

PROCEDURAL ORDER NO.1
GUELPH HYDRO ELECTRIC SYSTEMS INC. (“Guelph Hydro”)
PART 2_ RESPONSES TO THE VECC’S INTERROGATORIES ON
2012 ELECTRICITY DISTRIBUTION COST OF SERVICE RATES
FILE NUMBER EB-2011-0123
October 11, 2011

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OPERATING COSTS

Issue 4.1 Is the overall OM&A forecast appropriate?

IR 19 - Reference Exhibit 4, Tab 2, Schedule 6, page 1.

- a) The evidence states that \$1,712,083 of the increase in OM&A since 2008 can be attributed to the change in capitalization policy due to the introduction of IFRS accounting. Please provide the revenue requirement analysis of this change in capitalization policy, that is compare the cost of capitalizing the 1.7 million versus the incremental OM&A costs for the asset life period.

Guelph Hydro's Response:

Revenue Requirement Impact of Removing \$1.7 million in Overhead Costs from Capital							
2012 Revenue Requirement				Notes	000's		
					Capitalize \$1.7M (CGAAP)	Expense \$1.7M (IFRS)	Difference
OM & A				(1)	\$ -	\$ 1,700,000	\$1,700,000
Depreciation				(2)	63,750	-	(63,750)
Return on Capital	2012 - 6.88%			(3)	171,785	17,544	(154,241)
Grossed up PILs				(4)	(49,779)	(607,851)	(558,072)
Service Revenue Requirement					185,756	1,109,693	923,937
Revenue Offsets					0	0	0
Net Revenue requirement					\$ 185,756	\$ 1,109,693	\$ 923,937
(1) Assume \$1.7 million in overhead costs incurred annually which are eligible for capitalization under CGAAP, but not under MIFRS.							
(2) 2012 Depreciation							
	2011 additions	(=1.7million x 1/40 yrs)				\$	42,500
	2012 additions	(=1.7million x 1/40 yrs x 1/2)					21,250
						\$	63,750
(3) Per Rate Base Worksheet included with this response							
(4) Per PILs impact Worksheet of this response							

Rate Base Impact of Removing \$1.7 million in Overhead Costs from Capital							
Rate Base				Notes	000's		
					Capitalize \$1.7M (CGAAP)		Expense \$1.7M (IFRS)
2011 Net Fixed Assets				(2)	1,678,750	-	
2012 Net Fixed Assets (Transition Year to IFRS)				(2)	3,315,000	-	
Avg Net Fixed Assets					2,496,875	-	
Cost of Power					-	-	
OM & A				(1)	-	1,700,000	
Total					-	1,700,000	
Working Capital Requirement				15%		-	255,000
Rate Base					2,496,875		255,000
Return on Capital 6.88%				(3)	171,785		17,544
Deemed Interest Expense					76,105		7,772
Deemed Return on Equity					95,680		9,772

Grossed Up PILs Impact of Removing \$1.7 million in Overhead Costs from Capital		
Description	CGAAP	MIFRS
Revenue		
Distribution Revenue	\$ -	\$ -
Other Operating Revenue (Net)	-	-
Smart Meter Deferral Account Adjustment		
Total Revenue	-	-
Costs and Expenses		
Administrative & General, Billing & Collecting	-	1,700,000
Operation & Maintenance	-	-
Depreciation & Amortization	63,750	-
Capital Taxes	-	-
Deemed Interest	76,105	7,772
Total Costs and Expenses	139,855	1,707,772
Less OCT Included Above	-	-
Total Costs and Expenses Net of OCT	139,855	1,707,772
Utility Income Before Income Taxes	(139,855)	(1,707,772)
Income Taxes:		
Corporate Income Taxes	(36,712)	(448,290)
Total Income Taxes	(36,712)	(448,290)
Utility Net Income	\$ (103,143)	\$ (1,259,482)
Utility Income Before Income Taxes	\$ (139,855)	\$ (1,707,772)
Tax Rate	26.25%	26.25%
Total PILs before gross up	(36,712)	(448,290)
Grossed up PILs	\$ (49,779)	\$ (607,851)