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

October 4, 2011

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

Dear Ms. Walli:

Re: Grimsby Power Inc.
2012 Distribution Rate Application
Board Staff Interrogatories
Board File No. EB-2011-0273

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

Yours truly,

Original signed by

Silvan Cheung
Advisor – Applications & Regulatory Audit

Encl.

Board Staff Interrogatories
2012 Electricity Distribution Rates
Grimsby Power Inc. ("Grimsby")
EB-2011-0273

Administration

1. Ref: Responses to Letter of Comment

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

2. Ref: Condition of Service

a) Please identify any rates and charges that are included in the Grimsby'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) Please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2010 and the revenue forecasted for the 2011 bridge and 2012 test years.
c) Please explain whether in the Grimsby's view, these rates and charges should be included on the Grimsby's tariff sheet.

Rate Base

3. Ref: Exhibit 2/ Page 42 – 2011 Continuity Statement

a) In the above reference, Grimsby provides a Fixed Asset Continuity Schedule for 2011 Bridge Year. The <u>gross assets ending balance</u> under Meters (Smart Meters) category was $1,499,556. Please explain how this amount is derived.

b) In the 2011 Bridge Year Fixed Asset Continuity Schedules, the <u>net book value</u> for Meters (Smart Meters) is $1,350,686. However in reference to Exhibit 9/ Page 30, the 2011 net fixed assets value for smart meter is $1,317,136. Please reconcile these two numbers and explain the differences.

Capital Expenditures

4. Ref: Exhibit 2/ Page 47 - 51 – 2012 Capital Expenditures (Smart Meter)

In Table 2.24, titled "2012 Test Year Proposed Capital Projects MIFRS", Grimsby proposes a capital expenditure of $19,529 for Metering (Smart Meters).

a) Since Grimsby plans to complete its smart meter deployment by the end of December 2011 (Exhibit 9, page 19), please explain why Grimsby is proposing to spend an additional $19,529 related to Metering (Smart Meters) in 2012 and provide more details about this expenditure.
b) Please confirm whether this expenditure is included in the smart meter cost recovery rate rider calculation shown in Exhibit 9/ page 32.

5. Ref: Exhibit 2/ Page 41 – 2010 Capital Expenditures

In the above reference, Grimsby states that the total cost related to Smart Meter Mass Deployment for 2010 was $1,078,520. However, in Exhibit 9/ page 28, Table 9.9 shows the capital expenditures for 2010 was $1,131,557. Please explain the difference.

6. Ref: Exhibit 2/ Page 51 – 53 – 2012 Capital Expenditures (Fleet Replacement)

On pages 51, it states: "Grimsby Power Inc.'s utilizes an evaluation matrix shown in Table 2.25 below to guide its decision about truck replacement. This analysis shows that three trucks should be reviewed for a replacement decision. Of the three trucks, 2011's budget analysis shows that only Truck # 15 and 16, originally purchased in 1988 and 1989, are in need of replacement. As the usage on these vehicles is low only one truck will be purchased and it will be a 55ft Material Handling Aerial Device."

a) Please advise whether the fleet evaluation matrix as shown under Table 2.25 is performed by internal staff or external party.
b) In Table 2.25, please explain what score 3 represents under Reliability category.
c) In Table 2.25, please explain what score 4 represents under Maintenance and Repair Costs category.
d) In Table 2.25, please explain what score 3 represents under Condition category.

7. Ref: Exhibit 2/ Page 16 – Service Reliability Indices

In Chart 2.2, Grimsby indicates that 2010 SAIDI, SAIFI, and CAIDI are 0.38, 0.27, and 1.41 respectively. However, in reference to the Board's 2010 Yearbook of Electricity Distributors (p.73), the annual SAIDI, SAIFI, CAIDI for Grimsby are 3.00, 1.06, and 2.82 respectively. Please reconcile these values and explain the reason(s) for the differences.

8. Ref: Exhibit 2/ Page 15 – Service Quality Indicators

Please provide last three historical years of the service quality indicators and provide an explanation for the indicators that were under performance and the actions taken to address this matter.

Load and Customer Forecasting

9. Ref: Exhibit 3/ Page 6/ Table 3.2 – Load Forecast - kWhs

In Table 3.2, Grimsby provides a summary of Load and Customer/Connection Forecast. Please provide Table 3.2 again but exclude any CDM adjustments from the Billed (kWh) column for 2011 and 2012 and recalculate the Growth (kWh) and Percent Change for 2011 and 2012.

10. Ref: Exhibit 3/ Page 12/ Table 3.6 – Load Forecast - kWhs

In Table 3.6, Grimsby provides a comparison of Actual and Predicted kWhs for the period from 1999 to 2012.

a) Please confirm whether the Predicted kWh under "2011 Normalized Bridge" and "2012 Normalized Test" have included any CDM adjustments. If the answer is yes, please provide the adjusted amount in kWh included in 2011 and 2012.
b) Please confirm whether the Predicted kWh under "2012 Weather Normal – 10 year average" and "2012 Weather Normal – 20 year trend" have included any CDM adjustments. If the answer is yes, please provide the amount for the CDM adjustments.
c) Please provide the annual values of HDD and CDD used to generate the Predicted kWh for "2011 Normalized Bridge", "2012 Normalized Test", "2012 Weather Normal – 10 years average" and "2012 Weather Normal – 20 year trend".
d) Table 3.6 also shows that, on an annual basis, the estimated regression model underestimates actual purchased kWh consistently from 1999 to 2001, overestimates actual purchased kWh consistently from 2002 to 2005, and then underestimates actual purchased kWh from 2006 to 2010.

The maximum percentage error is 3.56%.

i. In light of these “runs” of under- and over-estimation, please provide further explanation as to why Grimsby considers that the estimated regression model is “reasonable”.
ii. Given the trend shown Table 3.6, please provide Grimsby’s explanations as to why the estimated model would not continue to underestimate purchased kWh beyond 2010.
iii. Please provide further explanation as to what other regression equations and/or variables Grimsby tried, the results of these alternatives and the utility’s reasons for its preferred model.

Other Revenues

11. Ref: Exhibit 3/ Page 35 – Summary of Other Operating Revenues

a) In Table 3.33, Grimsby indicates that the Revenues from Non-Utility & Other Property for 2011 is $98,600 which represents a 39% decrease as compared to 2010 actual ($162,065). Please explain the reason(s) for this decrease.
b) In Table 3.33, Grimsby indicates that the Interest and Dividend Income for 2011 is $3,000 which represents a 71% decrease as compared to 2010 actual ($10,180). Please explain the reason(s) for this decrease.

12. Ref: Exhibit 3/ Page 43 – Specific Service Charge

In the above reference, it states: “Grimsby Power Inc. proposes to remove the Prepaid Meter – Monthly Service Charge from its Schedule of Rates as this option is no longer available.”

Please explain why this option is no longer available.

Operating, Maintenance and Administrative (“OM&A”) Expenses

13. Ref: Exhibit 4/ Page 2 – 3/ Table 4.1 – Summary of OM&A Expenses

Please identify the inflation rate used for 2011 and 2012 OM&A forecast and the source document for the inflation assumptions.

14. Ref: Exhibit 4/ Page 11 – 12 & 17 – Meter Reading

Grimsby states that it is phasing out a large part of its manual meter reading with the operationalization of its smart meters in 2011, and that the 2011 amount reflects only 6 months of manual meter reading expenses. The utility goes on to state that 72 GS > 50 kW customers will still require meter reading, the costs of which are being currently assessed as well as at least one check read for all meters.

In Table 4.5, Grimsby shows its annual meter reading expenses under Account 5310. The expenses range between $100,000 to $114,000 per annum from 2006 to 2009, and increase to $172,730 in 2010. The expenses then decrease to about $88,000 for 2011 bridge year and are forecasted at around $165,000 for the 2012 test year.

a) Please explain the increase in the meter reading expense in 2010.
b) Since Grimsby will be operating under remote meter reading for the full year in 2012, except for GS > 50 kW customers, and with only an annual check read and special meter reads, please explain Grimsby's forecast of 2012 meter reading expenses.
c) Please confirm whether Grimsby has converted over to remote meter reading. If so, as of what date?

15. Ref: Exhibit 4/ Page 22 – Smart Meter System Costs

In the above reference, Grimsby states that it will incur additional costs for implementation of Time-of-Use ("TOU") pricing/billing in 2012, for an amount of $129,960.

a) Please identify if there are any associated costs in years before 2012 for these activities. If so, where have they been recorded, in deferral/variance accounts 1555/1556 or regular operating accounts?
b) If there are analogous amounts in years before 2012, please provide the amounts by year and in the format shown in Table 4-10.
c) For each category shown in Table 4-10, please identify whether the costs are expected to be one-time in 2012, or are expected to continue in subsequent years.
d) Please explain what the costs of $60,588 for MDMR are for. Please also confirm whether that these costs are not for meter data functions that are the responsibility of the Smart Metering Entity. If the costs are for meter data functions that are the responsibility of the Smart Metering Entity, please provide Grimsby's reasons for why these costs are recoverable pursuant to O. Reg. 426/06.

16. Ref: Exhibit 4/ Page 22 – 23 / Table 4-11 – Computer Network and Website

In the above reference, Grimsby states that a website upgrade will occur in 2011, but table 4-11 shows costs in 2012 year of $10,000 for website maintenance and $8,568 to increase Internet Capacity.

a) Please explain the reason for increasing Internet capacity. Is this related to web presentment of TOU consumption and billing?
b) Please explain if the website upgrade occurs in 2011 or 2012. If in 2011, please explain where the 2011 costs are documented.
c) Please explain whether the costs shown in Table 4-11 are one-time or recurring.

17. Ref: Exhibit 4 /Page 10 - Fleet

On page 10, it states: "The Operations Department is responsible and accountable for the maintenance and control of approximately eight fleet vehicles and associated equipment. Its objectives include organizing maintenance schedules to ensure vehicle reliability and safety, and the minimization of vehicle down time."

With the replacement of Bucket truck expecting in 2012, how much of the operation expense would be reduced and whether the reduction has been reflected in 2012 OM&A.

18. Ref: Exhibit 4 /Page 20 - 21 – Third Party Service Providers

a) On page 21, it states: "The Line Contractor amounts vary from year to year depending on the volume of projects and the type of work accomplished." According to Table 4.9 (Cost Drivers-Third Party Service Providers), the total increase for the Line Contractor costs for 2012 is $41,330 ($29,090 + $12,240). Please provide the associated projects or works that drive the increase of these Line Contractor costs.

b) In reference to Exhibit 4/ Page 49-50, it explains the positive impact of hiring an additional Journeyman Lineman and one of the impact states: "Contract line work currently costs the corporation $100,000's of dollars each year. Additional line staff to Grimsby Power Inc. will reduce this spend by the amount of one full time equivalent (FTE) lineman…". Please explain why an additional Journeyman Lineman is needed while at the same time the proposed Line Contractor costs as stated above are still increasing in 2012.

c) On page 21, it states: "GPI currently has a number of disparate systems and service provider which enable GPI to process meter data. This process includes the downloading of data from interval & wholesale meters, converting this data for use in the billing system, and comparing Grimsby Power Inc. data with IESO data in the settlement process. The net increase in costs is approximately $46,000 and includes a third party service to provide a consolidated end to end solution."

i) Please confirm whether this increase of the process meter data costs is related to smart meters.
ii) Please clarify whether this meter data cost is one time or an ongoing cost.

19. Ref: Exhibit 4/ Page 43 – Employee Compensation and Benefits

Table 4.24 provides the average wages, overtime, and benefits by classes and total. It appears that there are calculation errors for the total average for each category. If the errors are confirmed, please recalculate the total average for each category.

20. Ref: Exhibit 4/ Page 31 - Low Income Energy Assistance Program (LEAP)

Please state whether or not Grimsby 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.

21. Ref: Exhibit 4/ Page 50 – 51 - Ontario Municipal Employees Retirement System Pension Expense

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 Grimsby'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 Grimsby proposes to deal with this increase.

Green Energy Plan

22. Ref: Exhibit 4/ Appendix 4.4/ Page 6 – Transmitter Consultations
Exhibit 4/ Appendix 4.5/ Page 1;
Board's Decision and Order on amending the transmission licence issue to Hydro One Network Inc. [EB-2011-0055] Page 3-4, paragraph 19

In the first reference Grimsby states that it has informally been advised of transmission capacity constraints by Hydro One and NWTC:

> *GPI sees no restrictions in the near future in the development of FIT and MicroFIT projects on its distribution system …. There may however, be limitations with respect to the transmission stations. Hydro One has informally*

notified GPI of a limitation on the transmission side of the Beamsville TS. … NWTC has recently indicated informally that the short circuit capacity of this station has limitations.

In the second reference OPA states:

The OPA notes that GPI's service territory is constrained due to the fact that the Allanburg 115kV TS has reached its short circuit limitation as specified by Hydro One. This constraint poses limitations for planned projects identified in GPI's current Plan for this area including capacity allocation exempt, capacity allocation required and microFIT projects. The OPA may be unable to award further FIT contracts in the area until this constraint has been addressed by Hydro One. This may result in some delay in connection of projects in the area.

a) Please file with the Board written confirmation of NWTC's assessment with respect to upstream transmission constraints
b) Please clarify with Hydro One and/or the OPA whether Allanburg TS will be amongst the projects earmarked for upgrades as directed in the third reference.
c) Please clarify with NWTC if they are planning any work for transmission constraints relief. If not, why not?
d) Given that the OPA has indicated that these constraints may impact future FIT awards, please update the Board on potential mitigation measures to resolve these transmission constraints, and comment on a possible cost responsibility arrangement to upgrade the transmission assets in question.

23. Ref: Exhibit 4/ Appendix 4.4/ Page 6 – Distribution System Constraints
Filing Requirements: Distribution System Plans – Filing under Deemed Condition of Licence, issued March 25, 2010 [EB-2009-0397], Part IV, p.6-7

The first reference highlights future distribution infrastructure upgrades:

In terms of the GPI electricity distribution system GPI has committed a long term strategy to rebuild most of its distribution infrastructure. […] This work is part of GPI's regular capital program.

a) Please confirm that the connection of the renewable projects thus far identified will have no significant impact on Grimsby's distribution system, and require no immediate upgrades.
b) Do present plans to connect Renewables have any impacts on embedded or adjacent distributors?
c) If costs are forecast in 2012 as a result of the connection of renewables, please indicate what percentage of the planned "regular capital program" would be attributable to them.

d) In accordance with the *Filing Requirements*, has Grimsby consulted with other distributors?

24. Ref: Exhibit 4/ Appendix 4.4/ Page. 4 – Future Connections
Exhibit 4/ Appendix 4.5/ Page 1

In the first reference, Grimsby states that 27 residential microFIT solar PV and 2 commercial FIT applications have been received by the OPA.

In the second reference, OPA indicates that:

> *To date, the OPA has received 1 capacity allocation required FIT application and 34 microFIT applications to GPI's system for a total of 1.25MW of FIT applications and 0.303MW of microFIT applications.*

Please reconcile the number of the FIT and microFIT applications received by Grimsby and the OPA.

25. Ref: *Filing Requirements: Distribution System Plans – Filing under Deemed Condition of Licence, issued March 25, 2010 [EB-2009-0397], Part V* – General Strategy for Connecting Embedded Generation ;
Exhibit 4/ Appendix 4.4/ Page 8 / Table 2 and 3

In the first reference, bullet point 4 states: "the method and criteria that will be used to prioritize expenditures in accordance with the planned development of the system". Please provide the Board with Grimsby's prioritization methodology, and how it applies to the projects forecast (in the second reference above) for implementation over the 5-year horizon.

26. Ref: Exhibit 4/ Appendix 4.4 – Project Description & Classification

The nature of the work to be undertaken by distributors to connect renewable generators has been classified within three different categories, each giving rise to a different cost responsibility split between generators and distributors. The three categories are: Connection, Expansion, and Renewable Enabling Improvement ("REI").

a) In the above reference, the GEA Plan refers to two FIT projects, namely a solar PV and a biogas one. Please indicate the expected in-service date for these projects.
b) Please provide project summaries and highlight the work Grimsby would be undertaking, including the feeder designation to which a given project would be connected to, and the capacity of the feeder.
c) Please complete the table below:

Total number of Projects and Expected Investment in GEA projects:

	2012	2013	2014	2015	2016
Connection					
Expansion					
REI					
OM&A					

d) In reference to the *Report of the Board: Framework for Determining the Direct Benefits Accruing to Customers of a Distributor under Ontario Regulation 330/09, issued June 10, 2010 [EB-2009-0349*], please evaluate the above projects' cost responsibilities and the potential direct benefits accruing to Grimsby's ratepayers.

27. Ref: Exhibit 4/ Appendix 4.4 – GEA Plan Implementation Cost

On page 5 of the above reference, Grimsby states: "GPI has not forecasted any internal expenditures with respect to this GEA Plan. All internal expenditures will be retained under the current rate structure. GPI has forecasted $25,000 per year starting in 2012 for third party professional services with respect to this GEA Plan."

a) Please confirm that no additional human resources will be required to implement the GEA Plan.
b) Please describe what type of "third party professional services" Grimsby is referring to in the above reference, and the kind of work that will be performed, for instance: assistance with Smart Grid vs. renewables connections assistance, training of internal staff, conducting studies, etc.

28. Ref: Exhibit 4/ Appendix 4.4 – Smart Grid

a) On page 5 of the above reference, Grimsby states: "Given the uncertain nature of Smart Grid development, GPI's strategy will be to adopt a very conservative approach to the implementation to Smart Grid Projects." Please provide further explanation of this "conservative approach".
b) On page 9 of the above reference, Grimsby states: "It is anticipated that costs to monitor and keep up to date with Smart Grid development will be contained within GPI's existing cost structure." Please confirm whether the costs related to Smart Grid development have been included in Exhibit 4 / page 31 in the amount of $27,204.
c) Please provide a breakdown of the Smart Grid related costs in the table below:

Area of Smart Grid work	Nature of Program (Pilot, Study, Planning exercise, Education & Training)	Capital expenditure (2012)	OM&A (2012)
2-Way Communication w/ customers			
Home Area Networks			
Dx System Optimization			
Network Automation			
Network Monitoring			

Cost of Capital and Rate of Return

29. Ref: Exhibit 5/ Page 6 and Exhibit 5/ Appendix 5.1 – Affiliated Long-term Debt

Grimsby documents that it has long-term affiliated debt in terms of a Promissory Note with the Town of Grimsby. A copy of the Promissory Note is provided in Appendix 5.1. The principal is stated as being for $5,782,746.01 at a rate of 7.25% and matures on February 1, 2020.

As provided, the copy provided in Appendix 5.1 is unsigned. Board staff also notes that the Promissory Note is dated December 18, 2007 but the terms as amended are to be effective January 1, 2004. It would appear that this note replaces and amends a previous Promissory Note.

a) Please provide an executed copy of the Promissory Note filed in Appendix 5.1.
b) Please provide the details of the amendment(s) to the note.
c) Please explain why the amendments are effective back to January 1, 2004 when the Promissory Note is dated December 18, 2007.
d) The Promissory Note indicates that the interest payment started from April 1, 2001. Please provide a copy of the original Promissory Note dated April 1, 2001.

30. Ref: Exhibit 5/ Page 6 – Third-party Debt

Grimsby notes that it entered into a debt arrangement of $1.6 million on May 1, 2011 with the TD Bank for purposes of funding smart meter and other capital expenditures. The rate is stated as being calculated at Prime Rate + 0.5% and the loan has a term of 15 years.

The utility also states:

> *Grimsby Power Inc. plans to borrow $1,500,000 in 2012 to fund its*

2011 capital projects. This instrument is anticipated to be organized in a similar fashion to the debt instrument taken out with TD Commercial Banking in 2011.

In Table 5-9, Grimsby shows debt financing with the TD Bank of $1,493,333 effective April 1, 2010 with a rate of 3% for 2010, $2,886,667 @ 3.0% for 2011 and $2,493,333 @ 3.0% for 2012.

a) Is the rate of the TD Bank fixed at 3.0% or is it periodically updated to correspond with Prime Rate + 0.5%? If the latter, what is the current rate being paid?
b) Please reconcile the documentation on page 6 of this Exhibit with the debt shown in Table 5-9.
c) The statement quoted above states that Grimsby is borrowing in 2012 to finance 2011 capital projects. Please explain why Grimsby is obtaining debt financing a year later than when it is incurring the costs.
d) When does Grimsby expect to incur the debt in 2012?
e) Please update Table 5-9 showing each debt instrument separately. Please ensure that the calculation of the proposed weighted average cost of long-term debt, proposed at 5.97% for 2012 is shown in the updated table.

Cost Allocation

31. Ref: Exhibit 7/ Page 5 – Cost Allocation Model

In reference to page 26 of the Board Report "Review of Electricity Distribution Cost Allocation Policy" (EB-2010-0219) dated March 31, 2011, the Board 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 Grimsby has used the default values for Services and Billing.

b) Is it Grimsby'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?

32. Ref: Exhibit 7/ Page 5 - 12 – Cost Allocation Model

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 Grimsby'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).

Rate Design

33. Exhibit 8/ Page 2 - 4 – Fixed and Variable Revenue Allocation

In Table 8.4, the Total Base Revenue Requirement for USL class is $15,428; however in Table 8.6, the USL's Base Revenue Requirement is shown as $20,721. Please explain this discrepancy and adjust any calculations if changes are required.

34. Ref: Exhibit 8/ Page 5 – Volumetric charge

In the above reference Grimsby states: "As a result, the proposed volumetric charge of $1.5533 per kW for the GS > 50 kW customer class is increased by $0.1749 per kW to include the amount of the Transformer Allowance in the GS > 50 kW class distribution volumetric rate." However, Table 8.6 indicates that the proposed volumetric charge for GS > 50 kW is $1.5322 per kW. Please reconcile the difference.

35. Ref: Exhibit 8 – Low Voltage

In reference to Exhibit 1, Page 14, Grimsby requests an approval of revised low voltage rates as proposed and described in Exhibit 8. However it appears that such proposal is not included in the application; please provide the details of the revised low voltages rates proposal and the supporting calculations.

36. Ref: Exhibit 8/ Page 7 – Loss Factors

Table 8.8 indicates that the historical actual values of Grimsby's Distribution Loss Factor (DLF) increase from 1.03 in 2006 to 1.04 in 2007 and subsequent years.

a) Please provide an explanation for the increase in the actual DLF from 2006 onwards.

b) Please describe any steps that are contemplated to decrease Grimsby's DLF during the test year (2012) and beyond.

37. Ref: Exhibit 8/ Appendix 8.1 – LRAM Support

In the section, LRAM Support, the Table of Contents lists the following four attachments which were not included in the application:

- Attachment A – CDM Load Impacts by Class and Program
- Attachment B – Foregone Revenue by Class and Program
- Attachment C – LRAM Totals
- Attachment D – OPA CDM Final Results

Please provide a copy of each of the four attachments.

38. Ref: Exhibit 8/ Appendix 8.1/ Page 1 – LRAM Support

Section 3.4.2 of the Filing Requirements indicates that distributors shall file any outstanding LRAM or SSM applications funded between 2005 and 2010 as part of their 2012 COS or IRM application. If a distributor does not file for the recovery of LRAM or SSM amounts in its 2012 rate application, it will forego the opportunity to recover LRAM or SSM for this legacy period of CDM activity. Grimsby's LRAM application is based on its 2005 to 2009 inclusive CDM results.

a) Please indicate whether Grimsby intends to file an application for LRAM or SSM for 2010.
b) If the answer to a) is yes, please provide the following for 2010 in order to have an estimate of the total LRAM and SSM impact:

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

Smart Meters

39. Ref: Exhibit 9 / Page 10, 19 - 27 – Smart Meter

Please confirm if Grimsby has recorded and tracked costs beyond minimum functionality in separate sub-accounts of Account 1555 and separate subaccounts of Account 1556 for capital expenditures and OM&A expenses, respectively. If so, please provide a breakdown by sub-account.

40. Ref: Exhibit 9 / Page 10, 22 - 23 – Stranded Meter

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

41. Ref: Exhibit 1/page 5, Exhibit 2/page 3 and Exhibit 9/pages 19 to 34 - Smart Meter rate riders

On Exhibit 1/page 5, Grimsby notes in its schedule of proposed rates and charges that its proposed smart meter rate rider is “significant” at $4.8458 per month per metered customer. Grimsby has used the term “smart meter rate rider” as an amalgamation of the Smart Meter Disposition Rider and the Stranded Meter Rate Rider. In Exhibit 9, Grimsby notes that the proposed Smart Meter Disposition Rate Rider is $1.66 per month per metered customer and the Stranded Meter Rate Rider would be $3.18 per month per metered customer.

On Exhibit 2/page 3, Grimsby notes that it is proposing recovery of the amounts for stranded meters over a one year period.

a) Given that the smart meter rate rider is a fixed charge, how does Grimsby propose to collect a charge that is expressed to four decimal places (i.e. to hundredths of a cent).
b) If the smart meter rate rider is “significant”, please provide Grimsby’s reasons for proposing recovery of the stranded meter amounts over one year rather than over a longer period.

42. Ref: Exhibit 9/pages 19-34 – Smart Meter Disposition Rider

a) Using the Smart Meter model sent by the Board to all electricity distributors on September 13, 2011, please provide the Smart Meter model in working Microsoft Excel format supporting Grimsby Power's proposed Smart Meter Disposition Rider ("SMDR"). Please reflect any changes that may be necessary as a result of responses to other interrogatories by Board staff or intervenors with respect to Grimsby's smart meter proposal.

b) As necessary, please update or augment all evidence in this Exhibit taking into account the documentation provided on the Notes page of the Smart Meter Model sent to distributors on September 13, 2011.

43. Ref: Exhibit 9/ Page 30/ Table 9.11 – Smart Meter Revenue Requirement

a) In this summary table, Grimsby has applied the deemed capital structure and proposed 2012 Cost of Capital parameters to determine the revenue requirement for all years. As Grimsby has no smart meter costs prior to 2009, this affects the deferred revenue requirement for 2009, 2010 and 2011. Please explain why Grimsby is applying the 2012 Cost of Capital in determining the revenue requirement for prior years.

b) The OM&A costs for 2010 and 2011 are $4,067 and $143,260 respectively. Please explain the reason(s) for this significant increase.

44. Ref: Exhibit 9/page 31/Table 9.12 – Smart Meter Funding Adder Revenues

a) Do the Smart Meter Funding Adder revenues shown in this table include interest calculated using the applicable Board-issued Prescribed Interest Rate for Deferral and Variance Accounts?

b) Please provide an update to Table 9.12 based on Sheet "8. Funding_Adder_Revs" of the Smart Meter Model send to distributors on September 13, 2011. Please show all information on that table.

45. Ref: Exhibit 9/page 32 – 33 – Stranded Meters

In table 9.14, Grimsby documents that it has no net proceeds from the disposition of conventional meters stranded due to the replacement by Smart Meters.

a) Please provide further explanation as to why there was no net salvage value for the removed conventional meters.

Grimsby is proposing that the Stranded Meter Rate Rider be collected from all metered customers, as the denominator shown in Table 9.15 is 10,486, the same as the denominator shown in Table 9.13.

b) Since Grimsby has only replaced conventional meters with Smart Meters for the Residential and GS < 50 kW customer classes, please provide Grimsby's views on whether the Stranded Meter Rate Rider should be collected only from customers in those two classes.

c) Please recalculate the Stranded Meter Rate Rider if it is only collected from Residential and GS < 50 kW customers, over the following recovery periods, as a fixed monthly charge:
   i. One year (January 1 to December 31, 2012);
   ii. Two years (January 1, 2012 to December 31, 2013);
   iii. Three years (January 1, 2012 to December 31, 2014); and
   iv. Four years (January 1, 2012 to December 31, 2015).

46. Exhibit 9/page 33 – Smart Meter Disposition Rider

Grimsby is proposing that the Smart Meter Disposition Rider ("SMDR") be collected over a period of one year as a fixed monthly charge from all metered customers, similar to how the Smart Meter Funding Adder ("SMFA") was applied.

The Board issued *Guideline G-2008-0002: Smart Meter Funding and Cost Recovery* on October 22, 2008. Also, in 2010, PowerStream Inc. ("PowerStream") filed an application for review and partial disposition of costs for smart meters installed to December 31, 2009. The Board considered these costs and approved disposition under Board File No. EB-2010-0209.

In its Decision with respect to PowerStream'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.

Later in that same decision, with respect to PowerStream's proposal for a Smart Meter Incremental Revenue Requirement Rate Rider ("SMIRR"), the Board

---

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

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.*[3]

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. Further, the Board stated that it 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.

Grimsby has proposed that the Smart Meter Disposition Rider be collected uniformly from all metered customers, even though its GS > 50 kW customers did not receive such meters or are not serviced by the associated infrastructure investments.

a) Does Grimsby consider that it would be feasible to calculate a class-specific Smart Meter Disposition Rider for each of the Residential and GS < 50 kW customers for which smart meters have been installed using the approach as approved for PowerStream in the EB-2010-0209 Decision?

47. Ref: Exhibit 9/ Page 23 - 27 – Smart Meter Program

In the above reference, Grimsby provides the detailed descriptions of initiatives within the smart meter program. The initiatives include:

- Annual Security Audit;
- Meter Data Management (MDM) System or Operational Data Store (ODS);
- Business Process Redesign and Integration with the MDM/R;
- System Changes;

[3] *Ibid, page 16-17*

- Transition to TOU pricing;
- Web Presentment; and
- Consumer Education Plan.

Please provide the breakdown of the costs in the following categories for each initiative.

	2011		2012	
	Capital Expenditures	OM&A	Capital Expenditures	OM&A
Annual Security Audit				
MDM System or ODS				
Business Process Redesign and Integration with the MDM/R				
System Changes				
Transition to TOU pricing				
Web Presentment				
Consumer Education Plan				

Miscellaneous

48. Ref: Revenue Requirement Work Form (RRWF)

a) Based on the responses to the interrogatories from all parties, please submit a Microsoft Excel file containing an updated RRWF that represents any changes the applicant wishes to make to the amounts in the previous version of the RRWF included in the middle column.
b) Please provide a list of all changes made to Grimsby's original application (by exhibit), including an updated derivation of its revenue requirement, PILs calculation, base rates, rate adders/riders, and bill impacts.

Deferral and Variance Accounts

49. Ref: Exhibit 9 – General

Has Grimsby 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.

50. Ref: Exhibit 9 / Page 13 – Retail Service Charges

a) Please confirm whether or not Grimsby has followed Article 490, Retail Services and Settlement Variances of the Accounting Procedures Handbook for Account 1518 and Account 1548. Please explain if Grimsby 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/or account 4084, STR Revenue) and the incremental expenses in the associated expense accounts (i.e. account 5315, Customer Billing, and possibly 5305, Supervision and 5340, Miscellaneous Customer Accounts Expenses) is reduced (i.e. revenues debited or expenses credited) at the end of each period, with an offsetting entry to the variance account. Please explain if Grimsby has not followed Article 490, and if so, please quantify the variance.

b) Please confirm that all costs incorporated into the variances reported in Account 1518 and Account 1548 are incremental costs of providing retail services.

51. Ref: Exhibit 9 / Page 13 – Special Purpose Charges

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.
d) Please explain why Grimsby is requesting the forecasted interest ($802) from January 1, 2011 to December 31, 2011 and not the principal (28,030) and interest ($276) as of December 31, 2010 as per Deferral/Variance Account (DVA) Work form.

52. Ref: Exhibit 9 / Page 5 – Global Adjustment

In the Board’s Decision and Order (“EB-2009-0198”) on Grimsby’s 2010 IRM application, the Board stated:

> *The Board directs Applicant to further investigate and report to the Board in a proceeding no later than the rebasing proceeding Grimsby Power’s projection of the costs that it would incur to accommodate the establishment of a separate rate rider to dispose of the global adjustment sub account.*

In the above reference, it states: “Grimsby Power Inc. plans to dispose the global adjustment in a similar manner as the 2008 balances in the 2010 IRM Application, through a rate rider that would apply to all customers in the affected rate class. It is our understanding that CNPI resources, our CIS provider, has been in the midst of an SAP application upgrade and the transition to time of use billing. This has delayed the project to upgrade the Grimsby Power Inc system to have a separate rate rider to dispose of the Global Adjustment amount to Non-RPP customers.”

a) Please provide the estimated time CNPI would complete the upgrade of Grimsby’s system to have a separate rate rider to dispose of the GA amount to non-RPP customers.
b) Please state whether Grimsby will provide the detailed calculations for the Global Adjustment Rate Riders using non-RPP customers in the next rate application.
c) Please provide a comparison of the rate riders assuming an allocation of the Global adjustment amount using non RPP customers in one scenario and in another scenario, using all customers. Please provide the difference in the rate rider.

53. Ref: Exhibit 9 / Page 4 - 5 – Cost of Power

In regards to account 1588 RSVA Power and 1588 RSVA Sub-account Global Adjustment:

a) Please provide a breakdown of energy sales and cost of power expense by Uniform System of Accounts (USoA) account number.

b) Please reconcile these numbers to the audited financial statements.
c) If there is a difference between the energy sales and cost of power expense reported numbers, please explain the difference.
d) Does Grimsby 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 and non-RPP portions.
e) Is the RPP portion included in the 4705 control account and then incorporated into the variance reported in the 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 and incorporated into the variance reported in Account 1588.
f) 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.
g) If any of part "d", "e", or "f" above is not followed, please make appropriate adjustments and file the updated evidence. Please provide explanations for the changes made by Applicant, if any.

54. Ref: Exhibit 9 / Page 6 – Account 1590

In October 2009 Accounting Procedure Handbook FAQs, Q and A #16 states:

> *The Accounting Procedures Handbook (APH) specifies that a utility can choose to report taxes on a future income taxes basis (even when the taxes payable method was in effect for rate-regulated entities) and that such treatment has no bearing on what the utility chooses to apply for in distribution rates. Article 440 at page 2, states: "…the method of accounting for future income taxes will not affect the manner in which just and reasonable rates are approved by the Board and the accounts provided in the Uniform System of Accounts (USoA) are provided only for the convenience of the electric utility."*
>
> *The USoA provides accounts for the electric utility to recognize future income taxes in accordance with CICA Handbook Section 3465—Income Taxes, as follows:*
> *• 2296, Future Income Taxes – Current;*
> *• 2350, Future Income Taxes – Non-Current; and*
> *• 6115, Provision for Future Income Taxes.*
>
> *The Board does not prescribe financial reporting requirements for financial statement purposes. Consequently, the reporting of income taxes in*

financial statements, whether based on the taxes payable or the future income taxes method, is for the distributor to decide in accordance with CICA Handbook requirements.

In reference to Exhibit 9/ page 6, Grimsby stated that it established at the end of 2009 account 1590 Subaccount - Future Tax Liabilities in order to set-up the grossed-up future payments in lieu of taxes benefit and corresponding regulatory liabilities. The sub-account balance at the end of 2010 is $1,013,324. Each year the Future Tax Liability is recalculated and the differences recorded. No interest is recorded on this sub-account.

a) Please provide the Board authorization to support the establishment of the 1590 Sub account - Future Tax Liabilities
b) Please explain why the Applicant did not use the accounts identified in the October 2009 APH FAQ.
c) Please clarify if the tax treatment is related to the Audited Financial Statements and not regulatory accounting.

55. Exhibit 9 / Page 16; Exhibit 2/ Page 14 - 15 – HST/OVAT ITCs

a) The Board expects distributors to file for disposition of account 1592 in their cost of service applications. Please complete and file Appendix 2-T from Chapter 2 of the Filing Requirements issued on June 22, 2011 in support of the request to dispose of account 1592.

b) 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.

i) Notwithstanding the response to #55 a) above, please confirm that currently, Grimsby has no transactions recorded in account 1592, PILS & tax Variance for 2006 and Subsequent Years except the amount in Account 1592, sub-account HST/OVAT ITCs.
ii) Grimsby is requesting to dispose of account 1592, PILs & Tax Variance for 2006 & Subsequent Years, sub account HST/OVAT Input Tax Credits (ITCs) in the amount of $9,362 (credit).
    a. Please confirm that the amount requested is incremental ITCs.
    b. Please provide the assumptions used and detailed calculations for the total 2010 and 2011 amount of $98,628 (13%) and $60,695 (8%) respectively, as well as how the Applicant arrived at the capital HST/OVAT ITC portion of $711 in Table 2.4, HST Calculation, Exhibit 2, page 15.
iii) Please confirm that Grimsby has followed the December 2010 FAQs accounting guidance regarding Account 1592, sub-account HST/OVAT ITCs. If this is not the case, please explain.
iv) Please confirm that entries have been made to record variances in the sub-account account of Account 1592 to cover the period from July 1, 2010 to December 31, 2011. If this is not the case, please explain.
v) Please confirm that Grimsby does not intend to continue to use this sub-account for the Test Year and going forward. If this is not the case, please explain.

56. Ref: Exhibit 9/ Page 11 – Account 1562

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 IRM3 or cost of service).

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. Board staff issued a letter on September 13, 2011 to provide further guidance to distributors related to clearing account 1562 deferred PILs balances.

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 in Excel 2003 compatible files 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 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. There are different income tax rates for calculating the tax affect and the true-up amounts under the methodology.
- The capital tax rates and thresholds or exemptions chosen should be supported.

In addition Board staff would like to know the following:

b) In the years from 2001 to 2005, if Grimsby 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 Grimsby believes that it chose the correct income tax rates for determining the true-up amounts under the SIMPIL methodology.

c) Please explain how Grimsby 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 Grimsby overcame the errors that would have arisen from following the formula logic in the original models.

d) Please confirm whether or not Grimsby 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 Grimsby 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 Grimsby 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 Grimsby 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) In 2005 EDR, a deduction for CDM expenses was made in the PILs proxy model. Please confirm that Grimsby has entered a corresponding tax (accounting) amount on the same row in SIMPIL to determine the appropriate true-up.

i) 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.

Modified International Financial Reporting Standards

57. Ref: Exhibit 1/ Page 20 – Administration, Bridge and Test Year Updates
Exhibit 2/ Page 42, 43, 47; Exhibit 4/ Page 57 – 58;
Report of the Board: Transition to International Financial Reporting Standards (“IFRS”) July 28, 2009 [EB-2008-0408]
Letter of the Board: Transition to IFRS – Amendment to Board Policy, November 8, 2010

Grimsby has filed financial information for the years 2006 to 2010 that represents actual results and forecasted information for the 2011 Bridge and 2012 Test Years in accordance with Canadian Generally Accepted Accounting Principles (CGAAP). Grimsby also filed financial information for the 2012 Test Year in accordance with Modified International Financial Reporting Standards (MIFRS) and in compliance with the Board’s letter dated March 15, 2011. Grimsby has also provided comparisons between CGAAP and MIFRS for 2012 where there are differences between the two accounting standards. However, the Applicant has not filed financial information for the 2011 Bridge Year in MIFRS including the comparisons between CGAAP and MIFRS where there are differences between the two accounting standards in 2011.

In the November 2010 letter the Board stated:

> *9.1.2 Electricity distributors filing cost of service applications for rates in the year they choose to adopt IFRS for financial reporting must provide the required actual years, the bridge year and the forecasts for the test year(s) in CGAAP based format. An electricity distributor may choose to present modified IFRS based forecasts for the bridge and test years, if the distributor seeks to have rates set on the basis of modified IFRS. If the distributor is seeking rates based on modified IFRS accounting, the distributor must identify financial differences and resulting revenue requirement impacts arising from the adoption of modified IFRS accounting.*[4]

The Board also has 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.*[5]

For financial reporting purposes, on the date of transition to IFRS, the December 31, 2010 net book value becomes the January 1, 2011 gross value for PP&E (with accumulated depreciation set to zero). However, the Board has stated that the integrity of the December 31, 2010 gross value and accumulated depreciation values should be preserved for regulatory purposes and carried forward to January 1, 2011 values.

The continuity of historic cost should be established by the Applicant by using the December 31, 2010 regulatory gross capital cost and accumulated depreciation values as the opening January 1, 2011 regulatory gross capital cost and accumulated depreciation values.

a) Please provide a Fixed Asset Continuity Schedule based on MIFRS for the 2011 Bridge Year, maintaining asset continuity by using the December 31, 2010 regulatory gross capital and accumulated depreciation as the opening January 1, 2011 regulatory gross capital cost and accumulated depreciation values.

---

[4] *Letter of the Board: Transition to IFRS – Amendment to Board Policy, November 8, 2010*
[5] *Report of the Board: Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 EB-2008-0408 page 14*

b) Please update the 2012 Test Year Fixed Asset Continuity Schedule based on MIFRS with the opening balances based on the closing 2011 Bridge Year balances based on MIFRS from (a) above.
c) In Exhibit 2/ page 43, Grimsby provides a Capital Projects table (table 2.20) for 2011 Bridge Year based on CGAAP. Please provide a similar Capital Projects table based on MIFRS for the 2011 Bridge Year.
d) In Exhibit 4/ page 57, Grimsby provides a Depreciation Expense table (table 4.34) for 2011 Bridge Year based on CGAAP. Please provide a similar Depreciation Expense table based on MIFRS for 2011 Bridge Year.
e) Please update the 2012 Test Year Depreciation Expense based on MIFRS from (d) above.

**58. Ref: Exhibit 2/ Page 9 - 10 – Capitalization Policy
Report of the Board: Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 [EB-2008-0408]**

In the Report of the Board stated:

> *The utility will file a copy of its capitalization policy, identifying any updates to the policy, as part of its first rate filing after IFRS adoption. Revenue requirement impacts of any change in capitalization policy must be specifically and separately quantified.*[6]

Grimsby stated that it does not have any formal written capitalization policies but it has existing business processes. Grimsby has not mentioned any changes to its accounting practices since its 2006 cost of service application, EB-2005-0371. However, Grimsby is proposing its test year based on Modified International Financial Reporting Standards ("MIFRS").

a) Please confirm whether or not Grimsby will establish and document its formal written capitalization policies and if so, by when.
b) Please detail all changes to accounting practices arising from the adoption of MIFRS (e.g. changes in capitalized overhead, depreciation rates, etc.) that Grimsby may include once it establishes and documents its formal written capitalization policies.
c) Please state the dollar impact on the revenue requirement of these changes as outlined in b).
d) Please detail all changes to the capitalization practices as are being implemented by Grimsby's existing business processes, including any changes since the last rebasing application filed with the Board.
e) Please state the dollar impact on the revenue requirement of the changes due to:

    i. Changes to the accounting practices due to MIFRS to each major component of the revenue requirement (e.g. rate base, operating

[6] *Ibid, page 15*

costs, etc), including the overall impact on the proposed revenue requirement;

ii. Changes to the capitalization practices due to MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement; and

iii. Other changes to the capitalization practices since 2006 that are not related to MIFRS to each major component of the revenue requirement (e.g. rate base, operating costs, etc), including the overall impact on the proposed revenue requirement.

59. Ref: Report of the Board: Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 [EB-2008-0408] – Gains and Losses on Retirements and Impairments

Grimsby did not present the accounting policy change on treatment of asset impairment.

Under IFRS, asset retirement obligations include estimates of the cost of constructive obligations which was not required under CGAAP, and a revaluation of those obligations during the lives of the assets.

The Board has stated:

> *Utilities shall identify separately in their rate applications the depreciation expense associated with amortizing asset retirement costs and the accretion expense associated with the amortization of the asset retirement obligations. The Board will assess these costs independently of other amortization costs to determine the portion, if any, of these costs that should be recovered in revenue requirement.*
>
> *Where a utility for financial reporting purposes under IFRS has accounted for the amount of gain or loss on the retirement of assets in a pool of like assets as a charge or credit to income, for reporting and rate application filings the utility shall reclassify such gains and losses as depreciation expense and disclose the amount separately. Where a utility for financial reporting purposes under IFRS has reported a gain or loss on disposition of individual assets, such amounts should be identified separately in rate filings for review by the Board.*[7]
>
> *Where for financial reporting purposes under IFRS a utility has recorded an asset impairment loss, for rate application filings such losses shall be reclassified to PP&E and identified separately to allow consideration of whether and how such amounts are to be reflected in rates.*[8]

[7] *Ibid, page 19*
[8] *Ibid, page 41*

a) Please confirm whether or not Grimsby has any Asset Retirement Obligations ("ARO").
   i. If yes, please identify and provide a detailed breakdown of the major asset components.
   .
b) If Grimsby has AROs, please confirm whether or not Grimsby has identified the accounting change on AROs.
   i. If so, please provide the accounting change and quantify the changes due to the adoption of IFRS for the test year and bridge year.
   ii. If not, please provide the reasons and the plan when this is to be addressed.
c) For the AROs identified, please provide the depreciation expenses and accretion expenses and show how these expenses are currently included in the rate application.
d) Please confirm that Grimsby has identified the gain or loss on the retirement of assets in a group of like assets. Please provide the treatment of the retirement for rate application purposes and disclose the amount. If the gains/losses are not charged to depreciation expense please state the reasons.
e) Please disclose any asset impairment loss recorded under IFRS which should be reclassified to PP&E. Please describe:
   i. The nature of the losses;
   ii. The amounts of the losses; and
   iii. Whether and how such amounts are to be reflected in rates.

60. Ref: Exhibit 2 – Capitalization Assets
Report of the Board: Transition to International Financial Reporting Standards ("IFRS") July 28, 2009 [EB-2008-0408]

The Board has stated:

> *The Board will require utilities to adhere to IFRS capitalization accounting requirements for rate making and regulatory reporting purposes after the date of adoption of IFRS.*[9]

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

[9] *Ibid, page 15*

IAS 23 states that directly attributable borrowing costs are capitalized upon qualifying assets only. It also indicated that a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Board also stated:

> *The Board will continue to publish interest rates for CWIP as it does now. Where incurred debt is acquired on an arms length basis, the actual borrowing cost should be used for determining the amount of carrying charges to be capitalized to CWIP for rate making during the period, in accordance with IFRS. Where incurred debt is not acquired on an arm's length basis, the actual borrowing cost may be used for rate making, provided that the interest rate is no greater than the Board's published rates. Otherwise, the distributor should use the Board's published rates.*[10]

In regards in the impact of MIFRS on capital expenditures,

a) Please confirm if the costs capitalized are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. If not, please explain.
b) Has Grimsby 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.
c) 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.
d) Please identify the burden rates related to the capitalization of costs of self- constructed assets:
    i. Prior to transition (from the last rebasing application to January 1,2011), and
    ii. After transition (on or after January 1, 2011).
e) Please provide the following information in detail for overhead costs on self-constructed assets for the bridge and test years.

	Dollar Impact		**Directly Attributable**	
Nature of the Overhead Costs	**Bridge Year**	**Test Year**	**Yes/No**	**Reasons for Capitalization (MIFRS Principles)**
1.				
2.				

[10] *Ibid, page 40*

3.				
4.				

f) Please identify the overall level of increase in OM&A expense in the test year in relation to a decrease in capitalized overhead.
g) 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.
h) Please confirm that all borrowing costs that are directly attributable to the acquisition, construction, or production of PP&E costs are capitalized to PP&E and not expensed. If this is not the case, please explain.
i) Where incurred debt is not acquired on an arm's length basis, are the actual borrowing costs used? Please explain.
j) Please confirm that if the interest rate is greater than the Board's most recently published CWIP interest rates, Grimsby has used the Board's published rates to calculate borrowing costs included in the construction costs. If this is not the case, please explain.

61. Ref: Addendum to Report of the Board: Implementing International Financial Reporting Standards in an Incentive Rate Mechanism Environment, June 13, 2011 [EB-2008-0408]

In Appendix A: Summary of Board Policy in this Addendum, the Board stated:

> *The Board authorizes the creation of a generic IFRS transition PP&E deferral account to record differences arising as a result of accounting policy changes caused by the transition from CGAAP to MIFRS.*

Differences may arise with Property, Plant, and Equipment balances due to implementing IFRS.

a) Referencing to the specific section of the application, please confirm if the Applicant has performed a calculation or has provided a balance in the Board approved PP&E Deferral Account.
b) If the answer to part "a" above is no, please update the appropriate schedules and calculate a balance for the PP&E Deferral Account.
c) Please provide a breakdown of the amount that is to be recorded in the PP&E deferral account from the transition date to MIFRS that is, as of January 1, 2011. 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*.[11]

---

[11] *March 31, 2011 Staff Discussion Paper, internet link reference: http://www.ontarioenergyboard.ca/OEB/_Documents/EB-2008-0408/Discussion_paper_Transition_to_IFRS_20110331.pdf*

d) Please provide a proposal for the disposition of this deferral account and rationale. (Please refer to the June 13, 2011 Addendum to the Report of the Board on IFRS.)

62. Ref: Exhibit 2 – Intangible Assets

IFRS requires certain assets to be recorded as intangible assets (e.g. computer software and land rights) that were previously included in PP&E.

The Board has said:

> *Where IFRS requires certain assets to be recorded as intangible assets that were previously included in PP&E (e.g. computer software and land rights), utilities shall include such intangible assets in rate base and the amortization expense in depreciation expense for determining revenue requirement.*[12]

Grimsby did not present the accounting policy change on asset reclassification from PP&E to intangible assets.

a) Has the Applicant identified the accounting policy change on asset reclassification from PP&E to intangible assets? If so, please provide the accounting policy change and quantify the changes due to the adoption of IFRS for the test year and bridge year. If not, please provide the reasons and the plan when this is to be addressed.
b) For the assets identified in (a), please propose the regulatory treatment in accordance with the Board report.

63. Ref: Exhibit 4 – Treatment of Other Post-Employment Benefits

The IAS revisions are effective January 1, 2013, but early adoption is permitted. These revisions include the elimination of the option to defer recognition of gains and losses, known as the “corridor method”.

a) Please confirm if Grimsby has unamortized actuarial gains and losses and past service costs at the date of transition (January 1, 2011).
b) If yes, what is the accounting treatment of the unamortized actuarial gains and losses and past service costs at the date of transition (January 1, 2011)?

[12] *Report of the Board Transition to International Financial Reporting Standards (“IFRS”) July 28, 2009 EB-2008-0408 page 40*

c) What is the proposed regulatory treatment of these amounts – are these amounts incorporated anywhere in the revenue requirement? Please explain.
d) Please confirm whether or not Grimsby has adopted the IASB's June 2011 revisions to IAS 19, Employee Benefits, and state whether the impacts of this early adoption are incorporated anywhere in the revenue requirement.