PROCEDURAL ORDER NO.1

GUELPH HYDRO ELECTRIC SYSTEMS INC. ("Guelph Hydro")

PART 2 - RESPONSES TO THE ENERGY PROBE'S INTERROGATORIES ON

2012 ELECTRICITY DISTRIBUTION COST OF SERVICE RATES

FILE NUMBER EB-2011-0123

October 11, 2011

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Rate Base

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

Energy Probe - Interrogatory # 2

Ref: Exhibit 2, Tab 1, Sch. 3

a) **Please explain the reduction in contributions and grants from $4.3 million in 2009 and $3.4 million in 2010 to $2.7 million in 2011 and $2.4 million in 2012.**

Guelph Hydro's Response:

The large reduction in contribution and grants from $4.3 million in 2009 and $3.4 million in 2010 to $2.7 million in 2011 and $2.4 million in 2012 is the result of conversion to IFRS. Under IFRS the capital cost of projects is lower due to the removal of items not eligible for capitalization e.g. administrative, general overhead, and training. This has the impact of reducing contributions which are calculated based as a percentage of project costs. In addition, 2009 capital contributions were higher than normal due to the addition of dedicated feeders to the MGS Data Centre. This was a significant project which received a contribution close to 100% of the project.

c) **How many months of actual data were included for 2011 in Table 8?**

Guelph Hydro's Response:

Zero months of actual data were included for 2011 in Table 8. The data was prepared based on forecasted costs.

LOAD FORECAST AND OPERATING REVENUE

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

Interrogatory # 17

Ref: Exhibit 3, Tab 4, Sch. 2, Appendix 2-C

c) Please provide a table in the same level of detail as shown on page 4 that shows the actual year-to-date revenue for each line item and the corresponding revenue from the same period in 2010.

Guelph Hydro's Response:

4235- Miscellaneous Service Revenues		2008	2009	2010	2010 ACTUAL (Jan-Jul)	2011 ACTUAL (Jan-Jul)
CHANGE OF OCCUPANCY CHG		73,907.9	68,794.0	74,396.6	41,130.0	38,949.0
COLLECTION CHARGES		136,167.3	137,616.0	150,865.1	90,272.0	90,529.0
RECONNECTION CHARGES		5,659.7	3,962.0	34,026.0	19,952.0	11,226.0
SALE OF SCRAP METAL		68,705.2	34,304.0	85,198.5	20,739.0	23,357.0
MISCELLANEOUS		98,996.5	130.0	224,500.2	17,194.0	33,747.0
RIMS SUB BILLING		4,620.0	4,620.0	4,620.0	2,695.0	2,695.0
ARREARS CERTIFICATES		467.8	210.8	192.0	73.0	294.0
CO-LOCATION SERVICES		-		-		
COST OF SALES		-		-		
DUCT RENTAL		54,700.0				
DUCT REVENUE		-		-		
ELECTRONICS SALES - NET		-		-		
EMPLOYEE DISCOUNTS		-		-		
FINANCING INTEREST		-		-		
I/C SERVICES/SALES MKTG SUPPORT		-		-		
INSTALLATION FEES		-		-		
INTERNET CHARGES		-		-		
MISC / CX		(623.9)		28,162.2	34,436.0	(20,859.0)
NETWORK ACCESS CHARGES		-		-		
PROGRAM REBATES		-		-		
PST COMPENSATION		-		-		
RENT - 104 DAWSON RD		-		-		
RETAIL SALES		-		-		
SOUTHGATE POP		24,000.0				
Total		**466,600.3**	**249,636.8**	**601,960.6**	**226,490.0**	**179,937.9**

OPERATING COSTS

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

Energy Probe - Interrogatory # 23

Ref: Exhibit 4, Tab 2, Sch. 2, page 1

Please explain the additional increase between 2011 and 2012 of $109,664 that is attributable to IFRS. Why is there any increase in 2012 as a result of IFRS when the transition takes place in 2011?

Guelph Hydro's Response:

The $109,664 does not represent IFRS transition costs. As explained in Note 5 to Exhibit 4, Tab 2, Sch.2, page 1 these costs represent the impact of moving costs from overheads and charging them directly to OM&A under IFRS. The $109,664 represents an increase in these costs in 2011 vs. 2010.

Issue 4.3 Is the proposed level of depreciation/amortization expense for the test year appropriate?

Interrogatory # 30

Ref: Exhibit 2, Tab 1, Sch. 3, Tables 8 & 9 &
Exhibit 4, Tab 2, Sch. 10, Appendix 2-M, pages 8 & 9 &
Exhibit 1, Tab 2, Schedule 6, page 8

b) Please reconcile the difference between the figures noted in part (a) above with the figure of $6,831,714 shown on page 8 of the RRWF in Exhibit 1, Tab 2, Schedule 6 for 2012.

Guelph Hydro's Response:

Guelph Hydro's response:

The difference between the depreciation balance in Table 9 of Exhibit 2, Tab 1, Schedule 3 and the one shown on page 8 of the RRWF in Exhibit 1, Tab 2 Schedule 6 is as follows:

Depreciation on Table 9 Exhibit 2 Tab 1		$5,937,084
(i) Less: Depreciation allocated directly to Operations	- Acct 1930	(368,176)
	- Acct 1940	(81,416)
(ii) Add: Amortization of Intangibles and Other Electric Plant (not included on Table 9)		34,084
(iii) Add: Depreciation taken on Smart Meters prior to 2012 (2009 – 2011) and recorded in Acct 1556.		1,310,138
Depreciation as noted above		$6,831,714

Notes:

(i) Guelph Hydro allocates a portion of the depreciation expense relating to transportation equipment (Acct 1930) and major tools (Acct 1940) directly to Operations

(ii) Represents the amortization of computer software which had been capitalized and deferred in Acct 1180.

(iii) In accordance with the Board's Guideline G-2008-002-Smart Meter Funding and Cost Recovery, upon issuance of a Rate Order approving the investment in Smart Meters the depreciation which has currently been recorded in the Deferral & Variance account 1556 (for 2009 – 2011) will be transferred to depreciation expense (Acct # 5705) in 2012.

Energy Probe - Interrogatory # 31

Ref: Exhibit 4, Tab 2, Sch. 10 &
Exhibit 4, Tab 2, Sch. 10, Appendix A

c) For each line item in the table requested in part (a) please explain how Guelph Hydro selected the proposed useful life in relation to the maximum, minimum and typical figures from the Kinetrics study.

Guelph Hydro's Response:

Guelph Hydro has used typical asset lives lying between the Kinectrics minimum and typical lives. In many cases, the actual asset life is determined by the requirement to replace a number of components together as a system, rather than individually. Although some individual components may last longer, we recognize that some will also need to be replaced prematurely, and have used 40 years as a practical maximum.

d) Please provide a table similar to Appendix 2-M for 2012 if the proposed useful lives of all assets were set to the typical figure from the Kinetrics study.

Guelph Hydro's Response:

Since the scope of the Kinetrics study specifically assessed the "Distribution assets" only, Guelph Hydro provided the comparative depreciation amounts for these assets as all other assets would not have any impact. Based on the table below depreciation would have been approximately $780,000 lower using an average typical useful life outlined in the Kinetrics study for each asset group.

Revised using Kinetrics Useful Life

Appendix 2-M - Depreciation and Amortization Expense

2012 Test Year

Account	Description	Opening Balance	Less Fully Depreciated [1]	Net for Depreciation	Additions	Total for Depreciation	Years	Depreciation Rate	Depreciation Expense	Average typical useful life of individual components (Kinetrics)		Depreciation using Kinetrics Typical useful lives	
		(a)	(b)	(c) = (a) - (b)	(d)	(e)=(c) + 0.5 x (d) [2]	(f)	(g) = 1 / (f)	(h) = (e) / (f)				Difference
1815	Transformer Station Equipment >50 kV	$9,983,177		$9,983,177	$0	$9,983,177	30	0.03	$332,773	40	0.025	$249,579	
1820	Substation Equipment	$1,708,887		$1,708,887	$0	$1,708,887	30	0.03	$56,963	40	0.025	$42,722	
1825	Storage Battery Equipment	$0		$0	$0	$0							
1830	Poles, Towers & Fixtures	$23,598,735		$23,598,735	$1,458,598	$24,328,034	40	0.03	$608,201	50	0.020	$486,561	
1835	OH Conductors & Devices	$19,104,801		$19,104,801	$1,364,027	$19,786,814	40	0.03	$494,670	60	0.017	$329,780	
1840	UG Conduit	$40,546,142		$40,546,142	$2,666,116	$41,879,200	40	0.03	$1,046,980	40	0.025	$1,046,980	
1845	UG Conductors & Devices	$38,418,577		$38,418,577	$2,373,457	$39,605,306	40	0.03	$990,133	40	0.025	$990,133	
1850	Line Transformers	$19,221,601		$19,221,601	$1,076,643	$19,759,923	25	0.04	$790,397	40	0.025	$493,998	
1855	Services (OH & UG)	$7,452,758		$7,452,758	$278,723	$7,592,119	40	0.03	$189,803	40	0.025	$189,803	
1860	Meters	$14,725,108		$14,725,108	$625,000	$15,037,608	25	0.04	$601,504	30	0.033	$501,254	
1861	Smart Meters			$0		$0	15	0.07	$0	15	0.067	$0	
	Total	$174,759,786		$174,759,786	$9,842,564	$179,681,068			$5,111,424			$4,330,810	($780,614)

Notes:

(1) This adjusts for assets still on the books but which have been fully amortized or depreciated.

(2) Applicable for the standard Board policy of the "half-year" rule, that additions in the year attract a half-year depreciation expnese in the first year. Deviations from this standard practice must be supported in the application.

Issue 4.6 Is the test year forecast of PILs appropriate?

Energy Probe Interrogatory # 35

Ref: Exhibit 4, Tab 3, Sch. 1, pages 2-3

b) Please calculate the amount of the PILS reduction associated with an SR&ED claim of $100,000 in the 2012 test year, including the 25% paid to the third party consultant for preparation of the claim, and the taxable amount to which the 2012 tax rate is applied. Is the amount paid to the third party consultant deductible for tax purposes? Please show all calculations and assumptions.

Guelph Hydro's Response:

Please see the following calculations and assumptions.

Guelph Hydro Electric Systems Inc.
SR&ED Analysis - hypothetical scenario
December 31, 2012

Tax Rates

	2012	2013
Federal	15.00%	15.00%
Ontario	11.25%	10.50%
Combined	26.25%	25.50%

Tax Analysis

Assumptions:

- SR&ED expenditures of $100,000 (excluding proxy amount)
- 25% fee to third party consultant (based on Federal ITC)
- not eligible for the OITC (based on 2011 tax information)
- not eligible for the 35% federal ITC (based on 2011 tax information)

Calculations:

SR&ED Expenditures	100,000			
Proxy Amount (65%)	65,000			
Subtotal	165,000			
ORDTC @ 4.5%	(7,425)	4,500	2,925	
Expenditures for ITC purposes	157,575			
ITC @ 20%	31,515	-	31,515	
Third-party consultant fee (25% of Fed ITC)			(7,879)	**Note 1**
Additional taxable income		4,500	26,561	
Tax rate		26.25%	25.50%	
Taxes payable		1,181	6,773	

Note 1: The third party consultant fee for preparation of the claim is deductible in the year the amount becomes payable to the third party (which typically will be in the next calendar year).

Summary:

ORDTC	7,425
Federal ITC	31,515
Third-party consultant fee	(7,879)
Tax liability	(7,954)
Net cash result	23,107