Board Staff Questions for Technical Conference
Hydro Ottawa Limited
2012 Electricity Distribution Rates
EB-2011-0054

GENERAL

1. Ref: Exh A2-1-2 Attachment H and Exh J3-1-2 Attachment AW
   The RRWF filed on September 14, 2011 contained revisions to the "initial application" column. Please restore the June 17, 2011 "initial application" data and provide an updated RRWF with any corrections or adjustments that Hydro Ottawa wishes to make to the data in the middle column. Please include documentation of the corrections and adjustments, such as a reference to an interrogatory response or an explanatory note.

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

2. Ref: Exh K1-3-1 Board Staff IR 3
   The interrogatory queried the Human Element contributions to SAIFI and SAIDI. The response states that, "keeping the distribution records as accurate as possible will continue reducing interruptions due to switching errors."

   Of the approximately 5% SAIFI and SAIDI related outages in the 2007 to 2010 period, what percentage is related to incorrect record keeping? What is the number of interruptions related to incorrect record keeping? Please provide the data for each year.

RATE BASE

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

3. Ref: Exh K2-1-2 Board Staff IR 8
   This IR asked Hydro Ottawa about the inclusion of $2M in rate base for the acquisition of land for a new Operations Centre and a new Administration Building. The response states that the test for inclusion in rate base is used or useful. Please provide the reference for this test.

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

4. Ref: Exh K2-3-3 Board Staff IR 14
   Ref: Exh K11-1-1 Attachment 1 Board Staff IR 79
   The response to Board Staff IR 14 indicates that the reference for fleet lifecycle is the "Utility Fleet Management and Benchmark Survey" by Chatham Consulting Inc.

   a) What is the source of data for the fleet replacement standard provided in Attachment 1 of the response to Board Staff IR 79?
   b) Please identify and explain the differences between the responses to Board Staff IR 14 and 79.

5. Ref: Exh K2-3-4 Board Staff IR 15
   Ref: Exh K2-2-10 CCC IR 10
   Hydro Ottawa plans to purchase 6 additional vehicles for training purposes at a cost of $0.5M. Is Hydro Ottawa aware of any other LDCs that purchase vehicles for training purposes? If so, please identify.

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

6. Ref: Exh K2-5-1 Board Staff IR 17
   In response to the interrogatory, Hydro Ottawa provided a letter from Hydro One regarding the Hydro Ottawa Green Energy Plan, in which they indicated that there are constraints on the Lisgar TS which might affect some of the larger generator projects. The OPA also referenced the Lisgar TS concern in its letter.

   a) Has Hydro Ottawa responded to the Hydro One and OPA letters? If so, please provide that information.
   b) Please provide a description of the limitation at the Lisgar TS and how it will be dealt with.
   c) Please confirm whether the limitation at Lisgar TS has any impact on the 2012 budget.

7. Ref: Exh K2-5-4 Board Staff IR 20
   Ref: Exh K2-5-7 Energy Probe IR 23
   In response to Board Staff IR 20, Hydro Ottawa states that it is seeking approval for GEA project costs for the test year with the exception of a prudence review of actual costs at the time of disposal of the deferral accounts in the future. In response to Energy Probe IR 23, Hydro Ottawa states that capital expenditures for 2012 are included in rate base. Please clarify Hydro Ottawa's intentions for the test year.

8. Ref: Exh K2-5-6 Board Staff IR 22
Ref: Report of the Board EB-2009-0349 p3
At p3 of the Board Report, it states:

> "Eligible investment" costs, as set out in O. Reg. 330/09 and section 79.1 (5) of the Act, are not limited to only the initial capital investment costs but also includes the *up-front* OM&A costs necessary for the purpose of "enabling the connection of a qualifying generation facility". However, given that section 79.1 focuses solely on the initial investment, *ongoing* OM&A costs that are incurred by the distributor after the investment has been made will not be eligible for provincial recovery.

Please identify whether all OM&A costs related to GEA staffing pertain to the initial investment. If that is not the case, please provide the percentage of time earmarked for GEA Plan related work. Please indicate whether these additional resources will be dealing with Smart Grid, RESOP and/or non-FIT renewable projects implementation. For each resource please complete the following table:

Activity	OM&A Related to GEA Plan Initial Investment (%)				
	2011	2012	2013	2014	2015
Expansion and REI Implementation					
Smart Grid					
RESOP & non-FIT Renewables					

9. Ref: Exh K2-5-3 Board Staff IR 19
In response to Board Staff IR 19, Hydro Ottawa states that the calculation of direct benefits in Exh B1-2-2 was intended to be illustrative. Please summarize Hydro Ottawa's requests for recovery of GEA expenses and how provincial recovery is accounted for.

LOAD FORECAST AND OPERATING REVENUE

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

10. Ref: Exh K3-1-3 Board Staff IR 25

    In its response, Hydro Ottawa explained that the differences between the load forecast values listed on Tables 3, 6, and 8 are due to distribution losses. Please provide the distribution loss values for the period from 2005 to 2011.

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

11. Ref: Exh K3-2-1 Board Staff IR 29
    Ref: Exh C1-1-2 Attachment Y (as updated on September 14, 2011)
    a) In Exh C1-1-2 Attachment Y page 7, the customer number for GS < 50 kW for the month of December 2010 is 23,548 and on page 8 of the same reference, the customer number for GS < 50 kW for the month of January 2011 is 23,502. Please provide the reason for the decrease in customer number forecast for GS < 50 kW.
    b) Board staff is unable to replicate the customer number forecast based on the models provided. Please provide an illustrative example which determines customer number forecast. Please use the GS < 50 kW customer number forecast model (Exh. C1-1-1 Attachment X, page 5) and data provided in response to Board Staff IR 29. Provide the calculation which demonstrates how the customer number forecast for GS < 50 kW class for the month of January 2011 (i.e. 23,502) is calculated.
    c) Based on the Residential customer number forecast model (Exh. C1-1-1 Attachment X, page 3) and data provided in response to Board staff IR 29, please provide the calculation which demonstrates how the customer number forecast for Residential class for the month of January 2012 (i.e. 278,765) is calculated.

OPERATING COSTS

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

12. Ref: Exh K4-1-1 Board Staff IR 33
The response to part (c) of this interrogatory provided reasons why 2010 actual OM&A expense was more than $6M lower than forecast in the EB-2010-0133 application. Delays in hiring and vacancies account for $2.1M. What is the relationship between this variance and the overall 3% vacancy allowance factor applied for 2011 and 2012 in the current application?

13. Ref: Exh K4-1-2 Board Staff IR 34

Hydro Ottawa provided a determination of LEAP expense based on its 2008 approved revenue requirement. Please determine the LEAP expense based on 2012 forecast revenue requirement.

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

14. Ref: Exh K4-4-1 Board Staff IR 40
Exh K4-4-17 SEC IR 45
A table of employees eligible for retirement and the number of actual retirements was provided in response to Board Staff IR 40. Board Staff has determined percentages for each year in the table below. In response to SEC IR 45, a table of percentages was provided.

	Board Staff IR 40			SEC IR 45
Year	Eligible	Actual	%Retired (Calculated)	%Retired
2006	1	0		
2007	2	1	50%	25%
2008	4	3	75%	80%
2009	17	12	71%	65%
2010	18	13	72%	52%
2011				70%
Average			69%	

a) Please explain the differences in the “% Retired” columns for the years 2007 to 2010.
b) At Exh D1-5-1 p3, the evidence indicates that 37 employees are eligible to retire in 2011. What is the number of 2011 YTD retirements?

c) At Exh D1-5-1 p3, the evidence indicates that 20 trades and technical employees are eligible to retire in 2011. What is the number of 2011 YTD trades and technical employee retirements?

15. Ref: Exh K4-4-7 Board Staff IR 46
The response states that the average yearly benefits table is on a headcount basis. Please identify whether any other tables or data in Exh D3-1-1 are on a headcount basis.

Issue 4.6
Is the test year forecast of PILs appropriate?

16. Ref: Exh K4-6-2, Board Staff IR 49
The response to part a) states that, "The 2009 UCC opening balance decreased by $4,503,650 to $549,905,612 from $545,409,270."

a) Please clarify how the $549,905,612 was determined.
b) Please confirm that the 2009 UCC opening balance is consistent with the 2009 tax return.

Issue 5.1
Is the proposed capital structure, rate of return on equity and short term debt rate appropriate?

17. Ref: Exh K5-1-2, CCC IR 36
Ref : Exh E1-1-1 Attachment AF
The response summarizes actual ROE for the years 2008 to 2010 and provides the forecast ROE for 2011.

Please explain the differences between these ROE and the ROE provided in Exh E1-1-1 Attachment AF.

18. Ref: Exh K5-1-4 VECC IR 45
In part d) of the response, Hydro Ottawa states:

> The administration fee covers expenses incurred by the Holding Company which are not covered in the regular service level agreement. These include credit agency fees, ongoing communications / meetings with the credit rating agencies, ongoing meetings / communications with investment bankers, ongoing meetings /communications with cash management & credit facility bankers, etc. Executive time for presentation preparation, meetings, and travel are typical costs that are covered by the financing administration fee.

a) Are all such activities discussed above solely related to the issue of debt financing of Hydro Ottawa, or are these related to maintaining a relationship of the Holding Company with participants in the financial markets?
b) Please indicate if these Holding Company costs are apportioned or allocated to the Holding Company and/or to other affiliates of Hydro Ottawa.
   i) If yes, please provide the allocation and the basis for the allocation.
   ii) If no, please provide the rationale for allocating 100% of the administrative costs to Hydro Ottawa.
c) Please describe how Hydro Ottawa or its Holding Company tracks the time and costs for these activities.

Issue 5.2
Is the proposed long term debt rate appropriate?

19. Ref: Exh K5-2-1 Board Staff IR 51
   a) Please complete the response to part (d) of the IR - explain any differences in the levels of transaction costs and administration costs for long term debt prior to and including June 1, 2010.
   b) Are the July 5, 2011 and September 1, 2011 promissory notes executed?
      i) If yes, please provide copies of the executed notes.
      ii) If no, please explain.

20. Ref: Exh K5-2-1 Board Staff IR 51
Ref: Exh E1-1-1 p1
At Exh E1-1-1 p1, Hydro Ottawa states:

> 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.* [Emphasis added]

In the response to Board Staff IR 51, Hydro Ottawa provided a table showing the “bare” debt rate, issuance and administration charges for all existing, new and forecasted debt.

No issuance costs are shown for the promissory notes issued on December 21, 2009 and April 30, 2010, but Hydro Ottawa includes 10 basis points for issuance costs for new and forecasted promissory notes issued from July 5, 2011 to July 1, 2012 inclusive.

a) Has or is it forecasted that the Holding Company will be raising external debt in the market to finance any of the July 5, 2011 to July 1, 2012 notes? Please include details in the response.
b) If the answer to a) is "no", then please explain the basis for inclusion of 10 basis points for issuance costs related to these promissory notes to Hydro Ottawa.

21. Ref: Exh K5-2-2 Board Staff IR 52

As stated in the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities, issued December 11, 2009:

> "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." [p53, emphasis in original]

The Report also states:

> A Board panel will determine the debt treatment, including the rate allowed based on the record before it and considering the Board's policy (these Guidelines) and practice. *The onus will be on the utility to establish the need for and prudence of its actual and forecasted debt, including the cost of such debt.* [page 54, emphasis added]

Hydro Ottawa has provided its reasons in response to Energy Probe IR 57 at Exh K5-2-3 as to why it believes that Infrastructure Ontario loans are not available or suitable for its financing needs.

a) As noted in the Cost of Capital Report, the deemed Long Term Debt rate is a ceiling on the allowed rate for affiliated debt. What efforts have Hydro Ottawa and/or the Holding Company undertaken to determine what would be the rate at which either Hydro Ottawa or the Holding Company could obtain long-term financing from the market? (e.g. as a result of the discussions with Credit Rating Agencies or financial market participants that Hydro Ottawa has documented in its response to Exh K5-1-4).
b) For each promissory note issued or forecasted to be issued after December 11, 2009 (the date of issuance of the Report of the Board on the Cost of Capital for Ontario's Regulated Utilities), please provide a detailed response supporting its actual or proposed debt cost, covering the following:
    i) How the actual or proposed debt rate was derived;
    ii) What efforts Hydro Ottawa and/or the Holding Company have made to determine if the debt could have been obtained at a lower rate assuming comparable conditions;
    iii) If Hydro Ottawa or its Holding Company have not sought out other estimates as benchmarks to assess or determine the rate, why Hydro Ottawa or its Holding Company have not done so; and

iv) Hydro Ottawa's reasons as to why it believes that the rate is appropriate, including compliance with the Board's policy and practice arising from the 2009 Cost of Capital Report.

22. Ref: Exh K5-2-3 Energy Probe IR 57
With respect to part a) of the response:

a) Please identify and provide copies of the source data and documents that Hydro Ottawa has used to derive its forecasted long term debt rate of 5.75%. Please show all calculations. If possible, please provide the information with a working Microsoft excel spreadsheet or model.
b) Has Hydro Ottawa revised its forecasted long term debt rate? If so, please provide the update in the same format as requested in part a).
c) For long term debt that Hydro Ottawa has not yet had issued by the time of the Board's decision, is Hydro Ottawa proposing to use its forecast or the deemed long term debt rate issued by the Board based on the effective date for Hydro Ottawa's rates (currently proposed as January 1, 2012)? If Hydro Ottawa is proposing to use its own forecasted rate, please provide a detailed explanation for its proposal.

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?

23. Ref: Exh K6-1-1 Board Staff IR 53
Hydro Ottawa has filed a completed smart meter model. The per meter cost summary reflects the costs for residential, GS<50 and demand customers.

a) Please provide a summary of the capital and operating cost (i) per residential and GS<50 customer and (ii) per demand customer.
b) Please confirm that the 2010 data in the smart meter model are audited.
c) With reference to Sheet "2. Smart Meter Data" of the Smart Meter model, in Cell K119, Hydro Ottawa documents $949,000 for OM&A costs in 2011 related to Software Maintenance for the Advanced Metering Control Computer. In the Smart Meter filed by Hydro Ottawa in its 2011 IRM application under File No. EB-2010-0326, Hydro Ottawa forecasted an amount of $699,000. Please explain the reason for the increase of $250,000.
d) With reference to Sheet "7. Funding Adder Collected", Hydro Ottawa has not calculated interest on Funding Adder Revenues from May 2011 to April 2012 inclusive. Also, the model uses an interest rate of 1.20% for the period January to April 2011, whereas the Board-issued rate for those quarters is 1.47%. Please re-calculate the Funding Adder Revenues and associated interest up to April 30, 2012 using the prescribed interest rate for Deferral and Variance Accounts as published by the Board. For the periods (months in quarters) in

the future, use the most current published rate as issued by the Board. Please file the model showing the revised Smart Meter Disposition Rider.

e) Please re-calculate the Smart Meter Disposition Rider from d) assuming that the Smart Meter Funding Adder terminates on December 31, 2011 (i.e., in accordance with Hydro Ottawa's proposal for a January 1, 2012 effective date, calculate the funding adder revenues and associated interest to December 31, 2011 for the purpose of calculating the Smart Meter Disposition Rider for 2012).

24. Ref: Exh I2-1-2 Table 3
Please update Table 3 of this Exhibit including a column for 2011 bridge year costs.

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

25. Ref: Exh K6-2-22 VECC IR 47
In its response, Hydro Ottawa references back to its 2006 Smart Meter Program reviewed by the Board. Since then, there have been updates to the Board's policy and practice with respect to funding for and recovery of costs for smart meter investments and operations. In particular, the Board issued Guideline G-2008-0002: Smart Meter Funding and Cost Recovery

In its Decision with respect to PowerStream Inc.'s smart meter disposition application in 2010, the Board stated that "the Board is mindful that full cost causality should be the guiding principle."[1] However, the Board also noted that:

> The Board finds that a cost allocation approach based on class specific revenue requirement calculations offset by class specific smart meter funding to be inconsistent with previous Board decisions, and that there has been no clear requirement to track costs by class. The Board notes that historical funding collected from customer classes other than Residential and GS<50 kW is not material. The Board finds that a class specific calculation of the residual amounts for disposition of smart meter costs for each rate class is unwarranted, as there is insufficient benefit given the additional complexity.[2]

The Board also noted that a more detailed approach could, depending upon a distributor's circumstances, result in rate volatility for some customers, and expressed its view that such volatility should be generally avoided.

[1] Decision and Order, PowerStream Inc.'s application for smart meter disposition, EB-2010-0209, November 19, 2010, pg. 12
[2] *Ibid.*

Later in that same decision, with respect to PowerStream Inc.'s proposal for a SMIRR, the Board stated:

> The Board is mindful that a cost allocation approach for the prospective revenue requirement should ideally be based on a class specific revenue requirement calculation. However, the Board is concerned about distributors' ability to track all individual costs on a class specific basis at this point in the smart meter initiative, given that the instructions that have been issued by the Board in the recent past have not included this requirement. The requirements for the tracking of smart meter related costs have evolved to the point where no class by class tracking has been required since the initial implementation plans were filed. Furthermore, a cost allocation methodology in a cost of service rate application is based on reasonable cost drivers rather than tracked costs.

In its decision, the Board approved a methodology whereby the smart meter disposition rider was calculated based on an allocation of the return on capital (interest expense and return on equity) and amortization expense proportional to the capital investments for each class.

The Board will entertain proposals supported by analysis for SMDRs and SMIRRs based on principles of cost causality and where the distributor has the necessary historical and forecasted data.

Hydro Ottawa has proposed that the Smart Meter Disposition Rider be collected uniformly from all metered customers, even though there are some customers (e.g. Large Users) who do not receive such meters or are not serviced by the associated infrastructure investments.

a) Does Hydro Ottawa believe that it would be feasible to calculate a class-specific Smart Meter Disposition Rider for each of the Residential, GS < 50 kW and GS > 50 kW classes for which smart meters or enhanced demand meters have been installed using the approach as approved for PowerStream in the EB-2010-0209 Decision? Please explain your response.
b) If the answer to a) is in the positive, please provide such a proposal.

26. <u>Ref: Exh K6-2-4 VECC IR 48</u>
Hydro Ottawa states that the $404,500 related to remote disconnection for a number of smart meters is part of 2012 rate base. How many smart meters have the additional functionality of remote disconnection?

DEFERRAL AND VARIANCE ACCOUNTS

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

27. Ref: Exh K9-1-4 Board Staff IR 69
Ref: Exh A3-3-3, p2
The response to part c) provides a schedule of all revenue and expense accounts related to RCVAs (1518 and 1548) listed by USoA that are incorporated into RCVAs1518 and 1548 for 2010.

As per the schedule provided, the retail service revenue of $306,702 recorded in account 4082 is greater than the expense of providing the retail service of $118,552, which results in a variance of $188,350 recorded in account 1518. The retail service revenue of $306,702 is the amount before the recording of the RCVA variance of $188,350 in account 1518 for 2010.

As per Table 2 Other Revenues in Hydro Ottawa's application at Exh A3-3-3 page 2, $307k is included as other revenue for retailer services in the rate application.

As per the schedule provided, the STR revenue of $14,249 recorded in account 4084 is less than the expense of providing the STR service of $565,313 recorded in account 5315, which results in a variance of $551,064 recorded in account 1548 for 2010. Account 5315 expense of $565,313 is the amount before the recording of RCVA variance of $551,064 in account 1548 for 2010.

Hydro Ottawa indicates in the response to part d) that Hydro Ottawa departs from the APH by not reducing the higher of revenues and expense. Rather, the variance is always recorded into revenue.

a) Why did Hydro Ottawa include the retail service revenues of $307k, which is the amount before the recording of the variance in 1518, as other revenues in its rate application?
b) Please clarify if Hydro Ottawa has included the expense of providing STR service of $565,313, which is the amount before the recording of the variance in 1548, as part of OM&A expenses in its rate application?

28. Ref: Exh K9-1-6 Board Staff IR 71
Hydro Ottawa states that, "Through the normal reconciliation process of account 1588, the estimate of the cost of power and amount collected from customers compared to the actual amount is most significantly completed two months after the initial submission with Independent Electricity System Operator."

Hydro Ottawa further explains that the principal addition of $4,495,200 for the two month period from Nov 1, 2007 to December 31,2007 is mainly due to the amounts (see item i and ii listed below) recorded in the account from the reconciliation process of 1588 after the initial submission to IESO. The amount of $4,495,200 is broken down into:

i) $862k under-collection: the reconciliation prior to Oct 31, 2007
ii) $2,883k over-collection: the November and December reconciliation
iii) $750k: the true principal increase in Account 1588

a) Please describe the normal reconciliation process of account 1588 in detail, including the frequency of the reconciliation and the accounting process of accruing the difference between the estimate and the actual in account 1588.
b) Please confirm if Hydro Ottawa has performed the necessary reconciliation of account 1588 for the period of 2010 year end and included the amount from the reconciliation in the requested balance of account 1588 as of December 31, 2010.
c) Please confirm if the $862k under-collection corresponds to the debit amount of $862k in account 1588 and if the $2,883k over-collection corresponds to the credit amount of $2,883k in account 1588. If the answer is yes, please update the explanation of the principle addition of $4,495,200 in account 1588 for the two month period from Nov 1, 2007 to Dec 31, 2007. If the answer is no, please explain why.

29. <u>Ref: Exh K9-1-7 Board Staff IR 72</u>
Hydro Ottawa indicates that of the $942,530 principal portion of incremental IFRS costs recorded in Account 1508, $285,448 is related to incremental costs of internal staff.

Please provide a breakdown of the $285,448 incremental costs of internal staff by staff utilized for IFRS and explain why these costs are considered incremental.

30. <u>Ref: Exh K9-1-12 Board Staff IR 77</u>
The response states that “Please note the overall impact to 1592 nets to zero per the December FAQs”.

Please confirm that Hydro Ottawa has requested the balance in Account 1592 “Sub-account HST / OVAT ITCs” only for disposition in this rate application, not the zero balance net of the balance in the contra account Account 1592 “HST/OVAT Contra Account”. The balance in the contra Account 1592 “HST/OVAT Contra Account” is used only for RRR reporting purposes.

MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

31. Ref: Exh K11-1-1, Attachment 1 Board Staff IR 79
The interrogatory related to variances from the TUL in the Kinectrics Report. Attachment 1 is Hydro Ottawa's internal analysis used to determine components and lives.

    a) In many instances, asset categories have been grouped together, however, no reasons are provided. Please provide reasons for the assets that have been grouped together.
    b) In some instances, the Kinectrics Useful Life for the assets that Hydro Ottawa has grouped together are different. In some instances, the IFRS life for the group of assets is lower than the minimum Kinectrics TUL for one or more of the individual assets. For example, the minimum Kinectrics TUL for assets 4 to 7 ranges from 15 to 35 years, while the IFRS life for the group is 25 years. Please provide the rationale for selecting 25 years.

32. Ref: Exh K11-1-10 Board Staff IR 88
In Attachment 1 of the response, Hydro Ottawa provided the calculation of the 5.1% weighted average interest rate on external debt. The external debt includes $50 million senior unsecured debentures and $200 million senior unsecured debentures.

    Hydro Ottawa indicates in its response that "Hydro Ottawa has followed the Board guidance in estimating the CWIP rate for 2012 as it has used the rate determined from debt acquired on an arms length basis in accordance with IFRS".

    a) Please provide the name(s) of the debtor(s) from whom Hydro Ottawa obtains $50 million senior unsecured debenture and $200 million senior unsecured debentures.
    b) Please explain the arms length relationship between Hydro Ottawa and the debtor for the purpose of determining the borrowing costs to be capitalized in CWIP.

33. Ref: Exh K11-1-12 Board Staff IR 90
In response to part a), Hydro Ottawa confirms that the capital contributions referred to are the customer contributions received for the specific capital programs/assets.

    In response to part c), Hydro Ottawa states that capital contributions are calculated based on burdened costs. The reduction of the capital contribution under MIFRS of

$2 million is due to a reduction of burdened costs because IAS 16 specifically prohibits the capitalization of administration and other general overhead costs.

a) Please clarify whether the capital contributions are the amounts of customer contributions received by Hydro Ottawa or the amounts calculated based on the burdened costs.
b) If Hydro Ottawa calculates the capital contribution to be capitalized in capital assets, please provide the accounting reference to support this accounting practice.

34. <u>Ref: Exh K11-1-13 Board staff IR 91</u>
    a) In response to part c), Hydro Ottawa provides the estimated reduction in pension expense of $152k from the comparison of total estimated benefit costs under IFRS vs. CGAAP. The $152k reduction in the 2012 pension expense is forecasted by Hydro Ottawa from an estimate of the amortization of the actuarial loss for 2011.

       Please provide the calculation of $152k (the estimated amortization of the actuarial loss for 2011).

    b) In response to part d), Hydro Ottawa indicates that the external auditor is currently in the process of reviewing the actuarial valuation report as part of the audit of the IFRS opening balance sheet and the results of this audit are expected to be available and presented to the Audit Committee in November 2011.

       Hydro Ottawa provides two actuarial reports: one under CGAAP and one under IFRS in the attachment to the response. The cover letter of the actuarial report under CGAAP states that “the purpose of this letter is to report on the costs and obligations of the Post Retirement Benefits other than pension for the fiscal year ending December 31, 2010, and to provide the information to disclose in the financial statements of Hydro Ottawa Holding Inc. for the year ending December 31, 2010”. This report notes a $2.8 million unamortized actuarial loss for Hydro Ottawa on p15 of the report. The $2.8 million unamortized loss is also presented in Hydro Ottawa’s 2010 AFS.

       i) Please clarify which actuarial report the external auditor is in the process of reviewing.
       ii) Please confirm if the external auditor has reviewed the actuarial report under CGAAP which gives rise to the $2.8 million unamortized actuarial loss for the purpose of the 2010 AFS audit.

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

35. Ref: Exh K11-2-1 Board staff IR 95
Ref: Exh J1-1-1 Table 1 (as updated on September 14, 2011)
Ref: Exh J4-1-1, Attachment AZ (as updated on September 14, 2011)
Hydro Ottawa updated the calculation of the PP&E deferral account total from $(427)k to $(123)k in relation to PP&E Components of Rate Base in Attachment AZ.

    The effect on revenue requirement of $39k includes $31k amortization of PP&E deferral account and $9k return on rate base associated with deferral balance (total may not match due to rounding as stated by Hydro Ottawa).

    As a result, $39k is included in revenue requirement under MIFRS in Table 1 of the updated Exh J1-1-1.

    Please clarify if the $31k amortization of the PP&E deferral account is included in depreciation expense for the test year?

36. Ref: Exh K11-2-2 Board Staff IR 96
Ref: Exh K11-1-13 Board Staff IR 91
In response to part c) of Board staff IR 91, Hydro Ottawa provides the estimated reduction in pension expense of $152k from the comparison of total estimated benefit costs under IFRS vs. CGAAP. The $152k is related to the amortization of the actuarial loss of $2.8 million from the actuarial valuation conducted on Jan 1, 2011.

    Hydro Ottawa proposes a new deferral account to capture the opening adjustment of $2.8 million required for pension. Hydro Ottawa further proposes the account, journal entries, the time for disposition and allocator in the response to Board staff IR 96.

    a) Please confirm whether the proposed deferral account for the $2.8 million corresponds to the reduction of $152k pension expense in the rate application.
    b) Please clarify the journal entries proposed in response to part b) of Board staff IR 96 for the following:
        i) What is the “Benefit” account in the first journal entry proposed?
        ii) Please explain why the second journal entry “to record the collection from customers” debits the “Distribution Revenue”.
        iii) If any of the journal entries proposed need to be changed, please update the journal entries.
    c) In response to part b) of Board staff IR 91, Hydro Ottawa states that the decrease in retained earning corresponds to $2.8 million unamortized losses as presented in the 2010 AFS. Hydro Ottawa proposed a deferral account to

capture this actuarial loss. However, in response to part c) of this IR, Hydro Ottawa indicates that the amount is not audited since it states that “Hydro Ottawa proposes to ask for disposition of this account after the account has been audited at the end of December 2012”.

Please clarify if the $2.8 actuarial loss from the actuarial valuation conducted on January 1, 2011 has been audited by the external auditor? If not, please explain why not since the amount is included in the notes of the 2010 AFS.

37. <u>Ref: Exh K11-2-3, Board Staff IR 97</u>
Hydro Ottawa proposes a deferral account to capture the gains and losses on disposal of pooled assets and proposes the journal entries to record the transactions.

a) Please define the pooled assets and the associated USoAs.
b) It is not clear to Board staff from the journal entries proposed how the gains on disposal of pooled assets and the losses on disposal of pooled assets are recorded. Please propose the journal entries separately for the gains on disposal of pooled assets and the losses on disposal of pooled assets with the associated USoAs.
c) Please clarify, in the second journal entry proposed by Hydro Ottawa, what is included in the “Loss Recovery Revenue”. Please associate this account to USoA, if available. If not, is Hydro Ottawa proposing to create a new USoA?