for 2005 and 2006 results which persisted in  
4 2007 and 2008 only. No revisions were made retroactively to results which occurred in  
5 2005 and 2006. These revised calculations were performed to the VECC group's  
6 satisfaction (Comments on Draft Rate Order, dated October 21, 2009) and were  
7 subsequently approved as part of the OEB's final rate order for Horizon, October 23,  
8 2009.

9  
10 It is Festival Hydro's view this precedent illustrates acceptance of the limits to the  
11 application of newer assumptions and measures to the beginning of the year, those  
12 assumptions and measures were accepted by the Ontario Energy Board. Festival Hydro  
13 considers this a reasonable position given the absence of any published updates until  
14 2009. This is also consistent with the example within Guidelines and Policy Letter of  
15 January 27, 2009:

16  
17 The input assumptions used for the calculation of LRAM should be the best available at  
18 the time of the third party assessment referred to in section 7.5.

19 For example, if any input assumptions **change in 2007**, those changes should apply for  
20 LRAM purposes **from the beginning of 2007 onwards** until changed again.....

21  
22 Festival Hydro further submits that application of the most recent Ontario Power  
23 Authority assumptions and measures to be applied in LRAM calculations were not  
24 endorsed by the Ontario Energy Board until 2009. Applying the aforementioned  
25 interpretation, Festival Hydro Inc. considers it appropriate to apply the more recent  
26 assumptions and measures for 2009 only.

27  
28 Festival Hydro takes issue with the statement that Festival Hydro has acted contrary to  
29 the advice of Burman Energy, a consultant recognized by VECC as an expert in the  
30 field. Festival Hydro's interpretation is consistent with the practice elsewhere and is not  
31 contrary to the advice it has received.  
32

1 Festival Hydro submits the revised application for LRAM recovery is consistent with the  
2 Board's Guidelines (EB-2008-0037 dated March 28, 2008) and the Board's Decision on  
3 Horizon's application (EB-2009-0192). Applying these new assumptions and measures  
4 retroactively for all years would have represented an inconsistency with the Horizon  
5 decision. In addition, Festival Hydro Inc. submits that since OEB endorsement of OPA  
6 assumptions and measures did not occur until 2009, 2005 assumptions and measures  
7 represents the best available and most reliable for the years 2005, 2006, 2007, and  
8 2008. Not officially adopting new assumptions and measures until 2009 supports this  
9 position.

10  
11 In the Board Staff submission it states that Board Staff submits that Festival Hydro's  
12 application for LRAM recovery is consistent with the Board's Guidelines and supports  
13 the approval of the LRAM amount of \$357,449. However, the amount of \$357,449 was  
14 as originally filed by Festival Hydro on October 28, 2010. That amount was increased to  
15 \$385,853 as part of the response to VECCs interrogatories dated January 7, 2011.

16  
17 Festival Hydro respectfully submits that the revised calculations in response to VECC  
18 interrogatories apply the correct assumptions and measures and respectfully requests  
19 the Board approve the revised LRAM application component of the 2011 IRM3 rate  
20 application in the amount of \$385,853.

21  
22 *SSM*

23 Festival Hydro also requests that the Board makes no adjustment to the SSM  
24 calculations of \$73,158 and accept the SSM claim recovery as filed. VECC's  
25 submission states that VECC accepts that Festival has used the OEB input assumptions  
26 for the years for the SSM claim as filed. Board Staff are silent on the SSM claim in their  
27 Submission.



1       **RECOVERY OF REASONABLY INCURRED COSTS**

2  
3       VECC submits that its participation in this proceeding has been focused and responsible  
4       and they therefore requested an award of costs in the amount of 100% of its reasonably  
5       incurred fees and disbursements.

6  
7       Festival Hydro notes that in the Board's Notice of Intervention to VECC dated December  
8       14, 2010, it stated that "The Board has determined that VECC is eligible to apply for an  
9       award of costs under its Practice Direction on Cost Awards in *relation to Festival Hydro's*  
10      *proposed lost revenue adjustment mechanism (LRAM) recovery and revenue-to-cost*  
11      *ratio adjustments.*"

12  
13      Festival Hydro therefore submits that cost awards for VECC should be considered only  
14      for their participation as it relates to LRAM recovery and revenue-to-cost ratio  
15      adjustments.

16  
17      In addition, Festival Hydro notes VECC has identified the same concerns relating to the  
18      LRAM and SSM component in several 2011 LDC rate applications. Festival Hydro  
19      understands intervenors recover their costs for their prudent review of those applications  
20      and preparation of interrogatories. However, many LDCs received the same detailed  
21      LRAM/SSM interrogatories from VECC. Therefore, any cost awards approved by the  
22      Board to reimburse VECC should be based on one interrogatory and submission only  
23      and not duplicated for subsequent inclusion in other LDC application interventions.

24  
25  
26      All of which is respectfully submitted this 14<sup>th</sup> of February 2011.