Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone: 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY EMAIL

August 18, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, Suite 2700
Toronto ON M4P 1E4

Dear Ms. Walli:

Re: Hydro Ottawa Limited
Application for Rates
Board File Number EB-2011-0054

Pursuant to Procedural Order No. 1 issued on July 29, 2011, please find attached the Board Staff Interrogatories on the cost of service rate application filed by Hydro Ottawa Limited on June 17, 2011

Please forward the attached to Hydro Ottawa Limited and parties to this proceeding.

Yours truly,

Original signed by

Violet Binette
Project Advisor, Applications & Regulatory Audit

Board Staff Interrogatories
Hydro Ottawa Limited
2012 Electricity Distribution Rates
EB-2011-0054

GENERAL

Letters of Comment

1. Ref: Notice of Application
   Following publication of the Notice of Application, did Hydro Ottawa receive any letters of comment? If so, please confirm whether a reply was sent from the applicant to the author of the letter. If confirmed, please file that reply with the Board. If not confirmed, please explain why a response was not sent and confirm if the applicant intends to respond.

Issue 1.2
Are Hydro Ottawa's economic and business planning assumptions for 2012 appropriate?

2. Ref: Exh D1-1-2, p8
   Hydro Ottawa has used an inflation rate of 2% for 2011 and 2012 costs that are not related to compensation. Please identify the source document for the inflation assumptions.

Issue 1.3
Is service quality, based on the Board specified performance indicators, acceptable?

3. Ref: Exh B6-1-1, Attachment W
   The 2011 Asset Management Plan provides bar charts of the primary causes of SAIFI and SAIDI outages for the period 2007 to 2010. One of the primary causes is Human Element, which is defined as, "Customer interruptions due to the interface of distributor staff with the system." The Human Element contributions are separate from scheduled outages, and are similar to tree contacts in %contribution as a cause of SAIFI and SAIDI.

   a) Please provide a more detailed description of Human Element.
   b) What measures is Hydro Ottawa taking to reduce SAIFI and SAIDI due to Human Element?

Issue 1.4
Is the proposal to align the rate year with Hydro Ottawa's fiscal year, and for rates effective January 1, 2012 appropriate?

4. Ref: Exh A1-2-2, p5
   Hydro Ottawa noted that as part of the IR process, it is typical to update the bridge year data, which could include actual information to June 30. Please update bridge year data as part of the IR responses due on September 7, 2011.

5. Ref: Exh A1-2-2, p6
   One of the issues raised in Appendix B of the Board's April 15, 2010 letter regarding aligning rate year with fiscal year is whether there is "merit in considering the alignment during a Cost of Service application but having the implementation of the alignment take effect on January 1st of the following year as part of the distributor's first IRM-based adjustment". Hydro Ottawa stated that it saw no reason to delay implementation. Further, Hydro Ottawa commented that customers have previously benefitted from the lag between rates increasing May 1 and costs being set on January 1 and that the utility had been negatively affected by the lag. Please quantify the impact on consumers of the current proposal to align the rate year with the fiscal year in 2012.

6. Ref: Exh H6-2-1 and Exh J3-1-4
   Due to rate adders and riders that continue until April 30, 2012, customers will see bill impacts on January 1, 2012 and on May 1, 2012. Hydro Ottawa notes some issues with the bill impact spreadsheet issued by the Board on June 28, 2010.

   a) Please revise bill impacts using the format of Appendix 2-V issued by the Board on June 22, 2011.
   b) Please revise the summary tables in Exh H6 and Exh J3 to reflect total bill after HST, and provide %change to two decimal places.

RATE BASE

Issue 2.1
Is the proposed rate base for the test year appropriate?

7. Ref: Exh B1-1-1, p3 and Exh B5-2-1, p1
   In the first reference, 2008 approved capital expenditures (net of contributed capital) is $56,681,000. In the second reference, 2008 approved capital expenditures (net of contributed capital) is $66,451,000. Please explain the difference.

8. Ref: Exh B1-2-4, p1
   Hydro Ottawa has included $4M in the capital budget for 2012 for the acquisition of land for a new East Operations Centre and a new Administration Building. This

results in $2M being added to 2012 rate base. To what extent will the land be used and useful in the test year?

Issue 2.2
Is the working capital allowance for the test year appropriate?

9. Ref: Exh B4-2-1, p20
The current WCA, as approved in the last cost of service proceeding, is 12.5%. Hydro Ottawa has filed a lead-lag study to support a proposed WCA of 14.2%. The evidence states that no impact of TOU rates has been considered. Please explain what consideration the lead-lag study gives to smart meters and remote reading capability.

10. Ref: Exh B4-2-1, p20
The evidence states that Hydro Ottawa will be changing to monthly billing for all customer classes in 2013. No adjustment has been made to the WCA in this regard as the impact of changing to monthly billing will not be seen until 2013. What is the expected impact on WCA when monthly billing is fully implemented?

11. Ref: Exh B4-2-1, p4
Ref: Horizon Utilities Corporation EB-2010-0131
Hydro Ottawa's study uses a service lag of 30.24 days based on a weighting of the average number of customers. The recent Horizon Utilities proceeding determined that it was more appropriate to determine service lag on the basis of distribution revenues.

    a) Please provide any concerns Hydro Ottawa has with the determination of service lag on the basis of distribution revenue.
    b) Please determine the impact on WCA when service lag is determined on the basis of distribution revenue.

Issue 2.3
Is the capital expenditure forecast for the test year appropriate?

12. Ref: Exh B5-1-1, Exh B5-3-1 and Exh B5-4-1
Ref: Hydro Ottawa EB-2010-0133 Exh B4-5-1
In several parts of the application there is reference to the challenges of dealing with an aging infrastructure. The table below summarizes total capital expenditures, a subset of distribution capital, and a breakout of land and buildings, general plant and IT. The data indicates that in the period 2008-2010, capital expenditure in the subset of distribution capital has been flat. The data also indicate that in the bridge and test years, the increases in capital expenditures for land, buildings and IT are considerably larger than for the subset of distribution capital.

    a) Please confirm that the data entries in the table below are correct.

b) Please confirm that capital expenditures on non-distribution plant have and are planned to increase substantially more than the subset of distribution plant.
c) Staff notes that the 2010 actual capital expenditures for the subset of distribution plant, $72,921k, are lower than that forecast in Hydro Ottawa's 2011 cost of service application, $76,720k. Staff also notes that the 2010 actual capital expenditures for non-distribution plant, $11,506k, are higher than that forecast in Hydro Ottawa's 2011 cost of service application, $10,216k. Please explain the factors that contributed to these differences. .
d) Staff notes that in proceeding EB-2010-0113, Hydro Ottawa forecast $16,746k for 2010 contributed capital, however the actual was $4,198k higher. How does the year to date level of contributed capital compare with the forecast of $17,695k?

						EB-2010-0133	
$000	**2008 Actual**	**2009 Actual**	**2010 Actual**	**2011 Bridge**	**2012 Forecast**	**2010 Bridge**	**2011 Forecast**
TS Primary Above 50 kV	8,836	11,588	12,017	9,504	3,024	14,944	12,182
DS	7,403	10,060	9,626	11,487	15,628	8,061	3,386
Poles and Wires	24,414	25,405	29,859	35,293	38,965	27,721	34,643
Transformers	7,479	8,431	6,323	8,480	9,051	7,950	8,963
Services and Meters	23,788	10,967	11,999	13,200	11,310	13,042	11,894
Equipment	3,015	2,243	2,479	3,895	3,643	3,686	4,052
Other Distribution Assets	1,041	979	618	2,062	1,896	1,316	2,161
SubTotal	**75,976**	**69,673**	**72,921**	**83,921**	**83,517**	**76,720**	**77,281**
Contributed Capital	-21,237	-20,911	-20,944	-17,695	-19,223	-16746	-16570
SubTotal	**54,739**	**48,762**	**51,977**	**66,226**	**64,294**	**59,974**	**60,711**
%Change (year over year)		-10.9%	6.6%	27.4%	-2.9%		
%Change (Test Year vs Last Rebasing Year)					17.5%		
Land & Buildings	2,340	5,726	3,958	3,987	11,622	1,572	9,334
General Plant	1,673	1,366	347	1,678	759	1,642	1,155
IT Assets	4,382	4,827	7,201	12,996	13,901	7,002	7,520
SubTotal	**8,395**	**11,919**	**11,506**	**18,661**	**26,282**	**10,216**	**18,009**
%Change (year over year)		42.0%	-3.5%	62.2%	40.8%		
%Change (Test Year vs Last Rebasing Year)					213.1%		
Total	**63,134**	**60,681**	**63,483**	**84,887**	**90,576**	**70,190**	**78,720**
%Change (year over year)		-3.9%	4.6%	33.7%	6.7%		
%Change (Test Year vs Last Rebasing Year)					43.5%		

13. Ref: Exh B5-3-1, Exh B6-1-1, Attachment W
The 2011 Asset Management Plan states that a replacement rate of 400-600 poles per year is recommended to maintain the current failure rate. At p7 of Exh B5-3-1, the evidence states that 295 poles are planned to be replaced in 2011 due to end of life. An additional 108 poles will be replaced as part of the Kilborn conversion project.

a) Have the poles that will be replaced as part of the Kilborn conversion project reached end of life?
b) Did Hydro Ottawa replace 400-600 poles due to end of life in 2010?

Fleet Strategy

14. Ref: Exh B1-2-5, p4
Hydro Ottawa has summarized its fleet replacement program and lifecycle status. Based on the graph at Figure 2, Board staff estimates that Hydro Ottawa plans to purchase 18 vehicles in 2011 and 31 vehicles in 2012.

a) Hydro Ottawa compares its fleet to an industry standard lifecycle. Please provide the source reference for the industry standard.
b) Please confirm Board staff's estimates in the preamble. What percentage of Hydro Ottawa's fleet is being replaced in the test year?
c) Please estimate the incremental purchase cost in 2012 for hybrid vehicles.

15. Ref: Exh B1-2-5 and Exh D1-5-1
The evidence at p4 of Exh B1-2-5 notes that Hydro Ottawa is "adding" vehicles in 2012 and 2013 to "address" its apprenticeship program and its partnership with Algonquin College. Board staff notes that at p8 of the Workforce Planning Strategy exhibit, it states that Hydro Ottawa is placing on hold the hiring of Powerline Maintainer apprentices in 2012 to align with Algonquin College's program.

a) The description provided on p4 of Exh B1-2-5 infers that the purchase of these vehicles is required primarily for training purposes and not for the purpose of maintaining distribution assets. Please confirm.
b) How many of the vehicles related to these programs are forecast for purchase in 2012?

CIS Transition Project

16. Ref: Exh B1-2-6
The existing CIS system is PeopleSoft, a system selected through a competitive and comprehensive procurement process and implemented in 2004. Hydro Ottawa reports that due to changes to available support from Oracle for the existing CIS system, a CIS transition is required. The 2011 capital budget is $6.9M and the 2012 capital budget is $7.8M to complete the CIS transition project.

The evidence states that, “Hydro Ottawa has chosen to use Oracle products for major applications and therefore has chosen to upgrade from Oracle’s PeopleSoft CIS version 8.8 to Oracle’s current product, CC&B version 2.3.1.”

a) Was Oracle CC&B version 2.3.1 selected without a competitive procurement process?
b) If the answer to a) is yes, please summarize the rationale and the approvals received to proceed with this capital expenditure without a competitive procurement process.

Issue 2.5
Is Hydro Ottawa’s Green Energy Act Plan appropriate?

17. Ref: Filing Requirements EB-2009-0397, Part IV
Ref: Exh B1-2-2, Attachment P, p15
The GEA Plan Filing Requirements outline the need for consultations.

a) Please confirm that there are no distributors (other than Hydro One) in or adjacent to Hydro Ottawa’s service area that would be impacted by present plans to connect renewables.
b) Please update the Board on the status of consultations with Hydro One and file any letter of comment or other documentation reflecting Hydro One’s comments.
c) Please file the OPA Letter of Comment.

18. Ref: Filing Requirements EB-2009-0397, Part V
Ref: Exh B1-2-2, Attachment P, p15
Hydro Ottawa has provided the factors it will use to prioritize expenditures.

a) Please summarize how the prioritization factors are applied e.g. are projects that satisfy all factors considered higher priority than those that satisfy only one criterion? Or does satisfying one criterion make a project a “priority project”? Please provide a more complete description of the prioritization methodology.
b) Please indicate how the prioritization is applied to the projects identified for implementation in the coming 5 years.
c) Please indicate the practical consequences of a project being determined as a low priority.

19. Ref: Exh B1-2-2, Attachment P, p13
Ref: Report of the Board EB-2009-0349, p15-16
Hydro Ottawa has determined that the Direct Benefit for System Expansion is 18%, and is 14% for Renewable Enabling Improvements (“REI”). The Board Report indicates that, “the Board is of the view that the percentages that are ultimately approved for Hydro One Distribution in relation to Expansion and REI investments should provide a reasonable estimate for other distributors until more distributors complete detailed benefit assessment and a rolling weighted average can be used,

particularly given the limited amount of eligible investments expected in Basic GEA plans."

a) Hydro Ottawa states that it does not meet the threshold for filing a Detailed GEA Plan and has filed a Basic GEA Plan. Please explain how Hydro Ottawa's determination of benefits is consistent with the Board Report, and the percentages indicated in the Board Report at footnote #9.
b) If Hydro Ottawa wishes to proceed with its own determination of direct benefit, please provide a more detailed explanation of the derivation of these numbers, with reference to the guiding criteria for a Detailed GEA Plan as called for in section 3.2.2.4 of the Board Report.

20. Ref: Exh B1-2-2, Attachment P, Appendix A
With respect to project costs:

a) Please confirm that Hydro Ottawa is seeking approval for project costs for the 2012 test year, with the expectation of a prudence review of actual costs at the time of disposal of the deferral accounts in the future.
b) Most projects on p22-23 have been tagged with a $50,000 per project for "HOL cost" in the second last column of the table. Please indicate how this amount was arrived at, and what it represents.
c) The information on p24 does not indicate an "Expected Online Date". Please provide this information.
d) On p24, the first five rows appear to represent one project in which a hydroelectric generator is connected to 3 transformer stations. Is this the case? If this is not the case, please clarify the configuration.
e) In calculating the "HOL Cost" for the hydroelectric station project, it appears that the REI amount of $275,000 has been allocated only to the first Slater TS project. Please indicate why this is the case.
f) Please indicate the voltage level for each of the projects.

21. Ref: Exh B1-2-2, Attachment P
Ref: Hydro Ottawa EB-2010-0133, Exh B1-2-3
In the current application, no Smart Grid related expenditures have been assigned to 2011 or 2012. All Smart Grid related activities are in the future. In the GEA Plan Hydro Ottawa filed in 2010, capital expenditures were assigned to, among others, a Public Charging Stations for Electric Vehicles project for year 2011.

Please provide a summary of activities and projects related to Smart Grid that have already been initiated. Please confirm whether or not the costs associated with these activities are included in rate base and revenue requirement for 2012.

22. Ref: Exh B1-2-2, Attachment P, p12
OM&A labour costs include 3 positions for 2011 and 4 positions for 2012, for staff that will be dedicated to GEA Plan related work.

a) Please clarify the basis for a $300,000 OM&A cost for 2011. How many FTE's are associated with this expense?
b) Please provide a breakdown of the FTE's by employee group (management, union, etc.) associated with the staff dedicated to GEA Plan related work.
c) Please confirm that 2 existing staff have been re-assigned and are currently working on GEA Plan matters. Please indicate their prior assignment within Hydro Ottawa in 2010, and how these prior assignments are being addressed.
d) Please describe the functions that the 2 current staff are performing with regards to GEA Plan implementation.

LOAD FORECAST AND OPERATING REVENUE

Issue 3.1
Is the load forecast methodology including weather normalization appropriate?

System Energy Forecast

23. Ref: Exh C1-1-1
On p2-3 of the exhibit, Hydro Ottawa provides a description of the modeling process and weather normalization.

a) Please explain why Hydro Ottawa used a weather data period from 1952 to 2010 instead of using the same period as system load data, which is 1997 to 2010.
b) In Table 1, Hydro Ottawa provides a comparison of the forecast, actual and weather normalized system MWhs. Please describe how the load was weather normalized.

24. Ref: Exh C1-1-1
On p5 of the exhibit, it states, "Note that all the model specifications are included in Attachment W." However, Attachment W is the 2011 Distribution System Asset Management Plan. Please provide the correct reference for the model specifications.

Actual and Forecast System Energy

25. Ref: Exh C1-1-1
On p7, Table 6 indicates that the CDM adjusted Load Forecast for 2011 and 2012 are 7,897 GWh and 7,865 GWh respectively.

On p11, Table 8 provides the Forecast Sales by Class for 2011 and 2012, which are 7,618 GWh and 7,587 GWh respectively.

a) Please explain the difference between the forecast mentioned above for 2011 and 2012.
b) Please explain the difference in the historic annual actual load (2005 – 2010) between Table 3 and 8.

Sales Forecasts

26. Ref: Exh C1-1-1
    On p9, it states, “The class sales forecast process consisted of three sequential steps. First, sales forecast models for each class were created that capture the relationship between class sales and a number of explanatory variables. Second, the billed-month forecast was converted to a calendar-month basis by simulating the models with calendar-month weather variables. In the final step, the calendar-month class sales forecasts were calibrated to the system energy forecast to produce the final class level sales forecast.”

    Please provide detailed explanation/description of these three steps, specifically how the billed-month forecast was converted to a calendar-month and how the calendar-month class sales forecasts were calibrated to the system energy forecast.

Actual and Forecast System Energy

27. Ref: Exh C1-1-1
    On p10, it states, “Table 9 provides the weather normal and forecasted Sales in MWh by Class including the CDM adjustment.”

    Please provide Table 9 again but exclude the CDM adjustment and the Suite Metering adjustment. Please recalculate the “% Growth”.

Forecast Sales (MWh) by Class

28. Ref: Exh C1-1-1
    On p10, it states:

    > Customer class sales models are structured similarly to one another and contain variables that combine weather and economics to drive the forecast. In addition, the models employ binary variables to mark off anomalous observations, capture any non-weather-related seasonality, and to account for systematic, unexplained shifts in the data.
    >
    > The forecast models sales reasonably well, given the noise in the data, with an adjusted R^2 ranging between 0.718 and 0.961 for all classes except Unmetered Scattered Load. Table 8 provides the actual and forecasted Sales in MWh by Class including the CDM adjustment.

    Please provide the details (including the value of the input variables) to illustrate how the forecasted Sales for 2011 and 2012 are derived from each customer class sales model.

Issue 3.2
Are the proposed customers/connections and load forecasts (both kWh and kW) for the test year appropriate?

Customer Number Forecast

29. Ref: Exh C1-1-1
    On p12, it states: "Customer models were created for each customer class and are generally simple, containing employment and non-manufacturing employment as drivers and binary variables that capture shifts in the data. These models have adjusted R^2 ranging from 0.724 to 1.0 and low model MAPEs. Tables 10 and 11 below show the actual and forecast yearly average and year end customer numbers."

    Please provide the details (including the value of the input variables) to illustrate how the forecast customer numbers for 2011 and 2012 are derived from each customer models.

Issue 3.3
Is the impact of CDM appropriately reflected in the load forecast?

CDM Adjustment

30. Ref: Exh C1-1-1
    On p7, it states, "On November 12, 2010, the Ontario Energy Board (the "Board") issued a Decision and Order which specified the CDM targets which Hydro Ottawa must meet as a condition of its licence. These targets are 85.260 MW for the 2014 Net Annual Peak Demand savings and 374.730 GWh for the 2011-2014 Net Cumulative Energy savings."

    In Table 6 of the above reference, Hydro Ottawa proposed to reduce its 2012 load forecast by 165 GWh to account for CDM adjustment.

    If the Board approved the proposed CDM adjustment for 2012, what would be the cumulative total load reduction made in relation to this CDM adjustment for each of the years 2012 to 2014? If the total is different as compared to Hydro Ottawa's CDM targets, please explain why.

Issue 3.5
Is the test year forecast of other revenues appropriate?

Conditions of Service

31. Ref: Exh A1-9-1, Attachment G
    a) Please identify any rates and charges that are included in Hydro Ottawa's conditions of service, but do not appear on the Board-approved tariff sheet, and provide an explanation for the nature of the costs being recovered.
    b) If any rates and/or changes are identified in a) above, please provide a schedule outlining the revenues recovered from these rates and/or charges

from 2006 to 2010 and the revenue forecasted for the 2011 bridge and 2012 test years.

c) If any rates and/or charges are identified in a) above, please explain whether in Hydro Ottawa's view, these rates and/or charges should be included on the applicant's tariff sheet.

32. Ref: Exh A1-7-4, Exh C2-2-1 and Exh D1-2-1

The level of staffing in the Holding Company was reviewed in 2011. The review has determined that 17 staff in the Holding Company spend most or all of their time on Hydro Ottawa business. These positions will move to Hydro Ottawa in 2012. The evidence states, "While increasing compensation costs in Hydro Ottawa, the offsetting allocations through the Service Level Agreements ("SLAs") will have a neutral cost effect on Hydro Ottawa."

Please provide a summary table which illustrates the neutral cost effect of moving the 17 staff. The table should include net revenues from the Holding Company, Holding Company services and costs, and compensation.

OPERATING COSTS

Issue 4.1
Is the overall OM&A forecast for the test year appropriate?

33. Ref: Exh D1-1-1
Ref: Hydro Ottawa EB-2010-0133, Exh D1-1-2

The table below summarizes OM&A expense for the period 2008 to 2012. Hydro Ottawa states that there can be some inconsistency in the split between operations and maintenance expense, and that operations and maintenance expense should be considered in their totality.

a) Please confirm that the data entries in the table below are correct.

b) The data indicate that in 2008, actual OM&A expense was lower than 2008 Board approved for every OM&A expense category.
   i) The variance explanation at Exh D2-1-1 indicates that $0.6M of the variance is related to unplanned staff vacancies. Would the vacancy allowance of 3% incorporated in the current workforce plan address the variance?
   ii) The variance explanation indicates that another $0.6M of the variance is related to the impact of smart meters. Has the historical experience been reflected in the current application?

c) Staff notes that the 2010 actual OM&A expenses of $53,350,685, are lower than that forecast in Hydro Ottawa's 2011 cost of service application, $59,644,369. Please explain the factors that contributed to these differences.

	2008 Approved	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Forecast	EB-2010-0133	
							2010 Bridge	2011 Forecast
Operations	13,062,448	11,752,560	11,364,065	11,971,416	12,061,906	11,883,322	14,996,358	15,269,439
Maintenance	5,111,153	5,183,949	5,171,079	5,663,033	8,462,994	9,274,548	6,006,658	6,086,041
SubTotal	**18,173,601**	**16,936,509**	**16,535,144**	**17,634,449**	**20,524,900**	**21,157,870**	**21,003,016**	**21,355,480**
%Change (year over year)			-2.4%	6.6%	16.4%	3.1%		
%Change (Test Year vs Last Rebasing Year - Actual)						24.9%		
Billing and Collecting	11,716,819	10,365,089	10,233,636	9,142,479	11,925,750	12,085,194	10,579,743	10,840,730
Community Relations	4,759,852	4,588,888	4,594,942	4,932,698	6,093,455	6,911,671	5,459,667	6,607,061
Admin and General	20,679,521	19,738,418	20,670,993	21,641,059	22,790,434	23,736,696	22,601,943	24,163,018
SubTotal	**37,156,192**	**34,692,395**	**35,499,571**	**35,716,236**	**40,809,639**	**42,733,561**	**38,641,353**	**41,610,809**
%Change (year over year)			2.3%	0.6%	14.3%	4.7%		
%Change (Test Year vs Last Rebasing Year - Actual)						23.2%		
Total	**55,329,793**	**51,628,904**	**52,034,715**	**53,350,685**	**61,334,539**	**63,891,431**	**59,644,369**	**62,966,289**
			0.8%	2.5%	15.0%	4.2%		

Low Income Energy Assistance Program ("LEAP")

34. Ref: Exh D1-1-1, p19 and Exh D1-1-2, p10
    Hydro Ottawa will have a LEAP expense starting in 2011. The evidence also states that the LEAP program is the only charitable donation that Hydro Ottawa has included for both 2011 and 2012. In previous years Hydro Ottawa was a sponsor for the Winter Warmth Program, coordinated by the United Way.

    Please identify the amount included for LEAP emergency financial assistance, and identify the percentage of total forecasted distribution rates.

Customer Service

35. Ref: Exh D1-1-2, p5-6
    One of the OM&A cost drivers listed in Table 2 is the Customer Service Strategic Plan and another is Smart Meters and TOU Roll Out. The descriptions of both drivers include reference to staff training and communication with customers. Please clarify whether all the activities for these programs are separate.

Regulatory Costs

36. Ref: Exh D1-1-2, p9
    The regulatory costs from 2008 to 2012 are summarized in Table 3.

    a) As Hydro Ottawa has requested rates effective January 1, 2012, please explain the level of legal costs and intervenor costs forecast for the test year.

b) Please complete and file Appendix 2-H Regulatory Cost Schedule from Chapter 2 of the Filing Requirements issued on June 22, 2011 to provide information on one-time regulatory costs.

Vegetation Management

37. Ref: Exh D-1-4-2, p4 and Exh D2-1-1, p4
Based on the recommendations in the 2005 Asset Management Plan, the Ottawa core is trimmed on a two-year cycle and the Ottawa suburb is trimmed on a three-year cycle. Vegetation management was one of the contributing factors to 2008 actual OM&A expense being lower than Board approved. The evidence states, "A savings of $604k in account 5025 is the result of a revised vegetation management program which increased the trim cycle from 3 years to 2 years in Ottawa's downtown core. This resulted in reduced numbers of unplanned tree removals and spot trimming." Has this experience been reflected in the current application?

38. Ref: Exh D-1-4-2, p5
Hydro Ottawa's vegetation management is completed by contractors selected through a tendering process. In 2010 the largest tree trimming contractor invoked an escape clause in the contract. A new contractor has been retained on a time and materials basis. Has Hydro Ottawa secured the services of a replacement contractor on a long term basis? If so, what is the impact on the vegetation management budget?

Pole Replacement and Inspection

39. Ref: Exh B5-2-1, p6, Exh B6-1-1, Attachment W
In 2008, actual expenditures for pole replacement were $1.8M less than approved. One of the contributing factors to the variance was, "Rather than replacing poles on an unplanned basis, outside staff provide pole condition information for consideration in the planned program…"

The 2011 Asset Management Plan states that for wood pole condition, "Hydro Ottawa initiated a combined program of visual inspection and non-invasive measurement in 2010."

a) The Asset Management Plan does not refer to the services of outside staff for pole inspection. Is the Hydro Ottawa pole inspection conducted by outside staff?
b) How do the forecast costs of pole inspection compare with those prior to 2010?

Issue 4.4
Are the 2012 compensation costs and employee levels appropriate?

Retirements

40. Ref: Exh D1-5-1, p7
The workforce planning model assumes that 75% of those eligible to retire will retire on their eligibility date or shortly thereafter. Please provide historical eligible

retirements and actual retirements and explain any difference vs the assumed rate of 75%.

Number of Employees

41. Ref: Exh D1-5-1 and Exh D3-1-1, Attachment AC
Hydro Ottawa has outlined the challenges it faces in workforce planning in Exh D1-5-1.

Please summarize the needs identified in the workforce planning strategy and compare these data with the increase in staff numbers for 2011 and 2012 identified in Attachment AC.

42. Ref: Exh D3-1-1, Attachment AC
Ref: Hydro Ottawa EB-2010-0133 Exh D4-1-1, Attachment Y
Appendix 2-K filed in the current application lists a total of 551 FTE's for the 2010 historical year. Appendix 2-K filed in EB-2010-0133 listed a total of 569 FTE's for the 2010 Bridge Year. Please explain the reasons for the difference.

Vacancy and Vacancy Allowance

43. Ref: Exh D1-1-2, p4
Hydro Ottawa has started to forecast a vacancy allowance of 3% for employee turnover.

a) Please provide historical data or source references to support the selection of 3%.
b) Are projected retirements a part of the 3% vacancy allowance?

44. Ref: Exh D1-1-2, p4
Hydro Ottawa has included only a partial year for new staff hiring, recognizing that new positions are not necessarily filled on January 1. Please provide the details of the partial year determination.

Benefits

45. Ref: Exh D3-1-1, p5
The evidence states that, "In 2010, a new three-year collective agreement was reached with the IBEW. This agreement includes a 3% annual increase in unionized wages for 2010 to 2012. The agreement also includes enhancements to the benefit plan."

Please summarize the major benefit plan enhancements, and provide an estimate of the cost of the benefit plan enhancements.

46. Ref: Exh D3-1-1, p8
Table 7 summarizes average annual benefits by employee group for the period 2008 to 2012. Please explain why average annual benefits for the non-unionized

group increased by 50% in 2011 vs 2010, while the other groups increased 12 to 20% in the same time period.

Pension

47. Ref: Exh D3-1-1, p9
    The evidence states that OMERS has introduced contribution increases for both the employee portion and the employer portion to eliminate a funding deficit. For 2011, the overall increase to Hydro Ottawa in pension costs is an estimated 31% and there will be a further 12% increase for 2012.

    a) Please identify the source document to support the increase.
    b) Has the amortized incremental amount been included in revenue requirement?

Issue 4.6
Is the test year forecast of PILs appropriate?

2010 Tax Returns

48. Ref: Exh J3-1-1, Attachment AU
    a) Please provide a signed copy of 2010 federal and Ontario tax returns, with supporting schedules, as filed with the Canada Revenue Agency (CRA) (for taxes) or the Ontario Ministry of Finance (for PILs). As noted in Exh A1-2-2, the tax return is available by no later than June 30.
    b) Please compare the following schedules presented in Attachment AU with the information filed in 2010 tax returns and outline any differences:
        - Sheet C: Schedule 8 and 10 UCC and CEC - historical 2010
        - Sheet F: Historical Year Adjusted Taxable Income – 2010

Tax Adjustments

49. Ref: Exh D6-1-1, p4
    Hydro Ottawa states that the Ministry of Finance has completed its reviews of Hydro Ottawa for the 2001 to 2006 tax years. Any tax adjustments for these years have been reflected in the subsequent year's balances as appropriate.

    a) Please provide a list of tax adjustments including the nature of the adjustments, the amounts of the adjustments and where these adjustments were included in the subsequent year's tax balances.
    b) Please confirm whether Hydro Ottawa's 2007 to 2009 PILs are under review or under consideration of review by the Ministry of Finance. If so, provide the federal and Ontario Notices of Assessment, Notices of Re-assessments (if applicable), Statements of Adjustments, and any other correspondence with the CRA and Ministry of Finance regarding any tax items, or tax filing positions that may be in dispute, for tax years 2007 to 2009.

50. Ref: Exh J3-1-1, Attachment AU and Exh J2-1-1, Attachment AT
Hydro Ottawa provides the PP&E continuity schedule under MIFRS in Attachment AT and provides the PILs calculation in Attachment AU. The amounts for capital additions for both bridge year and test year from both schedules are noted below:

	2011 Bridge Year
Capital additions per Continuity schedule:	$70,947 k
Capital additions per Schedule 8 in PILs model:	$70,780 k
Difference:	$ 167 k

	2012 Test Year
Capital additions per Continuity schedule:	$81,413 k
Capital additions per Schedule 8 in PILs model:	$77,413 k
Difference:	$ 4,000 k

a) Please explain the differences noted above and justify why the amounts for capital additions in the PILs model should be different than the amounts of capital additions in the PP&E continuity schedule.
b) If the differences cannot be explained, please adjust Schedule 8 in the PILs model for the bridge year and test year, and update the PILs model accordingly by using the capital addition amounts provided in PP&E continuity schedule for the bridge year and test year.

Issue 5.2
Is the proposed long term debt rate appropriate?

51. Ref: Exh E1-1-1 and Exh A3-1-1, Attachment I
Hydro Ottawa states that it receives its financing through the Holding Company. At p2 of Exh E1-1-1, it states:

> All external debt is managed by the Holding Company on behalf of its affiliates to achieve favourable market rates and to maintain a strong credit rating at the parent company level. Hydro Ottawa states that it benefits from this financing arrangement with competitive pricing as it could not place external long term debt in the smaller incremental tranches that it normally receives from the Holding Company. The cost of debt is passed onto Hydro Ottawa on the same terms as the parent when external financing secured by the Holding Company is targeted for Hydro Ottawa, or, in the absence of external financing, the deemed rates as determined by the Board Report on CoC and IRM that are in effect at the time of the financing transaction. Consistent with current and past practice, amortized issuance costs and ten basis points for administration is included in the debt rate.

Please clarify the transaction and administration costs related to long term debt summarized in Table 1 of Exh E1-1-1.
a) For each of the debt instruments documented in Table 1 of Exh E1-1-1, please identify whether the documented cost of debt has been determined based on:

i) The terms of parent company financing plus amortized issuance costs and 10 basis points (0.1%) for administration; or
ii) The Board issued deemed debt rates.

b) The debt issued on July 1, 2005 at 5.14% is noted in the 2008 Financial Statements of Hydro Ottawa Holdings at 4.93%. Is the difference of 0.21% composed of 0.1% for administration costs and 0.11% for amortized issuance costs? Please provide a detailed derivation of the costs.
c) Please provide the same analysis requested in b) for the other promissory note issued on July 1, 2005, and the notes issued on December 20, 2006, December 21, 2009, April 1, 2010 and June 1, 2010.
d) Please explain any differences in the levels of transaction costs and administration costs for long term debt prior to and including June 1, 2010.

52. Ref: Exh E1-1-1, p2-3
Ref: Report of the Board on the Cost of Capital, EB-2009-0084
Promissory Notes issued on December 21, 2009 and later have all been executed subsequent to the *Report of the Board on the Cost of Capital for Ontario's Regulated Utilities* (the "Cost of Capital Report"), issued December 11, 2009. These promissory notes are affiliated debt.

a) For each note issued on or after December 11, 2009, please indicate Hydro Ottawa's views of its treatment of affiliated debt in accordance with section 4.4.1 of the Cost of Capital Report.
b) In section 4.4.1 of the Cost of Capital Report, it states that: "For affiliate debt (i.e., debt held by an affiliated party as defined by the Ontario *Business Corporations Act*, 1990) with a fixed rate, the deemed long-term debt rate at the time of issuance will be used as a ceiling on the rate allowed for that debt." For the note issued June 1, 2011 and forecasted notes for 2011 and 2012, Hydro Ottawa has assumed a debt rate of 5.75%, which is above the current deemed debt rate of 5.32% documented in the Board's letter of March 3, 2011 for May 1, 2011 effective rates.
i) Please provide Hydro Ottawa's rationale for proposing a rate for the affiliated debt that is above the current deemed debt rate.
ii) The methodology for the deemed long term debt rate includes 50 basis points for flotation and transaction costs. If Hydro Ottawa is including an adjustment for issuance and administration costs, please provide Hydro Ottawa's views as to how its adjustments do not duplicate the 50 basis point allowance factored into the deemed debt rate.

Issue 6.1
Is the proposed elimination of the smart meter rate adder and the inclusion of the smart meter costs in the 2012 revenue requirement appropriate?

53. Ref: Exh I2-1-1, p1-2 and p10
At the end of 2010, 99.3% of smart meters had been deployed. Ongoing expenditures for 2012 metering will be treated as part of normal business. Hydro

Ottawa has applied to include all of its smart meter capital additions form 2006 to 2010 in its 2012 rate base. The capital additions from 2006 to April 30, 2007 were included in the 2008 rate base, as approved in the Smart Meter Proceeding (EB-2007-0063) on August 8, 2007 and amended on September 21, 2007.

a) Table 5 summarizes the calculation of revenue requirement related to smart meter costs. Staff is unable to confirm several of the entries in the table. Please file an excel version of the table, preferably using the most recent version of the Smart Meter Rate Calculation Model at http://www.ontarioenergyboard.ca/OEB/_Documents/2011EDR/Smart%20Meter%20Rate%20Calculation%20Model%20Instructions.zip or a version that supersedes this version.
b) Please confirm that the data related to smart meter capital is consistent with the data in the Fixed Asset Continuity Schedules.

Issue 6.2
Is the proposal not to dispose of the balances in variance accounts 1555 and 1556 appropriate?

54. Ref: Exh I1-1-2, p3
Hydro Ottawa has not applied to dispose, or partially dispose of the balances in accounts 1555 and 1556. Hydro Ottawa notes that as part of its 2011 proceeding, a smart meter rate adder of $1.42 was approved until April 30, 2012.

While Hydro Ottawa is not seeking to clear account balances, it is seeking a determination that the spending underpinning the balances is prudent.

The total balance in accounts 1555 and 1556 at December 31, 2010, excluding stranded meters, is a credit of $1,099,974. Please provide an estimate of what the Smart Meter Disposition Rider per class would be if all capital and operating costs to December 31, 2010 are approved for disposition and recovery as part of this application.

55. Ref: Exh I2-1-1 Table 7
Table 7 provides a summary of smart meter activity. Please provide forecast data for 2011. Hydro Ottawa may use the format of Table 7 or Appendix 2-Q of the Chapter 2 Filing Requirements issued on June 22, 2011.

a) Please provide an actual/forecast of balances in accounts 1555 and 1556 to the end of 2011.
b) Please provide an estimate of what the Smart Meter Disposition Rider per class would be if the forecast of all capital and operating costs to December 31, 2011 is approved for disposition and recovery.

Issue 6.3
Is the proposal related to stranded meters appropriate?

56. Ref: Exh I2-1-1, p10-11
As part of Hydro Ottawa's last cost of service application, the Board approved the amortization of stranded meters over a six year period. As part of the current application, Hydro Ottawa proposes to amortize the remaining balance over the period ending December 31, 2013.

Please complete Table 6 at Exh I2-1-1 – Stranded Meters, with data for 2011 on an actual/forecast basis.

Issue 7.1
Is Hydro Ottawa's cost allocation appropriate?

57. Ref: Exh G1-1-1, Attachment AI
Hydro Ottawa has filed the 2012 cost allocation information filing.

a) A hard copy was filed as Attachment AI. Please re-file sheet "E4 TB Allocation Details" in landscape format so that all the data can be viewed.
b) An electronic version of Attachment AI was filed in RESS, however, the model does not function. Please re-file a working version.

58. Ref: Exh G1-1-1. Attachment AI
Ref: Board Report – Review of Cost Allocation Policy EB-2010-0219
In the Board Report "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011" at p26, it states:

> The Board is of the view that default weighting factors should be utilized only in exceptional circumstances. ……
>
> Default values and the basis on which they were derived will be included in the documentation; however, any distributor that proposes to use those default values will be required to demonstrate that they are appropriate given their specific circumstances.

The Board Report states at p. iv (Executive Summary):

> … the Board expects that, in most cases, a distributor that is required to file its application before the issuance of the revised CA Model will be able to comply with the policy by applying it to the current CA Model. If necessary, a distributor in this situation may update its cost of service application with the revised CA Model once it becomes available.

a) Please confirm that Hydro Ottawa has used the default values for the weighting factors for Services and Billing.

b) Is it Hydro Ottawa's position that the default values are appropriate for its circumstances, as described at p26, or does it intend to update its cost allocation model, as described at p. iv?

59. Ref: Exh G1-1-1, Attachment AJ and Exh J3-1-4
Hydro Ottawa is proposing revenue to cost ratio increases for the sentinel light class from 34% 45% in the test year and to be within the Board's target range for this class in 2014. The total bill impact of this change in the test year will be an increase of more than 12%. Hydro Ottawa has not proposed any mitigation. Please explain why mitigation was not proposed.

RATE DESIGN

Issue 8.1
Are the fixed to variable splits for each class appropriate?

60. Ref: Exh G1-1-1, p7, Attachment AI
The evidence on p7 summarizes the lower and upper bound for monthly service charges. Please explain why the upper bound is not consistent with the data provided on Sheet O2 of the cost allocation information filing for "Customer Unit Cost per month – Minimum System with PLCC Adjustment.

Issue 8.2
Are the proposed retail transmission service rates appropriate?

61. Ref: Exh H2-1-1
In its Revised Guideline G-2008-0001 issued on June 22, 2011, the Board has described the evidence required for RTSRs, which includes completion of a model that was issued on July 7, 2011. Please complete and file the model.

Issue 8.4
Are the proposed loss factors appropriate?

62. Ref: Exh A1-2-1 p3 and Exh H4-1-1 p3
In the first reference, Hydro Ottawa states that it is requesting Board approval for loss factors based on a five year average. In the second reference, it states that Hydro Ottawa is proposing the use of the three year average. Please clarify.

63. Ref: Exh H4-2-1, Attachment AN
The evidence states that dry-core type transformers have a much higher loss rating than oil filled transformers. Are there any initiatives to replace the dry-core transformers?

Standby Rates
64. Ref: Exh H1-2-1
Ref: Board Report – Review of Cost Allocation Policy EB-2010-0219

Hydro Ottawa has requested that the proposed standby rates be approved as final. In the Board Report "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011" at p15, it states:

> The Board agrees with the prevailing view of the stakeholders that resolution of the load displacement generation issues requires additional research and consultation.
>
> The Board therefore does not consider it appropriate to develop a cost allocation methodology for load displacement generation at this time. However, the Board believes that these issues warrant attention in the short term, and will to that end initiate a separate consultation in the near future.
>
> In the meantime, the current interim standby rates will remain in place. The Board … [will] entertain applications by distributors to have those rates made final as part of their next cost of service application.

a) In light of the Board's stated intention to conduct additional research and consultation, please confirm that Hydro Ottawa is requesting that its proposed Standby Rates be approved as final in 2012, notwithstanding the pending consultation.
b) If the response to a) is affirmative, please provide the rationale for such approval of the rate to be charged to Hydro Ottawa's customers.
c) Please clarify whether the proposed final rate is intended to be applied to the customers for standby service during the period prior to 2012, and if not, what is Hydro Ottawa's request regarding final rates over that period.

microFIT Charge

65. Ref: Exh H5-1-1, Table 5
Ref: Board Report – Review of Cost Allocation Policy EB-2010-0219
In the Board Report "Review of Electricity Distribution Cost Allocation Policy", March 31, 2011" at p7-8, it states:

> … microFIT administrative costs will continue to be based on the nine cost elements identified in the EB-2009-0326 Decision and Order and supported by most stakeholders, but will now be refined to also include the interest and net income expenses related to General Plant assigned to Meters as suggested by VECC.

Please update Table 1 to include the allocation of interest and net income.

DEFERRAL AND VARIANCE ACCOUNTS

Issue 9.1
Are the account balances, cost allocation methodology and disposition period appropriate?

66. Ref: Exh I1-1-1, Attachment AQ
Hydro Ottawa has filed the deferral and variance account continuity schedule based on the 2010 version of the Excel spreadsheet at Attachment AQ. However, a working Excel version was not filed. Please file a working Excel file based on the version issued by the Board on July 29, 2011, and a hard copy which will supercede Attachment AQ.

67. Ref: Exh I1-1-1, p1
Hydro Ottawa received approval for disposition of certain deferral and variance account balances (accumulated to October 31, 2007) in its 2008 cost of service application (EB-2007-0713). In the 2008 proceeding (EB-2007-0713), the Board accepted the settlement agreement with respect to deferral and variance accounts. In section 4.1 (c) on p17 of the settlement agreement, the parties agreed to the following:

> If any adjustments were required as part of Hydro Ottawa's year-end audit in 2007 or as a result of subsequent decisions of the Board, these adjustments would be recorded in the variance and deferral accounts for the appropriate month. Accumulated amounts in these accounts, including any adjustments, would be part of the next application to clear these accounts.

a) Please provide a list of adjustments required as part of Hydro Ottawa's year-end audit in 2007 or as a result of subsequent decisions of the Board, the month that the adjustments were recorded, the amounts of the adjustments, the reasons for the adjustments and any reference to Board Decisions, if applicable.
b) Has Hydro Ottawa recorded any other adjustments in 2007, 2008, 2009 and 2010 in these DVAs other than the ones listed above? If yes, please provide a list of adjustments, the month that the adjustments were recorded, the amounts of the adjustments, the reasons for the adjustments and the supporting documentations.

Account 1521 – Sub-Account Special Purpose Charge

68. Ref: Exh I1-1-1, Attachment AQ and Exh I1-1-2, p3
In a Board letter issued April 23, 2010 regarding variance account 1521 and related to accounts 4324 and 5681 re: "Special Purpose Charge" Assessment , it states that "the Board expects that requests for disposition of the balances in "Sub-account 2010 SPC Variance" and "Sub-account 2010 SPC Assessment Carrying Charges" will be addressed as part of the proceedings to set rates for the 2012 rate

year, except in cases where this approach would result in non-compliance with the timeline set out in section 8 of the SPC Regulation."

As noted in the continuity schedule at Attachment AQ, account 1521 has a balance of $1M as of December 31, 2010. The applicant has not proposed clearance of account 1521 and has not included account 1521 in Table 2 of Exh I1-1-2, "Accounts Not Proposed for Clearance" or provided any other explanation. The 2010 Hydro Ottawa Holding Annual Report states at p37 that the applicant will apply to clear the residual balance in the account after the one year period.

a) Please explain why the applicant has not requested disposition of account 1521 in this rate application.
b) What is the most recent balance in account 1521?
c) What are the forecast carrying charges as of December 31, 2011?
d) Please explain the utility's plan for the disposition of account 1521.

Accounts 1518 and 1548 Retail Service Charges

69. Ref: Exh I1-1-2, p2

The difference between revenue collected from retailers for retail settlement activities and the costs incurred to provide the services is recorded in the retail cost variance accounts 1518 and 1548.

a) Please identify the drivers for the balances in account 1518 and account 1548.
b) Staff notes that the balance at December 31, 2010 in account 1518 is $(794,111) and in account 1548 is $1,331,985. Please explain whether or not Hydro Ottawa has considered a change to the retail service charges.
c) Please provide a schedule identifying all revenues and expenses, listed by Uniform System of Account (USoA) number, that are incorporated into the variances recorded in account 1518 and account 1548 for 2010, the actual/forecast for 2011 and a forecast for 2012.
d) Please confirm whether or not the Hydro Ottawa has followed Article 490, Retail Services and Settlement Variances of the Accounting Procedures Handbook for account 1518 and account 1548. In other words, please confirm that the higher of, the relevant revenues (i.e. account 4082, Retail Services Revenue and/or account 4084, STR Revenue) and the incremental expenses in the associated expense accounts (i.e. account 5315, Customer Billing, and possibly 5305, Supervision and 5340, Miscellaneous Customer Accounts Expenses) is reduced (i.e. revenues debited or expenses credited) at the end of each period, with an offsetting entry to the variance account. Please explain if Hydro Ottawa has not followed Article 490.
e) Please confirm that all costs incorporated into the variances reported in account 1518 and account 1548 are incremental costs of providing retail services.

Account 1588 - RSVA Power Sub-Account Global Adjustment

70. Ref: Exh I1-1-1, Attachment AQ

In Hydro Ottawa's 2008 cost of service rate application, only the commodity portion of Account 1588 (RSVA Power) was cleared. In the current application, Hydro Ottawa is requesting the clearance of $11.2 million in Account 1588 sub-account Global Adjustment (including $10.6 million principal as of December 31, 2010 and $0.6 million carrying charges up to December 31, 2011).

a) Please confirm that the balance in the account reflects the period 2005 to 2010.
b) Please confirm that Hydro Ottawa pro-rates IESO Charge Type 146 Global Adjustment into the RPP portion and non-RPP portion. Does Hydro Ottawa record the RPP portion of global adjustment in the USoA 4705 control account and then incorporate it into 1588 RSVA Power? Does Hydro Ottawa record the non-RPP portion of global adjustment in Account 4705 sub-account Global Adjustment and then incorporate it into 1588 sub-account Global Adjustment? If not, please update the account balances for 1588 RSVA and 1588 sub-account Global adjustment using this accounting treatment.
c) The following table summarizes transactions in account 1588 sub-account global adjustment. The source of the data is Attachment AQ. Please explain the trends.

Transactions (additions), excluding interest and adjustments					
2005	2006	2007	2008	2009	2010
(4,838,912)	9,185,051	1,425,437	2,564,808	8,318,310	(6,031,437)

Account 1588 RSVA – Power

71. Ref: Exh I1-1-1 and Attachment AR
As per sheet 1 in attachment AR, the principal addition for the two month period from November 1, 2007 to December 31, 2007 for 1588 RSVA Power (commodity only) is an amount of $4,495,200. The total approved amount as per Hydro Ottawa's 2008 EDR Decision as of October 31, 2007 is $4,382,126.

a) Please explain why the principal addition to RSVA Power 1588 for two months in 2007 was over $4 million.
b) Please confirm if there were any adjustments recorded in 2007 year end related to 1588 RSVA Power. If so, please provide the list of the adjustments, journal entries and supporting documents.

Account 1508 - IFRS Transition Costs Deferral Account

72. Ref: Exh I1-1-2, p2
Hydro Ottawa requests disposition of $1,056,833 for incremental IFRS transition costs (including $1,035,333 principal balance as of December 31, 2010 and $21,500 carrying charges up to December 31, 2011) recorded in Account 1508 other regulatory assets.

a) Please provide a breakdown of the cost categories and explanations for each cost recorded in the IFRS deferral account.

b) Please confirm if the costs recorded are incremental one-time IFRS administrative costs.

Account 1562 – Deferred PILs

73. Ref: Exh I1-1-1, p4
The evidence states that, "Hydro Ottawa cleared Account 1562 as part of its 2008 EDR." In the 2008 proceeding (EB-2007-0713), the Board accepted the settlement agreement with respect to deferral and variance accounts. In section 4.1 (c) on p17 of the settlement agreement, the parties agreed to the following:

> If any adjustments were required as part of Hydro Ottawa's year-end audit in 2007 or as a result of subsequent decisions of the Board, these adjustments would be recorded in the variance and deferral accounts for the appropriate month. Accumulated amounts in these accounts, including any adjustments, would be part of the next application to clear these accounts.

Please provide the PILs 1562 account continuity schedule that supports the dollar amount settled in Hydro Ottawa's proceeding EB-2007-0713.

74. Ref: Exh I1-1-1, p4
In the years from 2001 to 2005 when Hydro Ottawa generated or utilized tax losses, and had no taxable income:

a) How did Hydro Ottawa choose the income tax rates used in calculating the tax impact and the gross-up amounts in the SIMPIL reconciliations?
b) Did Hydro Ottawa account for the declining income tax rates and other changes in tax rules and legislation during the period 2001-2005 in its SIMPIL model reconciliations? Specifically, there were errors in the 2001 and 2003 SIMPIL models that were released for reporting to the Board. How did Hydro Ottawa overcome the errors that would have arisen from following the formula logic in the models?
c) Did Hydro Ottawa use its final tax returns, and any tax adjustments that appeared in notices of reassessment and statements of adjustments rendered by the Ontario Ministry of Revenue, for the tax years 2001 through 2005 in calculating the final balance in PILs account 1562?
d) Did Hydro Ottawa exclude regulatory assets and liabilities when created or collected in the calculation of the final balance in its PILs account 1562 regardless of the actual tax treatment accorded those amounts? This includes accounting adjustments, provisions for impairment, changes in the impairment reserve, and any other transactions related to regulatory assets and liabilities.
e) Did Hydro Ottawa treat the amortization of fees and charges related to borrowing debt as interest expense when it calculated the true-up variances charged to ratepayers? Under the PILs and SIMPIL methodology, interest expense does not true up except for excess interest above the maximum deemed interest approved by the Board in each application.

f) Did Hydro Ottawa exclude variances associated with Ontario Capital Tax (OCT) in the income tax true-up reconciliation? Under the SIMPIL methodology, OCT does not true up for income tax purposes; only for OCT purposes in the appropriate section of SIMPIL sheet TAXCALC.
g) Are all tax years form 2001 through 2005 statute-barred (i.e. no longer open for audit)? If any year remains open for audit by the Ministry of Finance, please identify the year and explain the reasons why the tax year is not statute-barred.

75. Ref: Exh I1-1-1, p4
Can Hydro Ottawa confirm that in calculating the final balance in account 1562 in its 2008 EDR application, Hydro Ottawa correctly applied all of the concepts identified in the Board findings and in the settled issues in the combined proceeding EB-2008-0381? If not, does Hydro Ottawa plan to file SIMPIL models and associated tax evidence related to PILs account 1562 that is consistent with the level of detail found in the combined proceeding EB-2008-0381?

Account 1592 – PILs and Tax Variances

76. Ref: Exh I1-1-1, p4
The Board expects distributors to file for disposition of account 1592 in their cost of service applications. Please complete and file Appendix 2-T from Chapter 2 of the Filing Requirements issued on June 22, 2011 to support the disposition.

77. Ref: Exh I1-1-1, p4
During the 2010 IRM application process, the Board directed electricity distributors to record in deferral account 1592 (PILs and Tax Variances, Sub-account HST/OVAT Input Tax Credits ("ITCs")), beginning July 1, 2010, the incremental ITCs received on distribution revenue requirement items that were previously subject to PST and became subject to HST.

a) Please confirm that Hydro Ottawa has followed the December 2010 FAQs accounting guidance regarding Account 1592 sub-account HST/OVAT ITCs. If this is not the case, please explain.
b) Please confirm that entries have been made to record variances in the sub-account of Account 1592 to cover the period from July 1, 2010 to December 31, 2011 since the Test Year, which starts January 1, 2012 would include the HST impacts in rates going forward. If this is not the case, please explain.

Allocation and Disposition

78. Ref: Exh I1-1-2, Attachment AR
Hydro Ottawa has provided a table in the attachment which summarizes the determination of proposed rate riders. The upper table on p3 lists 2012 forecast kWh non RPP for streetlighting, however allocator percentages in the lower table are zero. The reverse is true for sentinel lighting. Please clarify.

MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Issue 11.1
Is the proposed revenue requirement determined using modified IFRS appropriate?

Depreciation

79. Ref: Exh J-1-1, p7-8
    a) Please provide the distributor's depreciation/amortization policy or a written description of the depreciation practices followed and used in preparation for the current rate application.
    b) Please provide a list of all exceptions from the TUL in the Kinectrics Report and provide detailed justification for using service lives that are different from the TULs in the Kinectrics Report.

Capitalization

80. Ref: Exh J-1-1, p9
    Please provide the following information in detail for overhead costs on self-constructed assets for the bridge and test years:

Nature of the overhead costs	Dollar Impact Bridge Year	Dollar Impact Test Year	Directly attributable? (Y/N)	Reasons why the costs are allowed to be capitalized under MIFRS given the more stringent limitations on capitalized overhead

81. Ref: Exh J-1-1, p9
    Has the applicant consulted with its external auditors or professional advisors regarding the change in capitalization of overhead within IFRS requirements? If yes, please provide supporting documentation. If not, please identify if there is any plan in the near future for such a consultation.

82. Ref: Exh J-1-1, p9
    Please identify all overhead related items (e.g. indirect costs, corporate centre costs) and identify the items that are ineligible and how much overhead in total has been removed from capitalization for ineligible costs.

83. Ref: Exh J-1-1, p9
    Please identify the burden rates related to the capitalization of costs of self-constructed assets:

a) Prior to transition (from the last rebasing application to January 1, 2011), and
b) After transition (on or after January 1, 2011).

84. Ref: Exh J-1-1, p9
Please identify the overall level of increase in OM&A expense in the test year in relation to a decrease in capitalized overhead. Please provide a variance analysis for this increase in OM&A expense for the test year in respect to each of the bridge year and historical years.

85. Ref: Report of the Board, Transition to IFRS, EB-2008-0408
P5 of the Board Report issued July 28, 2009, states:

> The Board will require utilities to adhere to IFRS capitalization accounting requirements for rate making and regulatory reporting purposes after the date of adoption of IFRS.

IAS 16 Property, Plant and Equipment states that the cost of PP&E comprises any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Please confirm that costs capitalized in the current application are directly attributable to bringing assets to the location and condition necessary for it to be capable of operating in the manner intended by management. If not, please explain.

Asset Disposals

86. Ref: Exh J1-1-1, p12
Ref: Report of the Board, Transition to IFRS, EB-2008-0408
P19 of the Board Report states:

> Where a utility for financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the utility shall reclassify such gains and losses as depreciation expense and disclose the amount separately. Where a utility for financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate filings for review by the Board.

Hydro Ottawa states that it does not have sufficient historical data for reliable trend analysis on which to base a forecast of the amount of gains or losses expected as a result of derecognizing pooled assets. Hydro Ottawa further states that gains on pooled assets can arise where proceeds of sales are received and losses on pooled assets are largely resulted from early asset disposals due to unforeseen/unplanned events. As a result, no estimates have been included in the rate application for gains or losses from disposals of pooled assets.

a) Please explain how Hydro Ottawa defines the pooled assets.
b) When does Hydro Ottawa anticipate that it will have sufficient historical data related to gains or losses from disposals of pooled assets?

Borrowing costs

87. Ref: Exh J1-1-1, p13
IAS 23 states that directly attributable borrowing costs are capitalized upon qualifying assets only. The standard also indicates that a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Hydro Ottawa states that it has determined that any asset that takes greater than six months to complete is a qualifying asset under IFRS after reviewing historical data on project durations and benchmarks against other utilities. Please provide the analysis from the review of historical data on project durations and benchmarking.

88. Ref: Exh J1-1-1, p13-14
Ref: Report of the Board, Transition to IFRS, EB-2008-0408
P40 of the Board Report states:

> The Board will continue to publish interest rates for CWIP as it does now. Where incurred debt is acquired on an arms length basis, the actual borrowing cost should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm's length basis, the actual borrowing cost may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, the distributor should use the Board's published rates.

Hydro Ottawa states that it has utilized Hydro Ottawa Holding Inc's forecast weighted average cost of borrowing for the purposes of determining the interest rate per IAS 23. The weighted average rate forecast for 2012 test year is 5.1%.

a) Please provide the calculation of 5.1% weighted average rate forecast for 2012 by providing the amounts of the debts and the associated interest rates.
b) Please compare the weighted average rate forecasted of 5.1% to the most recent Board prescribed interest rates on CWIP and demonstrate how it is consistent with the Board's guidance.

Capital Contributions

89. Ref: Exh J1-1-1, p14
Ref: Report of the Board, Transition to IFRS, EB-2008-0408
P40 of the Board Report states:

> For regulatory reporting and rate making purposes, customer contributions will be treated as deferred revenue to be included as an offset to rate base and amortized to income over the life of the facilities to which they relate. Distributors should confirm in the introduction to their first rates application after the IFRS transition that the amortization period is being adjusted on an ongoing basis.

Please confirm whether Hydro Ottawa has adjusted the amortization period of customer contribution on an ongoing basis. If not, please make the adjustment and provide any updated numbers for this rate application.

90. Ref: Exh J1-1-1, p14
Hydro Ottawa states that, "The amount of capital contributions under IFRS has decreased because of lower overhead amounts being capitalized." The capital contribution in 2012 test year is reduced by $2 million.

a) Please confirm whether the capital contributions referred to are the customer contributions received for the specific capital programs/assets. If not, please explain how Hydro Ottawa defines the capital contribution.
b) Please describe the process for accounting for the customer contributions received.
c) Please explain how the change of overhead capitalization impacts the amount of capital contribution.
d) Please provide a list of capital contribution for 2012 test year and the related capital assets.
e) Please provide the breakdown of $2 million reduction by the capital assets.

Pensions

91. Ref: Exh A3-1-1, Attachment K and Exh J1-1-1, p15
As per Hydro Ottawa's 2010 Audited Financial Statements at Note 11 Employee Future Benefits, an updated actuarial valuation was performed as at January 1, 2011. As a result, there were $2,814,000 unamortized losses, as of December 31, 2010. The unamortized losses were related to employee future benefits other than pension from Hydro Ottawa's defined benefit plans.

Hydro Ottawa further states in Exh J-1-1 that Hydro Ottawa elected to apply the IFRS 1 exemption to recognize all cumulative actuarial losses in retained earnings at the date of the transition. The impact to the balance sheet is an increase in the liability and a decrease in retained earnings of $2.7 M as of January 1, 2011. Under CGAAP, this amount would have been included in OM&A over time. As a result, pension expense in OM&A for the 2012 test year will be lower under IFRS than CGAAP by approximately $152k.

a) Please confirm that the actuarial loss of $2.7 million is related to employee benefits. If it is related to employee benefits, please provide the account to be used to record the expense in OM&A.
b) Please confirm if the decrease in retained earning of $2.7 M noted in Exhibit J corresponds to $2,814,000 unamortized losses presented in 2010 AFSs. If so, please explain the difference between these two numbers.
c) Please provide the detailed calculation of how Hydro Ottawa arrived at the $152k lower pension expense under IFRS than CGAAP (please include the calculation of the amortization of the unamortized losses under CGAAP and under IFRS).
d) Please confirm if Hydro Ottawa's external auditor has reviewed the actuarial valuation report and validated the underlying assumptions regarding the valuation performed on January 1, 2011. If not, please identify if there is any plan in the near future for such a review.

92. Ref: Exh J1-1-1
IASB has recently amended IAS 19 Employee Benefits with the requirement for adoption on January 1, 2013. Early adoption is permitted. The revision includes the elimination of the option to defer the recognition of gains and losses, known as the "corridor method".

Please confirm if Hydro Ottawa is an early adopter of the amended IAS 19. If so, please indicate where the impacts of this early adoption are incorporated in the rate application.

Asset Retirement Obligations

93. Ref: Exh D5-1-1, p4 and Exh J1-1-1
Ref: Report of the Board, Transition to IFRS, EB-2008-0408
Hydro Ottawa has asset retirement obligations related to station equipment and line transformers. The 2010 net book value of the asset retirement obligations is $704,757.

IFRS requires that asset retirement obligations include estimates of the cost of constructive obligations, which was not required under CGAAP, and revaluation of those obligations during the life of the assets. P40 of the Board Report states:

> Utilities shall identify separately in their rate applications the depreciation expense associated with amortizing asset retirement costs and the accretion expense associated with the amortization of the asset retirement obligations. The Board will assess these costs independently of other amortization costs to determine the portion, if any, of these costs that should be recovered in revenue requirement.

a) Has Hydro Ottawa identified the cost of constructive obligations for asset retirement obligations? If so, please quantify the changes due to the adoption of

IFRS for the test year and bridge year. If not, please provide the reasons for not doing so and the plan to address the matter.

b) For the AROs identified above, please provide the depreciation expenses and accretion expenses and how these expense are currently included in the rate application.

Treatment of Asset Impairment

94. Ref: Exh J1-1-1
Ref: Report of the Board, Transition to IFRS, EB-2008-0408
P41 of the Board Report states:

> Where for financial reporting purposes under IFRS a utility has recorded an asset impairment loss, for rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates.

Please disclose any asset impairment loss recorded under IFRS which should be reclassified to PP&E. Please describe:

a) The nature of the losses;
b) The amounts of the losses; and
c) Whether and how such amounts are to be reflected in rates.

Issue 11.2
Are the proposed new MIFRS deferral and variance accounts appropriate?

Proposed New MIFRS Deferral and Variance Accounts – PP&E Deferral Account

95. Ref: Exh J4-1-1, Attachment AZ and Staff Discussion Paper – Transition to IFRS – Implementation in an IRM Environment (March 2011)
The staff discussion paper states:

> The proposed PP&E deferral account is to cover differences arising only as a result of the accounting policy changes caused by the transition from CGAAP to MIFRS. …While the differences are recorded annually, the rate base is adjusted to MIFRS only at the next rebasing. The rate base then being adjusted is the opening rate base in the year of rebasing.

Hydro Ottawa is requesting a PP&E deferral account to capture the difference in the closing Net Book Value ("NBV") of PP&E between CGAAP and MIFRS as at December 31, 2011. In Attachment AZ, Hydro Ottawa presented the calculation of the difference of $427k in the PP&E deferral account.

Please confirm if Hydro Ottawa has included the $427k adjustment into its rate base. If so, please provide the reference as to where this amount is included. If not, please provide an updated rate base calculation with the adjustment included.

Proposed New MIFRS Deferral and Variance Accounts – Deferral Account Related to Pensions

96. Ref: Exh J4-1-1, Attachment AZ and Staff Discussion Paper – Transition to IFRS – Implementation in an IRM Environment (March 2011)
As per the staff discussion paper:

> Utilities who expect to experience a large cost impact upon transition to IFRS for non-PP&E related items may apply to the Board on an individual basis for appropriate relief.

Hydro Ottawa states that as a result of $2.7 million actuarial losses from the actuarial valuation conducted on January 1, 2011, a deferral account to capture the opening balance adjustment is required for pensions.

a) What account number does Hydro Ottawa propose to use in the USoA?
b) What are the proposed journal entries to be recorded in this account?
c) When does Hydro Ottawa plan to ask for its disposition?
d) How does Hydro Ottawa plan to allocate this amount by rate class?
e) What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs or fees in a deferral account?

Proposed New MIFRS Deferral and Variance Accounts – Deferral Account Related to Asset Disposals

97. Ref: Exh J4-1-1, Attachment AZ and Staff Discussion Paper – Transition to IFRS – Implementation in an IRM Environment (March 2011)
As per staff discussion paper:

> Utilities who expect to experience a large cost impact upon transition to IFRS for non-PP&E related items may apply to the Board on an individual basis for appropriate relief.

Hydro Ottawa states that it has difficulties in forecasting the gains and losses on disposal of pooled assets and therefore is seeking an individual deferral account to capture the amounts.

a) What account number does Hydro Ottawa propose to use in the USoA?
b) What are the proposed journal entries to be recorded in this account?
c) When does Hydro Ottawa plan to ask for its disposition?
d) How does Hydro Ottawa plan to allocate this amount by rate class?
e) What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs or fees in a deferral account?