

**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



**BY E-MAIL**

August 26, 2011

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Guelph Hydro Electric Systems Inc.  
2012 Electricity Distribution Cost of Service Rates  
Board Staff Interrogatories  
Board File No. EB-2011-0123**

In accordance with the Procedural Order No. 1, please find attached Board Staff Interrogatories in the above proceeding. Please forward the following to Guelph Hydro Electric System Inc. and to all other registered parties to this proceeding.

In addition please advise Guelph Hydro Electric System Inc. that responses to interrogatories are due by September 16, 2011.

Yours truly,

*Original Signed By*

Birgit Armstrong  
Advisor – Applications & Regulatory Audit

Encl.

**BOARD STAFF INTERROGATORIES**  
**GUELPH HYDRO ELECTRIC SYSTEMS INC. ("Guelph Hydro")**  
**2012 ELECTRICITY DISTRIBUTION COST OF SERVICE RATES**  
*August 26, 2011*

**General**

**1. Responses to Letters of Comment**

Following publication of the Notice of Application, did the applicant 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.

**2. Condition of Service**

- a) Please identify any rates and charges that are included in the applicant'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 or charges are identified in part a), please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.
- c) If any rates or charges are identified in part a), please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.

**Issue 1.1**

**Are Guelph Hydro's economic and business planning assumptions for 2012 appropriate?**

**3. Ref: E1/T3/S1 Appendix E**

In light of the fact that Guelph Hydro adopted MIFRS on January 1, 2011, making 2010 the pivot year, please provide a 2010 Pro Forma Financial Statement under Modified International Financial Reporting Standards ("MIFRS").

**4. E2/T1/S1 p. 8 – Harmonized Sales Tax ("HST")**

Guelph Hydro states that its budgeting process for capital and OM&A did not take into consideration the impact arising from the implementation of the HST.

Please confirm whether or not PST is included in the test year OM&A and capital expenditure.

## **Rate Base**

### **Issue 2.1**

**Is the proposed rate base for the test year appropriate?**

#### **5. Ref: E2/T1/S1 – Summary of Rate Base**

Given that Guelph Hydro has already adopted MIFRS, please provide an update to all relevant tables to include a column showing the 2010 pivot year in MIFRS.

#### **6. Ref: E2/T1/S2, Table 1 and 3 and E4/T2/S10 p.1 – Summary of Rate Base**

In table 1 Guelph Hydro provided a summary of rate base and in table 3 a variance analysis of rate base. Rate base provided for the years 2009 actual, 2010 actual, 2011 and 2012 differs between the two tables. Please reconcile table 1 and 3 and update the record accordingly.

#### **7. Ref: E2/T1/S3 – Continuity Statements**

In pages 1-7 Guelph Hydro provided Fixed Asset Continuity Schedules for the 2008, 2009 and 2010 historic, the 2011 bridge and the 2012 test years.

- a. Please include the total amounts after 'Work in Progress' in all schedules.
- b. In E4/T2/S10 Guelph Hydro stated that Guelph Hydro's historical depreciation practice was a full year depreciation calculation, but that for the purpose of rate setting for the 2012 rate year Guelph Hydro used the ½ year rule. Please confirm whether the continuity schedules represent full year depreciation for the historic 2008, 2009 and 2010 years but show depreciation applying the ½ year rule for the 2011 bridge year and the 2012 test year.
- c. Please provide further details on the line item "Re-allocation of amortization".
- d. Please explain the treatment of work in progress in the 2012 test year.
- e. Please provide a continuity schedule for the 2010 pivot year showing fixed assets and accumulated depreciation in both CGAAP and IFRS.

### **Issue 2.3**

**Is the capital expenditure forecast for the test year appropriate?**

#### **8. Ref: E2/T4/S2 – Capital Expenditure Summary**

Please provide an overall summary of capital expenditures over the past three historical years, the bridge year and the test year, showing capital expenditures, treatment of contributed capital and additions and deductions from Construction Work in Progress ("CWIP") as per *Chapter 2 of the Filing Requirements for Transmission and Distribution Applications*, issued June 22, 2011. Please provide the 2010 pivot year in both CGAAP and MIFRS.

**9. Ref: E1/T4/S3 Appendix A and Appendix B – Total Feeder – General**

On page 2 of Appendix A Guelph Hydro shows 2011 Distribution Capital Projects and page 2 of Appendix B shows the 2012 capital expenditures for the General Feeder category. Board staff noted an increase of 88% or \$1.12M in 2011 over 2010 actual and 86% or \$1.2M over the 2010 actual in 2012.

- a. Please state if these expenditures are related to growth in Guelph Hydro's service area.
- b. Please confirm that these expenditures are not related to the proposed Renewable Generation projects outlined in Guelph Hydro's Green Energy Act Plan
- c. If confirmed, please provide a detailed explanation as well as a business case for each of these capital investments.
- d. If a portion of these investments are due to Green Energy Act plan related expansion, please provide a breakdown of the expenditures for feeder expansion that is related to customer and demand growth and connection of renewable generation or other. Please provide further information supporting these expenditures.

**10. Ref: E2/T4/S3 Appendix A – Total Feeder – Line Modifications for New Projects**

On page 2 Guelph Hydro shows a total expenditure of \$2.4M in the 2011 bridge year. This represents an increase of 152% or \$690,365 over the 2010 actual. However, Board staff noted a sharp decrease in 2010 actual over the past two historic years. Please explain the uneven capital investment in this particular category over the historic period and provide further information supporting these expenditures.

**11. Ref: E1/T4/S3 Appendix A and Appendix B – Total Rehabilitation – Replacement**

On pages 2 of both Appendix A and B Guelph Hydro shows an increase in capital expenditures for total rehabilitation – replacement of 139% or \$1.3M in the 2011 bridge year and 165% or \$1.5M in the 2012 test year over 2010 actual. Please provide further explanation as well as a business case for these expenditures.

**12.Ref: E1/T4/S3 Appendix A and Appendix B – Total Rehabilitation – Faulted Circuit Indicators**

On pages 2 of both Appendix A and B Guelph Hydro shows new capital investment for faulted circuit indicators. Please provide detailed explanations on this expenditure and provide a business case if available.

**13.Ref: E2/T4/S5, p.2 – Forecast Capital Expenditure**

Guelph Hydro provided a preliminary capital expenditure budget for the years 2012 through 2015.

- a. Please confirm that none of the forecasted capital expenditures on page 2 are due to Green Energy Act plan expenditures.
- b. If a portion of these investments are due to Green Energy Act plan related expansion, please provide a breakdown of the expenditures that is related to customer and demand growth and connection of renewable generation or other. Please provide further information supporting these expenditures.

**14.Ref: E2/T4/S4 – Capital Budget Fleet**

- a. Please provide an overview of Guelph Hydro's current fleet.
- b. Please provide a summary vehicle replacement schedule for three historic years, the bridge year and the test year, including Year, Make and total costs.
- c. Please state Guelph Hydro's vehicle replacement policy.
- d. Please provide a forecast of Guelph Hydro's proposed vehicle replacement in 2013, 2014 and 2015. Please state if Guelph Hydro intends to include Electric Vehicles ("EVs") as part of its vehicle replacement strategy.

**Load Forecast and Operating Revenue**

**Issue 3.1**

**Is the load forecast methodology including weather normalization appropriate?**

**15.Ref: E3/T2/S1 and Multivariate Regression Model**

With respect to E3/T2/S1/page, Guelph Hydro states that it uses two measures of economic activity, namely, Ontario Real GDP and Ontario Manufacturing Production GDP, as well as population, as exogenous factors of growth.

- a) With respect to the sheet labeled “Statistics” of the multivariate regression model spreadsheet, the Manufacturing GDP numbers shown have a GEO (Geographic) label of Canada. Please confirm whether the Manufacturing GDP variable used is Ontario Manufacturing GDP or Canadian (National) Manufacturing GDP.
- b) Manufacturing GDP is a component of overall GDP.
  - a. Please provide any statistics available on the percentage of overall GDP represented by the manufacturing sector GDP.
  - b. Please provide further explanation as to why Guelph Hydro believes that both variables are necessary explanatory variables for Guelph Hydro’s load forecast.
  - c. Please provide a matrix showing the Pearson correlation coefficient for all exogenous variables.
  - d. Please provide further information on alternative model specifications (model form, alternative exogenous variables) attempted, and the reasons why Guelph Hydro prefers its proposed model rather than an alternative.

**16.Ref: E2/T2/S1, Table 4**

In Table 4 Guelph Hydro provided a variance analysis between actual and predicted total system purchases in GWh. For the years 1998 through 2010 these two columns are identical. Please explain and correct if necessary.

**Issue 3.3**

**Is the impact of CDM appropriately reflected in the load forecast?**

**17.Ref: E3/T2/S1 p.8 – CDM target reduction**

Guelph Hydro stated that it has adjusted its 2011 and 2012 forecast sales by 7,953,000 kWh and 15,906,000 kWh respectively.

Please provide Guelph Hydro’s up-to-date CDM savings for 2011.

**Issue 3.5**

**Is the test year forecast of other revenues appropriate?**

**18.Ref: E3/T3/S2 p. 4-6 – Miscellaneous Service Revenues**

On page 4 Guelph Hydro showed a decline in miscellaneous service revenue from non-utility operations partially due to a reduction of approximately \$50,000 from the sale of scrap metal in 2011 vs. 2010.

Please provide Guelph Hydro’s updated scrap metal sales.

**19.Ref: E3/T3/S2 p.5 – Expenses of Non-Utility Operations**

Please provide further explanation for the proposed increase of \$58,830 in miscellaneous expenses.

**20.Ref: E3/T4/S2, Appendix 2-c and E3/T3/S1, p.3 – Other Operating Revenue**

Guelph Hydro provided a summary of other distribution revenue in the amount of \$1,953,203. In the first reference Guelph Hydro shows that this amount is exclusive of investment income.

- a. Please explain why investment income should be excluded.
- b. Please confirm that the revenue offset used to calculate revenue requirement includes investment income for a total of \$2,050,989.

**Operating Costs**

**Issue 4.1**

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

**21.Ref: E4/T2/S1 Appendix 2-E and Appendix 2-F – Summary of Operating Expenses**

- a. Please provide Appendix 2-E adding a column showing 2010 actual using MIFRS. Please provide a variance analysis over 2010 actual using MIFRS only.
- b. Please identify the increases in OM&A expense for the 2012 test year, arising from other than from a decrease in capitalized overhead.
- c. Please provide Appendix 2-F adding a column showing 2010 actual MIFRS.

**22.Ref: E4/T2/S2 Appendix 2-G**

In note 2 Guelph Hydro stated that \$149,130 in operating expenses relate to information services as a result of smart meter implementation. Please provide further details on this expenditure.

**23.Ref: E4/T2/S5 p. 15 – Low-Income Energy Assistance Program - LEAP**

Guelph Hydro stated that is has included an amount of \$30,000 for LEAP Assistance in the 2012 test year.

- a. Please provide a further explanation as to how this amount was calculated.

- b. Please provide a calculation of LEAP costs to be included in 2012 OM&A expenses based on the calculation of 0.12% of the proposed revenue requirement for the 2012 test year.
- c. Please state whether or not Guelph Hydro has included an amount in its 2012 test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

**Issue 4.3**

**Is the proposed level of depreciation/amortization expense for the test year appropriate?**

**24.Ref: E4/T2/S10 Appendix 2-M, p. 1-9 – Depreciation and Amortization Expense**

On page 1 Guelph Hydro states that Guelph Hydro's depreciation practice is full year depreciation and that for 2012 electricity distribution rate setting, Guelph Hydro has used half-year depreciation calculation.

Appendix 2-M, column G in E4/T2/S10 shows the application of the half-year rule for 2008, 2009, 2010 historical, 2010 MIFRS and the 2011 bridge as well as the 2012 test year. Please confirm the above statement and provide Appendix 2-M showing the actual depreciation calculation as applied historically.

**25.Ref: E4/T2/S10 Appendix 2-M, p. 9 and E2/T1/S3 p. 5 – Depreciation and Amortization Expense**

In the first reference Guelph Hydro shows a total depreciation expense of \$5,987,346. In the second reference Guelph Hydro shows addition to accumulated depreciation in the amount of \$5,487,492. Please reconcile and explain the difference. Please update the evidence as necessary.

**Issue 4.4**

**Are the 2012 compensation costs and employee levels appropriate?**

**26.Ref: E4/T2/S7 p. 38-41**

On page 38 Guelph Hydro provided the following table:



**Number of Employees (FTEs including Part-Time):**

	Historical Year (Bridge Year - 1)	Variance	Bridge Year
Number of Employees (FTEs including Part-Time)	2010	2010 - 2011	2011
Executive	0.00	0.00	0.00
Management	31.60	6.70	38.30
Non-Union	4.00	0.00	4.00
Union	66.10	4.90	71.00
Total	101.70	11.60	113.30

Please provide the status of FTE's for the 2011 bridge year up-to-date. For any forecasted position that is still unfilled, please provide the expected date of hire.

**27.Ref: E4/T2/S6 p. 18; E4/T4/S1 p. 2 and E2/T4/S6 Appendix D – Smart Grid FTE**

On page 18 of the first reference Guelph Hydro stated that in anticipation of the GEA plan filed as part of Guelph Hydro's 2012 CoS Application, Guelph included employee costs for smart grid technicians in the 2011 and 2012 budget of the Energy Services cost centre. Any costs incurred are contingent upon approval of its GEA plan, and may be reallocated to a different future cost centre related to Smart Grid, following GEA plan approval.

- Has Guelph Hydro hired smart grid technicians to date? If not, please provide the anticipated date of hire.
- Please provide a breakdown of costs budgeted for these positions in the 2011 bridge year and the 2012 test year.
- Please state if these costs are separate and incremental to OM&A costs shown in table 2 – Project/Investment – OM&A Summary on page 6 of E2/T4/S6 Appendix D.

**28.Ref: Ontario Municipal Employees Retirement System Pension Costs**

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. Please state whether or not the applicant's proposed pension costs include this increase. If so, please provide the forecasted increase by years and the documentation to support the increases. If not, please state how the applicant proposes to deal with this increase.

**29.Ref: E4/T2/S7 Appendix A - Post Employment Benefits – OPEBs**

On page 45 Guelph Hydro stated that a main factor causing a decrease in liability for Guelph Hydro is the removal of the unrecognized actuarial gain, which at the end of 2010 amounted to \$1.9M for Guelph Hydro.

- a. Some actuaries and utility management have used AA bond yields as the basis for selecting the discount rate used in actuarial valuations of OPEBs. Some actuaries use long Canada bond yields plus a spread for certain underlying financial market assumptions. Please describe fully the methodology that Guelph and its actuary used to select the discount rate of 5.75% for 2010.
- b. Some utilities have shown a decrease in the discount rate in 2010 compared to 2009. The discount rate chosen by Guelph demonstrates an increasing trend from 5% in 2009 to 5.75% in 2010. Please explain the underlying assumptions about the bond markets that resulted in Guelph choosing 5.75% as the discount rate for 2010.
- c. Using the same methodology, what discount rate would Guelph choose as at June 30, 2011 given the current state of the domestic and international bond markets? Please describe the assumptions made in answering the question.
- d. Guelph intends to make an election under IFRS to record the unrealized actuarial gain (credit) of \$1.9 million in retained earnings. [Ref: E4/T2/S7/p. 45 line 13-18]
  - i. If bond yields decrease in future years, and the discount rate increases, does Guelph expect to recover the higher expense from ratepayers in a future application?
  - ii. For ratemaking purposes, should the Board choose another method than IFRS accounting instructions to determine what OPEB costs should be paid by ratepayers? What suggestions can Guelph make in its case?

#### **Issue 4.5**

#### **Is the test year forecast of property taxes appropriate?**

#### **30. Ref E4/T2/S6 p. 16 and E4/T2/S1 Appendix 2-E**

On page 16 of the first reference Guelph Hydro stated that the increase of \$676,302 in the 2012 test year over 2009 actual is due to the impact of removing certain costs from overhead and charging these items directly to account 5085. Guelph Hydro further stated that the specific costs removed from overhead include amongst others, property taxes in the amount of \$138,356.

The summary table in Appendix 2-E shows \$0 for property taxes in the 2011 bridge year and the 2012 test year. Please explain.

**31.Ref: E4/T2/S1 Appendix 2-E - Property Taxes**

In 2010 actual property taxes decreased by \$209,660 over 2009 actual and in the 2011 bridge year property taxes decreased a further \$38,340 to \$0. The 2012 bridge year shows a \$0 amount for property taxes. Please explain the reasons for this decrease.

**Issue 4.6**

**Is the test year forecast of PILs appropriate?**

**32.Ref: E4/T3/S1 pp. 2-5 and table 16 – Tax Credits**

Guelph Hydro stated that tax credits for Claim for Scientific Research and Experimental Development (SR&ED), Apprenticeship Training Credit (ATTC), Co-operative Education Credit (CETC) and Ontario Research and Development Tax Credit (ORDTC) were not applied on the grounds of immateriality.

- a. Please apply the materiality threshold test to the aggregated tax credit amount available comprised of the above mentioned tax credits. If the result is above the materiality threshold, please re-file the PILs proxy calculations with all applicable tax credits included.
- b. If the aggregated tax credits available to Guelph Hydro are material, please update table 15 to include these tax credits.

**33.Ref: E9/T2/S1, p. 1 – Account 1562 Deferred PILs**

On page 1 Guelph Hydro stated that:

The OEB's Notice of Combined Proceeding and Notice of Hearing (EB-2008-0381) regarding historical variances arising from the recording of Payments in Lieu of Taxes by electricity distributors, states that the OEB intends to proceed with the review and disposition of account 1562 for all distributors once a decision confirming the methodology to be used for the calculation of balances in account 1562 – Deferred Payments in Lieu of Taxes - has been issued by the Board....Therefore, Guelph Hydro is not requesting disposition of accounts 1562 or 1592- subaccount PILs in this Application.

The Board issued its decision and order in the combined proceeding on account 1562 deferred PILs (EB-2008-0381) on June 24, 2011. In this decision and order the Board stated that it expected distributors subject to section 93 of the

*Electricity Act* to apply for final disposition of the balance in account 1562 in their next general rates application (either IRM or cost of service)<sup>1</sup>.

The evidence filed must be consistent with the level of detail found in the combined proceeding, including the findings in the Board's decision and the settled issues found in the settlement agreement.

The following questions are intended to place on the record of this application, the minimum evidence required for the review and disposition of account 1562.

- a. Please provide the active Excel workbooks for rate applications, PILs proxies, SIMPIL models and the PILs 1562 continuity schedule as follows:
  - i. Rate application filing models (final versions) that support the Board's decisions for 2001 to 2005 for rates and the PILs proxies. Please verify that the rate schedule attached to the Board decision is the same as the rate schedule in the application filing model; otherwise you do not have the final model to use in the SIMPIL reconciliation.
  - ii. Signed Board decisions for each year that an application was filed requesting PILs to be included in rates
  - iii. Final tax returns, notices of assessment, reassessment and statements of adjustments for each tax period 2001-2005.
  - iv. Revised SIMPIL models for the tax years 2001-2005 that eliminate any errors that may have arisen. Halton Hills in the combined proceeding, and Hydro One Brampton in EB-2010-0132 (draft Rate Order), filed revised SIMPIL models that can be used.
  - v. Account PILs 1562 continuity schedule for the period October 1, 2001 to April 30, 2006 that shows:
    - The PILs proxy amounts allowed for the number of months in each tax period. Please provide the supporting calculations and references to Board documents such as the Accounting Procedures Handbook and Frequently Asked Questions.
    - The amounts billed to customers during the same tax periods. Collections from customers have been defined as the amounts billed to customers. The PILs associated with

---

<sup>1</sup> Implementation, pages 27-28

unbilled revenue accruals must be included in collections. Please provide the supporting Excel workbooks used to calculate the amounts billed to customers.

- The deferral account and true-up variances that are calculated in the SIMPIL workbook TAXCALC sheet for each tax period.
- The proportion of the Large Corporation Tax (LCT) included in 2005 rates that relates to the period January 1, 2006 to April 30, 2006. LCT was repealed with effect from January 1, 2006.
- Interest carrying charges for each tax period. Please provide the interest rate chosen for each tax period. Please explain how interest carrying charges were calculated and provide the supporting worksheets.

Please note the following:

- Application PILs proxy model details and final tax data should be input into SIMPIL models and balanced to the source documents for each tax period.
  - Items that should not true up to ratepayers under the methodology should be isolated from those items that are included in the true-up.
  - The income tax rate chosen for each tax year should be supported.
  - The capital tax rates and thresholds or exemptions chosen should be supported.
- b. In the years from 2001 to 2005, if the applicant generated or utilized tax losses, and had no taxable income, please explain how it choose the income tax rates used in calculating the tax impact and the gross-up amounts in the SIMPIL reconciliations. Please explain why the applicant believes that it chose the correct income tax rates for determining the true-up amounts under the SIMPIL methodology.
- c. Please explain why the applicant correctly accounts 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. Please explain how the applicant overcame the errors that would have arisen from following the formula logic in the original models.
- d. Please confirm whether or not the applicant used data from 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.

- e. Please confirm that the applicant excluded regulatory assets and liabilities, when they were 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.
- f. Please confirm that the applicant treated 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.
- g. Please confirm that the applicant excluded 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.
- h. Please confirm that all tax years from 2001 through 2005 are statute-barred (i.e. no longer open for audit). If any year remains open for audit by the Ministry of Revenue, please identify the year and explain the reasons why the tax year is not statute-barred.

## **Capital Structure and Cost of Capital**

### **Issue 5.1**

**Is the proposed capital structure, rate of return on equity and short term debt rate appropriate?**

#### **34.Ref: E5/T1/S1 p. 3 – Cost of Capital Parameters**

On page 3 Guelph Hydro states that Guelph Hydro's cost of capital parameters are in accordance with the November 15, 2010 update. The deemed ROE and short-term debt suggest that the subsequent updates on March 3, 2011 were used. Please confirm that Guelph Hydro applied the cost of capital parameters as outlined in the Board's letter of March 3, 2011.

### **35.E5/T1/S3 Table 2 and Appendix A – Long-term debt**

In Appendix A Guelph Hydro filed a copy of a Demand Loan payable to Guelph Hydro Inc, dated June 4, 2008 in the amount of \$12,558,000. Table 2 of the first reference provides an overview of Guelph Hydro's actual capital structure. This table does not include this debt for the historic years 2008, 2009 or 2010. Please explain why and update the table if necessary.

#### **Issue 5.2**

**Is the proposed long term debt rate appropriate?**

### **36.Ref: E5/T1/S3 p.2 and Appendix A – Long-term debt**

Guelph Hydro stated that on December 6, 2010, Guelph Hydro finalized an arrangement with a group of investors and a CIBC advisor, to secure \$65M of financing (debentures) at an interest rate of 5.264%. Please provide a copy of the executed agreement.

## **Smart Meters**

#### **Issue 6.1**

**Is the proposed inclusion of the smart meter costs in the 2012 revenue requirement appropriate?**

### **37.Ref: E4/T2/A6 p. 15 – Meter Expenses**

Guelph Hydro stated that smart meter expenses have increased by \$865,641 since 2010. Guelph Hydro further stated that a \$72,551 reduction in meter expenses rated to investment tax credits (ITCs) received by Guelph Hydro in 2010.

- a. Please state if Guelph Hydro has been able to realize any other reduction in meter expenses, in particular meter reading expenses, due to efficiency gains as a result of installing smart meters.
- b. If yes, please provide a detailed breakdown of the efficiency gains.
- c. If not, please explain why not.

#### **38.Ref:**

### **39.Ref: E9/T3/S1 – Functionality in Excess of Minimum Functionality**

On page 6 Guelph Hydro stated that the smart meters installed by Guelph Hydro exceed the specification with respect to the inclusion of a communications chip based on the Zigbee standard.

- a. Please state what alternative technologies Guelph Hydro investigated prior to choosing the Zigbee technology.

- b. Please provide further explanation as to why the Zigbee standard was chosen in the absence of an international standard. Please provide the business case for this purchase.
- c. Please provide Guelph Hydro's cost-benefit analysis and state what efficiencies and reliability gains Guelph Hydro expects to gain for its distribution system as a result of the inclusion of this technology.

**40.Ref: E9/T3/S1 p. 6 – Smart Metering Entity (SME) Functions**

On page 6 Guelph Hydro states that Guelph Hydro expects to incur costs in association with integrating the AMI master station, the provincial MDM/R, and Guelph Hydro's CIS system.

Please provide a breakdown of expected costs. Please state if Guelph Hydro has included these costs its Applications.

**41.Ref: E9/T3/S1 p. 6**

Please confirm if Guelph Hydro has recorded and tracked costs beyond minimum functionality in separate sub-accounts of Account 1555 and separate sub-accounts of Account 1556 for capital expenditures and OM&A expenses, respectively. Please provide a breakdown by sub-account. If not, please explain and update the evidence.

**42.Ref: E9/T3/S1**

As per the Board's "Guideline: Smart Meter Funding and Cost Recovery" (G-2008-0002) (the "Guideline") issued on October 22, 2008, does Guelph Hydro use its normal capitalization policy for smart meters? If this is not the case, please provide an explanation.

**43.Ref: E9/T3/S1 pp.4-6**

Is Guelph Hydro recording Stranded Meter Costs in "Subaccount Stranded Meter Costs" of Account 1555, or fixed assets (i.e., Account 1860, Meters), or both? How does Guelph Hydro ensure that the same stranded meter assets are not recorded in both Account 1555 and Account 1860 (i.e. avoid double counting)?

**44.Ref: E9/T3/S1 pp.4-6**

Are the stranded meter costs recorded in Account 1555 comprised of the gross costs of the stranded meters, less any capital contributions, less the accumulated depreciation and less any proceeds from the disposition of the meters?



**45. Ref: Smart Meter Model “Guelph Smart Meter Rev Req Calc  
Model\_xls\_20110630.xls”**

Guelph Hydro has filed the above-referenced smart meter model in Excel format in support of its documented historical and 2011 bridge year costs.

- a) For the 2011 bridge year, please identify which percentage of costs, by category, represent unaudited actuals, and which are forecasts. Please identify the months in 2011 for which actuals are used.
- b) On sheet 3. LDC Assumptions and Data, please explain Guelph Hydro's weighted long term debt rate of 5.26% for 2011.
- c) On sheet 7. Funding Adder Collected, Guelph Hydro shows no interest rate to calculate the interest on funding adder revenues collected from May to December 2011 inclusive.
  - a. Please provide Guelph Hydro's reasons for omitting the prescribed interest rate for D/V accounts.
  - b. Please re-file the smart meter model including the Board-issued prescribed interest rate for each quarter, as appropriate. For months in future quarters, please use the current Board-issued prescribed interest rate for D/V accounts.

**Issue 6.2**

**Is the proposed disposition of the balances in variance accounts 1555 and 1556 appropriate?**

**46. Ref: E9/T3/S1 p. 2 and Appendix B – Smart Meter costs disposition**

Guelph Hydro stated that it has calculated the remaining smart meter related costs in the amount of \$5,092 and it is not proposing to recover this amount through a further smart meter funding adder. Board staff noted that in Appendix B Guelph Hydro has calculated a 'Proposed Incremental Rev. Req. per SM' of \$0.01. Board staff further noted that this rate rider has not been included in Guelph Hydro's proposed tariff or rates and charges.

Please state Guelph Hydro's intention in regards to the disposition of this amount.

## **Cost Allocation**

### **Issue 7.1**

#### **Is Guelph Hydro's cost allocation appropriate?**

#### **47.Refs: Board Report "Review of Electricity Distribution Cost Allocation Policy" EB-2010-0219, March 31, 2011 and E7/T1/S2 Appendix A, p. 2**

On page 26 the Board report states that "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.

On p. iv (Executive Summary) the Board report states that "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 Guelph Hydro has used the default values for Services and Billing.
- b) Is it Guelph Hydro's position that the default values are appropriate for its circumstances, as described at p. 26, or does it intend to update its cost allocation model, as described at p. iv?

#### **48.Ref: E7/T1/S2 Appendix A, p. 4 j and E8/T1/S3 p. 3 - Allocation of Transformer and Secondary Voltage Line Costs**

The load data for the Large User class implies that all load to the Large User class will be delivered through utility-supplied transformers and secondary voltage lines, whereas one might expect that none of the Large User load would use these assets.

- a. Please confirm that the Transformer Ownership Allowance is available only to customers in the GS 50 – 999 kW class, and that the per-kW rate applied to customers in the GS>1000 kW and Large Users customer class is based on the assumption that the customer will supply its own transformer from primary distribution voltages.
- b. Please state if it is clear to existing and prospective Large Users and GS>1000kW customers (eg. In Conditions of Service or from the tariff sheet) that the approved volumetric rate is based on the assumption

that Guelph Hydro will not provide transformer service below primary distribution voltages.

- c. If the Large User load should be zero for LTNCP1, etc., please provide a corrected version of the referenced page (worksheet I8), together with cost allocation model worksheets that are affected by these load data inputs.

**49.Ref: E7/T1/S2 Appendix 2-O (p. 1256 of 1476) - Allocation of Costs to Street Lights**

Guelph Hydro has applied a “connection factor” of 10 to the number of street lighting fixtures, and has cited a similar factor used by Kitchener-Wilmot in its 2010 application.

- a) Please explain how the connection factor is reflected in the data inputs in Guelph Hydro’s cost allocation model.
- b) Please explain whether the model filed by Guelph Hydro for its 2008 rates included a connection factor analogous to the factor in its current model, considering that a similar number of street light connections is found in both models: 1162 Streetlight connections in 2008, and 1361 in 2012.

**50.Ref: E9/T2/S1 p. 8; E9/T2/S2 p. 2 - Low Voltage Adder and Variance Account**

Please provide legible versions of the tables on the referenced pages.

**51.Ref: E8/T1/S5 pp. 3-5; E9/T2/S1 p. 6**

- a) Please provide a forecast of the amount of revenue that will be received from the LV Rate Adders listed in Table 19 on page 5, and compare this with the forecast LV cost of \$36,400.
- b) Please provide an estimate of how much of the shortfall in part a) will eventually be absorbed by the classes that are billed on demand rather than on energy, assuming that the account 1550 will continue to be recovered on the basis of kWh consumption.
- c) How and when does Guelph Hydro propose to dispose of LV charges of \$14,957 for the residential and \$5,209 for the GS<50 kW customer classes. Please expand on the proposed treatment of these amounts.

**52.Refs: E3/T4/S2 Appendix 2-C, p. 1; Cost Allocation model (document D11-11561) / worksheet E4 - Allocation of Miscellaneous Revenue**

It appears in Exhibit 3 that account 4375 'Revenue from Non-Utility Operations' is included as a component of the revenue offset. However it is not clear in the model provided how the net revenue is allocated to customer classes in the cost allocation model.

Please explain how this component of the revenue offset has been allocated.

**53.Ref: E3/T4/S2 Appendix 2-C, p. 4 and E7/T1/S2 Appendix A, p. 14**

- a) For the revenue recorded in account 4235 'Miscellaneous Service Revenues', please provide an estimate of how much is due to Account Set-up charges versus how much is due to all other specific service charges, in dollars and as a percentage of the account total.
- b) For the residual amount in account 4235, i.e. other than Account Set-up, please provide a table showing how this revenue is allocated amongst the customer classes using the allocator CWNB (as in Guelph Hydro's application based on the Board's cost allocation model version 1.2) and alternatively using the allocator O&M (similar to the allocator OM&A used in the Board's cost allocation model version 2).

**54.Ref: E3/T4/S2 Appendix 2-C, p. 1; E7/T1/S2 Appendix A, p. 15 and Cost Allocation model (document D11-11561) / worksheet I3**

- a) For account 4090 'Electric Services Incidental to Energy Sales', please clarify whether there is a non-zero amount forecast in this account.
- b) If non-zero, please provide a table showing how this revenue is allocated amongst the customer classes using the allocator CWNB (as in Guelph Hydro's application based on the Board's cost allocation model version 1.2) and alternatively using the allocator O&M (similar to the allocator OM&A used in the Board's cost allocation model version 2)

**55.Ref: E3/T4/S2 Appendix 2-C, p. 5 and Cost Allocation model (document D11-11561) / worksheet I3**

- a) For account 4355 'Gain on Disposition of Utility and Other Property', please confirm that there is a non-zero amount in this account (despite the information in Exhibit 3).
- b) Please provide a table showing how this revenue is allocated amongst the customer classes using the allocator NFA (as in

Guelph Hydro's application based on the Board's cost allocation model version 1.2) and alternatively how it would be allocated if the allocator were O&M (similar to the allocator OM&A used in the Board's cost allocation model version 2).

## **Issue 7.2**

**Are the proposed revenue to cost ratios for each class appropriate?**

### **56.Ref: E7/T1/S1 p.4**

Please update the table on p.4 to show customer classes related to the proposed revenue to cost ratios. Please provide further details explaining the realigning of the revenue to cost ratios to reach 100% for those classes already within the Board's approved target range.

## **Rate Design**

### **57.Ref: E3/T2/S1 p.26 and E7/T1/S2 p.3**

The forecasts of kWh data in Exhibit 3 (Table 18, final column) and in Exhibit 7 (Table 1, first column under 2012 Load Forecast) do not match, and are not consistently higher or lower in the various classes.

Please confirm that the data in Exhibit 3 were used as the input to the cost allocation model in Exhibit 7, and explain why that data was used rather than the referenced data in Exhibit 7.

### **58.Ref: E1/T1/S3 Appendix A, p. 3 and E8/T1/S3 p. 5 - MicroFIT charge:**

Guelph Hydro's forecast of revenue from microFIT customers is based on a monthly amount of \$8.84 according to the reference in Exhibit 8, whereas the proposed monthly rate for microFIT is \$5.25 according to the reference in Exhibit 1.

Please confirm that Guelph Hydro's proposed monthly rate is \$8.84 and update the proposed tariff sheet if necessary.

### **59.Ref: E8/T1/S3/p 3-5 – Distributor-specific microFIT Charge – cost elements**

Table 11 provides a list of cost elements selected to calculate the proposed microFIT Fixed Monthly Charge. These are comprised of the nine cost elements identified in the EB-2009-0326 Decision and Order plus two additional cost

elements, i.e. item #s 12 and 13, i.e. respectively, Allocated Debt Return and Allocated Equity Return.

- a. Please provide the rationale for including these two cost elements.

**60.Ref: E8/T1/S3/p 3-5 – Distributor-specific microFIT Charge - calculation**

Table 11 provides a calculation of the proposed microFIT Fixed Monthly Charge based on a specified number of cost elements.

- a. Please reconcile and revise the input data and proposed microFIT Fixed Monthly Charge provided in Table 11 with the updated Cost Allocation Model, if applicable.

**61.Ref: E8/T1/S3/p 3-5 – Distributor-specific microFIT Charge - calculation**

Table 11 provides a calculation of the proposed microFIT Fixed Monthly Charge based on a specified number of cost elements.

- a. Board staff notes that item #11, i.e. Total Number of Customers is shown as \$47,848. Please revise such that Total Number of Customers is shown as 47,848. Board staff also notes that the calculation of the Total (\$5,078,414) erroneously includes the Total Number of Customers (\$47,848).

Please revise such that the Total reflects Allocated PILs (only General Plant assigned to Meters) and does not reflect the Total Number of Customers. Please also update the resulting revised proposed microFIT Fixed Monthly Charge.

- b. Board staff notes that item #s 9 and 10, i.e. respectively, Allocated PILs (Directly Related Costs) and Allocated PILS (Avoided Costs) have been added to arrive at the Total of \$5,078,414. Board staff further notes that item #s 9 and 10 are not components of the Total. The correct component is Allocated PILs (only General Plant assigned to Meters), which is derived by the subtraction of item #10 from item #9. Please update the evidence as necessary.

## **Deferral and Variance Accounts**

### **Issue 9.1**

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

**62.Ref: E9/T1/S 1, p. 1, lines 8-9 and E9/T2/S 1, p. 2, lines 21-22**

Guelph Hydro stated: "Therefore, Guelph Hydro is not requesting disposition of accounts 1562 or 1592 – subaccount PILs in this application." However other evidence provided under "Account Balances Requested for Disposition", suggests that Guelph Hydro is seeking disposition of account 1592. Please confirm Guelph Hydro's proposal for disposition with respect to account 1592. If the proposal is not to dispose of account 1592, please explain why.

**63.Ref: E9/T2/S 1, Appendix 2-T**

- a) The description under the Tax Item column for \$175,000 is as follows:  
"OEB Decision and Order (EB-2007-0742) for 2008 rates assessed a possible overstatement of Guelph Hydro's PILs calculation by approximately \$200,000. Under the instruction of the Board, this amount was to be credited to variance account #1592, with Guelph Hydro requesting disposition of the approval of this amount not later than the next rebasing application. Guelph Hydro credited the amount of the overstatement in equal amounts over the period of rate rebasing Sept. 1, 2008 to Apr. 30, 2011 (32 months). The amount up to the end of 2010 is equal to \$200,000 x 28/32 months."

Please provide an excerpt of the document that supports this statement.

**64.Ref: E9/T1/S3 p.7**

The Provincial Sales Tax ("PST") and the Federal Goods and Services Tax were harmonized into the Harmonized Sales Tax ("HST") effective July 1, 2010. As a result of this harmonization, applicants may benefit from an overall net reduction in costs in the form of Input Tax Credits ("ITCs"). This arises due to cost decreases from the receipt of additional ITCs on the purchases of goods and services previously subject to PST that become subject to the HST. These cost decreases may be partially offset by cost increases on certain items that were not previously subject to PST but become subject to the HST with no additional ITCs having been granted (i.e., these items are subject to recaptured ITC requirements).

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.

In December 2010, as part of its Frequently Asked Questions on the Accounting Procedures Handbook for electricity distributors, the Board provided accounting guidance on this matter and provided a simplified approach designed to facilitate administrative cost-saving opportunities.

No additional amounts should be recorded in Account 1592 (PILs and Tax Variances, Sub-account HST/OVAT ITCs for the Test Year and going forward, as the impact of the HST and associated ITCs on capital and operating costs in the Test Year should be reflected in the applied-for revenue requirement. For the 2012 Test Year for example, entries to record variances in the sub-account of Account 1592 would 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.

- a) Please provide the incremental ITC that Guelph Hydro should have recorded in account 1592, sub-account HST/OVAT Input Tax Credit, in accordance with the Board directive in EB-2009-0226
- b) Please confirm that the Applicant has followed the December 2010 FAQs accounting guidance regarding Account 1592 sub-account HST/OVAT ITCs. If this is not the case, please explain.
- c) 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.
- d) Please confirm that zero amounts will be recorded in Account 1592, sub-account HST/OVAT ITCs for the Test Year and forward. If this is not the case, please explain.
- e) Please confirm that only the balance in Account 1592 “Sub-account HST / OVAT ITCs” is requested for disposition, and not the contra account Account 1592 “HST/OVAT Contra Account”, which is used only for RRR reporting purposes. If this is not the case, please explain.



**65. Ref: E9/T1/S5, p. 4, Table 3**

Guelph Hydro has used 2012 kWh forecast for allocation by rate class. Please recalculate and provide allocations by rate class using the most recent 12-month actual volumetric data as reported to the Board under RRR 2.1.5 for 2010.

**66. E2/T3/S3, Table 15 and E9/T1/S5, p.4, Table 3 and E9/T2/S3, Table 9 - Global Adjustment Rate Rider**

- a. Please show the detail calculations for the Global Adjustment Rate Riders illustrating the figures that Guelph Hydro used in the denominators and numerators for calculation of Global Adjustment Rate Riders for each rate class in its current application EB-2011-0123.
- b. Please confirm if Guelph Hydro has used total non-RPP volume for calculation of non-RPP customers' Global Adjustment rate rider. If not, please provide the corrected rate rider calculations for all customer classes showing all calculations described in part "a" above.

**67. Ref: Letter of the Board regarding Variance Account for "Special Purpose Charge" Assessment under Section 6.1 of the *Ontario Energy Board Act, 1998* for Ministry of Energy and Infrastructure Conservation and Renewable Energy Program Costs, issued April 23, 2010**

According to the Board letter of April 23, 2010 on the Special Purpose Charge:

"In accordance with section 9 of the SPC Regulation, recovery of your SPC assessment is to be spread over a one-year period, starting from the date on which you begin billing to recover your assessment. The request for disposition of the balance in "Sub-account 2010 SPC Variance" and "Sub-account 2010 SPC Assessment Carrying Charges" should be made after that one-year period has come to an end, and all bills that include amounts on account of that assessment have come due for payment."

- a) Please provide the timing of the completion of the recovery period.
- b) Please provide the actual or most recent balance in account 1521, "Sub-account 2010 SPC Variance".
- c) Please provide the forecasted carrying charges in "Sub-account 2010 SPC Assessment Carrying Charges" as of December 31, 2011.

**68. Ref: Exhibit 9 – Deferral and Variance Account**

Has the Applicant made any adjustments to deferral and variance account balances that were previously approved by the Board, subsequent to the balance

sheet date that was cleared in the most recent rates proceeding? If yes, please provide explanations for the nature and amounts of the adjustments and include supporting documentation.

**69.Ref: Exhibit 9 – Deferral and Variance Account**

Please provide breakdown of energy sales and cost of power expense, as reported in the audited financial statements, by USoA account number. Please tie and reconcile these numbers to the audited financial statements.

**70.Ref: E9 T1S3 p. 4 – Global Adjustment**

1588 RSVA Power and 1588 RSVA Sub-account Global Adjustment:

- a. Does the applicant pro-rate IESO Charge Type 146 Global Adjustment into the RPP portion and non-RPP portion? If not, why not. If so, please provide the supporting spreadsheet for the year 2010 which prorates the IESO Charge Type 146 Global Adjustment into RPP portion and non-RPP portion.
- b. Is the RPP portion included in Account 4705 control account and then incorporated into the variance reported in Account 1588 control account? If not, why not. If so, please provide journal entries for the month of December 2010 to record the RPP portion of global adjustment in Account 4705 control account and incorporated into the variance reported in Account 1588 control account.
- c. Is the non-RPP portion included in Account 4705 sub-account Global Adjustment and then incorporated into the variance reported in Account 1588 sub-account Global Adjustment? If not, why not. If so, please provide journal entries for the month of December 2010 to record the non-RPP portion of global adjustment in Account 4705 sub-account Global Adjustment and incorporated into variance reported in Account 1588 sub-account Global Adjustment.
- d. If any of part “a”, “b”, or “c” in above is not followed, please make appropriate adjustments and file the updated evidence. Please provide explanations for the changes made by Guelph Hydro, if any.

## **Issue 9.2**

**Are the proposed rate riders to dispose of the account balances appropriate?**

**71.Ref: E1/T1/S5, p. 2, lines 2-3 and E9/T1/S1, p.1, lines 7- 8**

The first reference above states that the deferral and variance account balances are proposed to have a disposition period of 4 years, while the 2<sup>nd</sup> reference above states that Guelph Hydro is proposing a 1-year disposition period.

Please clarify the proposed disposition period.

**72.Ref: E9/T1/S3 – Accounts 1518 and 1548 Retail Service Charges**

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 there are large balances in the accounts noted in part a). Please explain whether or not the applicant has considered a change to the appropriate 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 applicant has followed Article 490, Retail Services and Settlement Variances of the Accounting Procedures Handbook for Account 1518 and Account 1548. Please explain if the applicant has not followed Article 490. In other words, please confirm that the higher of, the relevant revenues (i.e. account 4082, Retail Services Revenue and 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 the applicant 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.

**Issue 9.3**

**Are the proposed balances for Other Regulatory Assets – Sub-account Deferred IFRS Transition Costs appropriate?**

**73.Ref: E9T1/S6 - Account 1508 - IFRS Transition Costs Deferral Account**

Guelph Hydro requests disposition of \$455,814 for incremental IFRS transition costs (including \$436,933 principal balance as of December 31, 2010 and \$18,882 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.

**Lost Revenue Adjustment Mechanism**

**Issue 10.1**

**Is the proposal related to LRAM/SSM appropriate?**

**74.Ref: E10/T1/S3 p.1**

Section 3.4.2 of the Filing Requirements, indicates that distributors must file any outstanding LRAM or SSM applications funded between 2005 and 2010 as part of their 2012 COS or IRM application. Guelph Hydro has indicated that it intends to file the 2010 results at a later time in this proceeding, when the OPA results are final.

In order to have an estimate of the total LRAM and SSM impact, please provide the following for 2010:

- a) An estimate of the kW or kWh impacts net of free riders for each program and rate class.
- b) Estimated LRAM and SSM total amounts and rate riders by class.

**75.Ref: E10/T1/S6 Appendix A, p. 8**

A 0% free rider rate was used for the City of Guelph's Waste Water Treatment facility. The third party report indicates that that this program would not have moved forward without the incentive provided. However, a 30% free rider was used for Guelph Hydro's other custom programs.

- a) Please provide the amount of LRAM and SSM attributed to this program using a 30% free rider.

- b) Please confirm if the LRAM amount of \$17,164 that has been allocated to the GS 1000 to 4999 kW is only for this program. If not, please indicate the amount of LRAM attributed to this program using a 0% free rider.

## **Modified International Financial Reporting Standards**

### **Issue 11.1**

**Is the proposed revenue requirement determined using modified IFRS appropriate?**

#### **76.Ref: Letter of the Board, issued November 8, 2010 “Transition to IFRS – Amendment to Board Policy”**

Please file financial information for the year prior (i.e. the 2010 historic year) to the year chosen to adopt IFRS for financial reporting in both CGAAP and MIFRS as per section 9.1.3 of the letter of the Board issued on November 8, 2010.

#### **77.Ref: E2/T4/S7 p. 1-2 – Capitalization Policy**

- a) If the applicant has changed its capitalization policy since the last rebasing application, please explain whether the changes are a result of the implementation of MIFRS. Please identify the changes, (e.g. capitalization of indirect costs, corporate centre costs, etc.) and the causes of the changes.
- b) Please provide the overall revenue requirement impact of all changes in capitalization policy.
- c) Please provide the overall revenue requirement impact arising from the transition to MIFRS.
- d) Please quantify the dollar impact on revenue requirement for each change identified in b) above separately.
- e) Please provide the following information in detail for overhead costs on self-constructed assets for the bridge and test years:

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

--	--	--	--	--

- f) 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.
- g) 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.
- h) Please identify the burden rates related to the capitalization of costs of self-constructed assets:
  - prior to transition (from the last rebasing application to January 1, 2010), and
  - after transition (on or after January 1, 2010).
- i) Please identify the overall level of increase in OM&A expense in the test year in relation to a decrease (or increase) 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.

**78.Ref: E2/T1/S1 p. 2 – Asset Retirement Obligations**

- a) Please confirm that Guelph Hydro has not recognized any asset retirement obligations.
- b) Please confirm that Guelph Hydro will not seek recovery of any asset retirement obligations in the future.

**79.Ref: June 13, 2011 Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment**

Differences may arise with Property, Plant, and Equipment balances due to implementing IFRS. Guelph Hydro has not provided a calculation or balance in the Board-approved PP&E Deferral Account.

- a) Please update the appropriate schedules and calculate a balance for the PP&E Deferral Account.
- b) Please provide a breakdown of the amount that is to be recorded in the PP&E Deferral account from the transition date to MIFRS (i.e. as of

January 1, 2010). Please provide the supporting analysis of the amounts in this account. Please provide an analysis similar to Appendix A of the March 31, 2011 Staff Discussion Paper – Transition to IFRS.

- c) Please provide a proposal for the disposition of this deferral account and rationale – especially if it is different from what is stated in the June 13, 2011 Addendum to the Report of the Board on IFRS.

**80.Ref:E2/T1/S1 p. 5 – MIFRS variance**

Please provide a detailed breakdown and line by line explanation of the variances between CGAAP and MIFRS as shown in the “statement of revenue and expense (restated based on IFRS accounting policy) for the 12 month ended December 31, 2010”.

**81.Ref: E4/T2/S10 p. 1, line 23 and pp. 3-6 and E4/T2/S10 – Guelph Hydro’s Kinectrics Study, March 24, 2010.**

In pages 3-6 Guelph Hydro provides the useful life of distribution assets used in the calculation of depreciation expenses for the 2012 test year. In page 1, line 23 Guelph Hydro stated that Guelph Hydro has used the useful and typical lives in budgeting the depreciation, amortization and depletion of its assets in the 2011 bridge year and the 2012 test years. The Kinectrics Study of March 24, 2010 provided Guelph Hydro with typical useful live (TUL) for the corresponding assets. Board staff noted that Guelph Hydro’s used lower useful lives than identified by Kinectrics as the typical useful life:

- a. Please identify all differences between the TUL in the Kinectrics Report and those adopted by Guelph Hydro and provide detailed justification for these differences.
- b. For the bridge and test years, please provide a breakdown of the components of the underlying PP&E assets, including gross capital cost and accumulated depreciation values, revised useful lives, and the calculation of the depreciation expense based on revised service lives.
- c. Please confirm if the useful lives of assets used by Guelph Hydro in its application are different from the typical useful lives identified in the Board sponsored Kinectrics Report of July 2010. Please provide explanation for any differences from the Board sponsored Kinectrics Report.

**82.Ref: E2/T1/S3, Appendix 2-B and E4/T2/S10 Appendix 2-M –  
Depreciation Expense and Section 2.7.7 of Chapter 2 *Depreciation Study***

Page 14 of the July 2009 *Report of the Board, Transition to IFRS* stated:

“The Board agrees that regulated net book value should be used as the basis for setting opening rate base values upon the adoption of IFRS accounting, and that historical acquisition cost should be used as the basis for reporting PP&E for regulatory purposes going forward.”

For financial reporting purposes, on the date of transition to IFRS, the December 31, 2009 net book value becomes the January 1, 2010 gross value for PP&E (with accumulated depreciation set to zero). However, the Board has stated that the integrity of the December 31, 2009 gross value and accumulated depreciation values should be preserved for regulatory purposes and carried forward to January 1, 2010 values.

Please establish the continuity of historic cost by using the December 31, 2009 regulatory gross capital cost and accumulated depreciation values as the opening January 1, 2010 regulatory gross capital cost and accumulated depreciation values. Please provide updated schedules (including Appendix 2-B, Fixed Asset Continuity Schedule<sup>2</sup>) to show the following detail to substantiate the continuity of historic cost for regulatory purposes:

- December 31, 2009 regulatory gross capital cost and accumulated depreciation values, by asset class
- January 1, 2010 regulatory gross capital cost and accumulated depreciation values, by asset class

**83.Ref: E4/T2/S10 Appendix 2-M, p14, Report of the Board, Transition to IFRS, EB-2008-0408 - Capital Contributions**

Page 40 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 Guelph Hydro has adjusted the amortization period of customer contributions on an ongoing basis. If not, please make the adjustment and provide any updated numbers for this rate application.

---

<sup>2</sup> Chapter 2 Filing Requirements issued by the Board June 22, 2011



## Green Energy Act Plan

### Issue 12.1

**Is Guelph Hydro's Green Energy Act Plan, including the Smart Grid component of the plan appropriate?**

**84.Ref: E2/T1/S1 p.8, E4/T4/S1 p.2, E4/T2/S7 p. 40 and 50 and E2/T4/S6, Appendix D**

In the first two references Guelph Hydro states that no capital or OM&A costs related to the Green Energy Act ("GEA") Plan are included in Guelph Hydro's 2012 Cost of Service Application. In the second reference Guelph Hydro further states that its intention to "record qualifying costs in the deferral and variance accounts approved by the Board for this purpose".

In reference three, Guelph Hydro states that two technologist level positions and a new clerical position relating to CDM and GEA activities have been included in OM&A in the bridge and test year.

Board staff is seeking clarification of the approval sought by Guelph Hydro with respect to its GEA Plan.

- a) Please confirm that Guelph Hydro is not seeking any cost recovery in respect of its GEA plan at this time with the exception of the inclusion of additional staffing resources.
- b) If part a) to this question is confirmed, is Guelph Hydro planning to apply for cost recovery of its GEA plan in its next cost of service application?
- c) Notwithstanding part a) of this question, please clarify whether or not Guelph Hydro is seeking approval of its GEA plan at this time.

**85.Ref: E2/T4/S1, p. 1 and E2/T1/S1**

Guelph Hydro stated that it has diligently analyzed its proposed projects and OM&A costs included in the GEA Plan, and concluded that these projects and OM&A costs will benefit only Guelph Hydro's customers. In the second reference Guelph Hydro further states that no capital expenditures related to renewable connection or smart grid development are eligible for determination of direct benefits.

Please explain why and provide Guelph Hydro's detailed analysis.

**86.Ref: E2/T4/S6 Appendix D, pp.19-21**

On page 20 Guelph Hydro indicates that the Zigbee communications chip in the smart meter is an enabling technology that will permit the development of a

variety of opportunities including communications and messaging through an In-Home Display(IHD). The evidence also indicated that a critical element of this project is the anticipated inclusion of IHDs in the future Tier 1 OPA Conservation program expected to replace the peaksaver<sup>TM</sup> residential demand response program.]

On page 21 Guelph Hydro indicates that part of the \$479,000 of capital investment in 2011 is for the design, acquisition, installation, system integration, commissioning and training for a back-office hardware and software solution that will manage the community's IHD inventory, smart meter – IHD pairing and device security as well as provide a tool for creating and managing messaging.

- a) Please provide an overview of Guelph Hydro's view of the demarcation point between 'smart grid' and 'CDM' initiatives. In the event that an initiative has both a smart grid and CDM component to it please provide Guelph Hydro's methodology for allocating costs and avoiding double counting of any resulting load reduction.
- b) Please provide an explanation as to why a vital component of this initiative will be financed through "a new 2011 OPA Tier 1 CDM program" yet the back office component costing \$ 479,000 of capital in 2011 and \$92,000 per year for 5 years is presented as a smart grid project.
- c) Please provide an update on the status of the 2011 OPA Tier 1 CDM program.
- d) In the event that IHDs are not included in, and/or not funded through, the OPA CDM Program, please explain whether Guelph Hydro will proceed with the IHD Messaging Project. If Guelph Hydro will proceed, how does Guelph Hydro intend to fund the IHD devices?
- e) Please explain whether and how Guelph Hydro's 2011 activities and expenditures for the IHD Messaging Project may be affected by the timing of the roll-out of the OPA CDM Program.
- f) Does Guelph Hydro intend to count energy and demand savings associated with the IHD Messaging Project towards Guelph Hydro's CDM Targets or Performance Incentive?
  - i) If so, please explain how Guelph Hydro intends to apportion any energy or demand savings as between the IHD Messaging Project and the OPA CDM Program?
- g) Please confirm whether only those customers that participate in the OPA CDM Program will be able to participate in the IHD Messaging Project.

**87.Ref: E2/T4/S6 Appendix D, pp.19-21**

- a) Please provide a detailed breakdown of the capital cost of \$479,000 in 2011 into the various components such as hardware, software etc, and further for each component a split between Material/Equipment, Labour, Overheads..etc.

- b) Please provide a detailed breakdown of the estimated annual \$92,000 OM&A costs for the project.

**88.Ref: E2/T4/S6 Appendix D**

Please confirm that no customer data will be shared with a third party provider.

**89.Ref: E2/T4/S6 Appendix D, pp.19-21 and Filing Requirements:  
Distribution System Plans – Filing Under Deemed Conditions of  
Licence, March 25, 2010**

Section 8.0 on page 19 and section 8.3 on page 21 of the first reference describes what amounts to an implementation phase i.e., full roll out, of the two key components of the In-Home Display Messaging Project, that will cover the entire customer base of Guelph Hydro.

In the second reference, the Filing Requirements on page 18 states in part that:

*“At the present time, smart grid development activities and expenditures should be limited to smart grid demonstration projects, smart grid studies or planning exercises and smart grid education and training.”*

- a) Please confirm if this project is a smart grid demonstration project and why it should be considered as such.
- b) If part a) of this question is confirmed, please list the expected lessons learned from this project that will assist Guelph Hydro in preparing for smart grid implementation.
- c) If this is not considered a demonstration project, please explain why this initiative is being brought forward in advance of the Board's pending Guidance on smart grid implementation (EB-2011-0004) and include a list of any risks/drawbacks associated with getting ahead of the Board's Guidance versus delaying the project until those Guidelines have been issued.

**90.Ref: E2/T4/S6 Appendix D, pp.22-24 and Filing Requirements:  
Distribution System Plans – Filing Under Deemed Conditions of  
Licence, March 25, 2010**

- a) Did Guelph Hydro follow up with similar initiatives by other distributors in Ontario (i.e. Hydro One Networks Inc. (Distribution), Toronto Hydro-Electric Systems Limited) to gain knowledge and information from other Electric Vehicle (“EV”) demonstration projects, experience with charging infrastructure, and home charging units?
- b) If the answer to a) is yes, please provide a summary of such experiences addressing the items in the filing requirements set out in the second reference. If the answer to a) is no, please explain why.
- c) Did Guelph Hydro investigate other utilities' experience in Canada or the United States in regard to EV demonstration projects and charging

- stations? If yes, please provide a summary on each such utility's experience and cover the items as set out in b) above. If the answer to c) is no, please explain why.
- d) Given the number of EV studies being conducted elsewhere, please list the specific lessons Guelph Hydro anticipates learning from this EV pilot. Also, please identify the factors unique to Guelph Hydro that warrant it conducting its own demonstration project rather than relying on the information gained from others.
  - e) Please explain the rationale of including the price of the vehicle as part of the Pilot project costs even though the vehicle will be used and useful for carrying out normal day-to-day operations.
  - f) Please provide the details of the cost components for the OM&A, shown on page 24 of the first reference, for each of the five years - \$200, 000 for 2011, \$290,000 for 2012, \$50,000 for 2013, \$30,000 for 2014, and \$20,000 for 2015.

#### **91. E2/T4/S6 Appendix D**

Please provide Guelph Hydro's rationale for its proposed smart grid initiatives (IHD and EV pilot) as a regulated business activity.

#### **92. Ref: E2/T4/S6 Appendix D, pp.25-27 and Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010**

In the first reference Guelph Hydro is proposing a Smart Grid education program for High Schools over the 2011-2015 period. The second reference outlines the Board expectations for Smart Grid training and education.

- a) Please explain why this should be considered to be a smart grid project under the current Filing Requirements.
- b) Please provide the details of the cost components for the OM&A, shown on page 27 of the first reference, for each of the five years - \$75,000 for 2011, \$35,000 for 2012, \$20,000 for 2013, \$35,000 for 2014, and \$20,000 for 2015.

#### **93. Ref: E2/T4/S6 Appendix D, pp.28-32, Filing Requirements: Distribution System Plans – Filing Under Deemed Conditions of Licence, March 25, 2010, and Ministry of Energy Smart Grid Fund – [<http://www.mei.gov.on.ca/en/energy>]**

In the second reference the Filing Requirements on page 19 listed six items for all smart grid demonstration projects.

In the third reference, the Ministry of Energy Smart Grid Fund indicated that one of the two project categories is "Demonstration Projects" and state the following description:

*Smart Grid Fund investments in eligible demonstration projects will advance the development and design of pilot-scale prototypes of smart grid technologies. In cooperation with local distribution companies, demonstration projects will help identify risks, opportunities and costs associated with integrating smart grid technology into the electricity system and test whether specific technologies can be used on a larger scale.*

- a) Please explain what lessons Guelph Hydro expects to learn from this demonstration and how this project will assist Guelph Hydro in smart grid planning and implementing going forward.
- b) Did Guelph Hydro follow up with similar initiatives by other distributors or utilities in Ontario, Canada or the United States to gain knowledge and information from such demonstration projects?
- c) If the answer to a) is yes, please provide a summary of such experience addressing the different aspects in the filing requirements set out in the second reference. If the answer to a) is no, please explain why.
- d) Did Guelph Hydro apply for eligibility to the Ministry of Energy's Smart Grid Fund outlined in the third reference? If the answer is yes, please provide a summary report outlining the criteria for eligibility, Guelph's application, the amount of contribution to be expected, timing of that contribution.
- e) Given the various other parties involved in this demonstration ("selected companies" will "demonstrate their systems") why does Guelph Hydro believe it is appropriate for this initiative to be undertaken by a regulated entity and paid for by ratepayers?
- f) Please provide the details of the cost components for the OM&A, shown on page 32 of the first reference, for each of the four years - \$45, 000 for 2011, \$130,000 for 2012, \$55,000 for 2013, \$10,000 for 2014.

**94.Ref: E2/T4/S6 Appendix D, p. 33**

In the reference, the evidence indicate that to support the undertaking and delivery of the various Green Energy Act initiatives in the plan, Guelph Hydro is proposing to add two additional technical resources.

- a) Please provide a percentage split of the time expected to be dedicated for each of the five activities listed under the Basic Green Energy Plan. This can be accomplished by filling in the table below:

Resource No.1 (to be hired in 2011)	Percentage of Time Dedicated				
Green Energy Plan Project/Investment	2011	2012	2013	2014	2015
Renewable Generator Connection Upgrades					
In-Home Display Messaging Project					
Electric Vehicle Pilot					

<b>Smart Grid High School Education</b>					
<b>Demonstration "Smart Grid-Smart Home"</b>					
<b>Total should add to 100 %</b>	100 %	100 %	100 %	100 %	100 %

<b>Resource No.2 (to be hired in 2012)</b>	<b>Percentage of Time Dedicated</b>				
<b>Green Energy Plan Project/Investment</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Renewable Generator Connection Upgrades</b>					
<b>In-Home Display Messaging Project</b>					
<b>Electric Vehicle Pilot</b>					
<b>Smart Grid High School Education</b>					
<b>Demonstration "Smart Grid-Smart Home"</b>					
<b>Total should add to 100 %</b>	100 %	100 %	100 %	100 %	100 %