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

November 16, 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 File No. EB-2011-0273

In accordance with Procedural Order No. 2, please find attached Board Staff's technical conference questions. Please forward the questions 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 Questions for Technical Conference
2012 Electricity Distribution Rates
Grimsby Power Inc. ("Grimsby")
EB-2011-0273

Capital Expenditures

1. Ref: Response to Board staff interrogatory # 8; Exhibit 2/ Page 15 – Service Quality Indicators

In its response, Grimsby provided the updated Reliability indices; however this interrogatory requested Grimsby to provide its Service Quality Indicators. Please provide the historical Service Quality Indicators data in the following table.

Service Quality Indicator	Minimum Standard	2008	2009	2010
Low Voltage Connections				
High Voltage Connections				
Telephone Accessibility				
Appointments Met				
Written Response to Enquiries				
Emergency Urban Response				
Emergency Rural Response				
Telephone Call Abandon Rate				
Appointments Scheduling				
Rescheduling a Missed Appointment				

Operating, Maintenance and Administrative ("OM&A") Expenses

2. Ref: Exhibit 4/ Page 21; Board staff IR # 14 – Meter Reading

In response to Board staff IR# 14 (b), Grimsby provided a table to show the details of the meter reading expenses. The table lists an amount of $61,200 for an item called "Contract Out Settlement Services – End to End Solution". Please confirm whether this cost is related to MircoFIT customers as stated in response to Board staff IR# 14 (c). If not, please provide details of the $61,200.

Cost of Capital and Rate of Return

3. Ref: Board staff IR # 29

In its response to Board staff IR # 29 (a), Grimsby provided an executed copy of the Promissory Note dated December 18, 2007. Please also provide an executed copy of all the Promissory Notes prior to December 18, 2007.

Cost Allocation

4. Response to Board staff IR # 31 – USL

In its response, Grimsby provided the weighting factor for Billing and Collecting for USL class as 3. In the revised cost allocation model, Sheet I6.2 Customer Data, Grimsby has the number of Bills for USL class as 960. Please confirm when the weighting factor of 3 is determined whether the number of bills of 960 has taken into account.

Rate Design

5. Response to Board staff IR # 35; Exhibit 8/ Page14 – Low Voltage

In its response, Grimsby stated that the Low Voltage rate for the USL class is $0.0007/kWh, which shows no change as compared to the existing rate. However, Exhibit 8 (pages 14, and 37) shows that the Low Voltage rate for the USL class is $0.0006/kWh. Please explain the difference.

Smart Meters

6. Ref: Exhibit 9/ Page 19 – 34; Board staff IR# 42 & 43

Please rerun and submit the attached draft Board staff Smart Meter Model which adjusts for the following two matters:

a) Corrects for compounded interest on funding adder revenues and
b) Adds simple interest expense on the opening monthly balance for OM&A and amortization expenses.

7. Ref: Exhibit 9/ Page 33; Board staff IR# 46

Please re-calculate class-specific smart meter disposition riders using the following allocation methodology that is based on the approach approved by the Board in PowerStream's 2010 smart meter application (EB-2010-0209):

(i) Allocate the total revenue requirement for the historical years, as revised per the previous technical conference question, using the following cost allocation methodology:

- Allocate the return (deemed interest plus return on equity) and amortization based on the allocation of Account 1860 in the cost allocation model (CWMC in the cost allocation model)
- Allocate the OM&A based on the number of meters installed for each class
- Allocate PILs based on the revenue requirement allocated to each class before PILs

(ii) Sum the allocated amounts and calculate the percentages of costs allocated to customer rate classes.

(iii) Subtract the revenues generated from the smart meter funding adder from the overall revenue requirement.

(iv) Allocate the amount calculated in part (iii) by using the allocation factors derived in part (ii)

(v) To calculate the smart meter disposition rider, divide the allocated amount by rate class derived in part (iv) by the number of customers in each class, and then divide by 12.

(vi) If the proposed disposition period is greater than 1 year, divide the result of part (v) by the proposed number of years.

Deferral and Variance Accounts

8. Ref: Board staff IR # 51 – Special Purpose Charges

In response to Question 51(d), Grimsby stated that the recovery of Grimsby's SPC assessment has come to an end on April 20, 2011.

In response to Question 51(b), Grimsby stated that "As of end of August 31, 2011 the principal balance is a negative balance of $(1,164.55)".

a) Please confirm that the principal balance as of April 20, 2011 when Grimsby's SPC program came to an end after one year period is a negative balance of $(1,164.55)".

b) Please confirm if Grimsby is seeking disposition of the “Sub-account 2010 SPC Assessment Carrying Charges” on a final basis.

c) Please provide the forecasted carrying charges on the sub-account principal balance as of April 30, 2012, which is the start date of the rate year for Grimsby.

d) Please provide an explanation why Grimsby’s proposed disposition for carrying charges on the sub-account principal balance should not be as of April 30, 2012, which is the start date of the rate year for Grimsby, similar to the methodology of calculation for any other deferral and variance accounts.

e) Please provide an update to the DVA Work Form and all related tables for account balance as of April 20, 2011 and forecast for carrying charges as of April 30, 2012.

9. Ref: Board staff IR # 54 (a to c) – Account 1590

In response to Board staff IR # 54 (b) & (c), Grimsby stated that the tax treatment was made based on its discussions with its auditors about the treatment of future tax liabilities, and further explained that the tax treatment was made to conform with the amendment to CICA Handbook Section 3465. However, in response to Board staff IR # 54 (a), Grimsby stated that it was not provided with authorization from the Board for the establishment of Account 1590, Sub account –Future Tax Liabilities.

Grimsby also stated that it is Grimsby’s intention to reclassify the account balance to the correct accounts identified by the OEB in the October 2009 APH FAQ.

a) Please provide the journal entry to reclassify the account balance to the correct accounts identified by the OEB in the October 2009 APH FAQ.
b) Please update the DVA Work Form and Exhibit 9, page 6.

10. Ref: Board staff IR # 55 (b) – HST/OVAT ITCs

a) Please confirm that the amounts recorded in the Account 1592 PILS & Tax Variance for 2006 & subsequent Years, sub account HST/OVAT ITCs are incremental ITCs for both capital and OMA expenditures. If not, please explain.

b) Please clarify what is the amount that Grimsby is now requesting for disposition for Account 1592 PILS & Tax Variance for 2006 & subsequent Years, sub account HST/OVAT ITCs.
c) If the amount is a new one and not the current credit balance of $9,362, please update Table 2.4, DVA Work Form, Tables 9.3, 9.5, 9.7 and 9.8.

Modified International Financial Reporting Standards

11. Ref: Board staff IR # 57 (d & e) – Fixed Asset

a) In Appendix 2-M for MIFRS 2011 and Appendix 2-M MIFRS 2012 based on MIFRS 2011, please clarify what the term "Fully Depreciated" means. Are these the assets under CGAAP that are fully depreciated and are still in use, but taken off the books? Please explain.

b) Please confirm that the fully depreciated asset shown under Appendix 2-M under 2012 MIFRS is an amount of $3,314,196.

c) By referring to Appendix 2-B for the Fixed Asset Continuity Schedule - 2012 Test Year under MIFRS, please explain if the capital asset shown in Appendix 2-B has been adjusted for fully the depreciated asset of $3,314,196. If not, why not. Please reconcile Appendix 2-B and Appendix 2-M for all columns.

12. Ref: Board staff IR # 60 (b, d & f); Exhibit 4, page 30 – Assets Capitalization

a) In Appendix 7, under the IAS 16 - Property, Plant & Equipment, Grimsby stated that it will revisit its policy on whether to capitalize or not stores after impact of depreciation is calculated as these costs have been removed from the overhead burden for stores under IFRS.
Has Grimsby revisited the above policy? If yes, please provide Grimsby's stores accounting policy on capitalization of burdens.
b) In Grimsby's response to this IR, Grimsby stated that before and after transition, (January 1, 2011), Grimsby's burden rates for the capitalization of costs of self constructed assets are: for labour (total 75%) , material (total 50%) and trucks (50%). Please quantify the dollar value of these burdens and please enter the information required in IR 60 (e) based on best estimates.
c) Referring to Grimsby's response to Energy Probe IR #23, Grimsby stated that it confirms that the fixed asset additions on the 2012 MIFRS version have been reduced by $160,808 and that the OM&A has increased by the same amount. The table provided in this response did not show the increase in OM&A by the amount of $160,808. Please provide a table showing the before and after dollars for OM&A when the $160,808 was

removed from the capital to the OM&A expenses and please tie this to each of the Miscellaneous Distribution Expenses under MIFRS of $202,682.

d) Please clarify what Grimsby means when it says in Appendix 7, that supervisory labour and engineering costs were removed from this allocation. Can you please clarify what the phrase "removed from this allocation" means? Were these costs capitalized or expensed?

13. Ref: Board staff IR # 61 – Addendum to Report of the Board: Implementing IFRS Standards in an Incentive Rate Mechanism Environment, June 13, 2011 (EB 2008-0498); Transition to IFRS-Implementation in an IRM Environment, Appendix A

a) In response to Board Staff IR # 61(b), Grimsby stated the following:

> *Grimsby Power Inc. calculated the differences in respect to changes in the useful life of assets. The changes in asset useful life have impacts on amortization expense as it is presented in the following tables (tables that were provided by Grimsby on November 14, 2011)*

Please confirm that Grimsby has treated the contributions and grants as an offset to PP&E and not as revenue offset for regulatory purposes.

b) In response to Board Staff IR # 61(d), Grimsby is showing a figure of ($25,863) for the Return on rate base associated with deferred balance at WACC (7.2%) in the table Deferral Account PP&E Components of Rate Base: Rebasing in 2012 based on MIFRS. Please provide the detailed calculation of the $25,863.

14. Ref: Board staff IR # 62 – Intangible Assets

Grimsby stated that it is keeping the computer software under tangible assets and not as intangible assets as there is no impact on the depreciation or the revenue requirement.

a) What is the dollar amount of intangibles?
b) Please confirm that the computer software assets are included in the rate base as intangible assets.

15. Ref: Board staff IR # 63 – Treatment of Other Post-Employment Benefits

In response to the Board staff interrogatory 63(a), Grimsby stated that, *Grimsby Power Inc. does not have unamortized actuarial gains or losses and past service costs at the date of transition.*

In response to the Board staff interrogatory 63(d), it further stated that,

The impacts of IASB's June 2011 revisions to IAS 19, Employee Benefits is not material and therefore, Grimsby Power Inc. has not incorporated it into the revenue requirement.

a) Please clarify if Grimsby has any Other Post-Employment Benefits (OPEB) plan. If so, please clarify why Grimsby does not have any unamortized actuarial gains or losses and past service costs at the date of transition.
b) Please provide the amount for the unamortized actuarial gains or losses and past service costs at the date of transition if Grimsby has an OPEB plan.
c) Please explain the impacts of IASB's June 2011 revisions to IAS 19 on Grimsby's Employee Benefits.

Account 1562

16. Ref: Board staff IR # 56 – Tax Rates

The decision in the combined proceeding applied to three applicants that were subject to the maximum tax rates during the period 2001 to 2005. Grimsby was not subject to the maximum tax rates during this period. The table below provides the tax rates approved by the Board in applications and used by Grimsby in the SIMPIL true-up calculations.

		2001	2002	2003	2004	2005
APPLICATION PILS PROXY CALCULATION	1. SIMPIL Tab TAXCALC Cell C53 (54): Blended income tax rate	34.12%	34.12%	34.12%	34.12%	27.50%
	2. SIMPIL Tab TAXCALC Cell C88 (89): Income tax rate used for gross-up (excluding surtax)	34.12%	34.12%	34.12%	34.12%	27.50%
SIMPIL MODELS TAB TAXCALC	3. Cell E122 (123): Calculation of true-up variance -income tax effect	40.62%	38.62%	36.62%	36.12%	36.12%
	4. Cell E130 (131): Income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	35.00%	35.00%

		2001	2002	2003	2004	2005
	5. Cell E138 (139): Calculation of Deferral Account Variance caused by changes in legislation – Revised corporate income tax rate	40.62%	38.62%	36.62%	36.12%	36.12%
	6. Cell E175 (176): Calculation of Deferral Account Variance caused by changes in legislation – Actual income tax rate used for gross-up (excluding surtax)	39.50%	37.50%	35.50%	35.00%	35.00%

Grimsby was eligible for both of the federal and Ontario small business deductions from 2001 to 2005. The tax rates that Grimsby should use in the true-up calculations should be based on its own tax status. Grimsby had a loss in 2001 and carried that loss forward to 2002 and fully utilized the loss by 2003. However, in the SIMPIL models sheet TAXREC Grimsby calculated the following actual tax rates from its own tax returns: for 2003, 34.32%; for 2004, 33.07% and for 2005, 27.62%.

By using the maximum tax rates in SIMPIL, Grimsby calculated a true-up benefit because of a tax rate higher than that approved by the Board in its applications. In fact, as the tax rates declined there should be a refund to the customers.

Possible choices for the tax rates to use are as follows.

i. The tax rates of 34.12% approved by the Board in the applications for 2001, 2002 rates could be used. The surtax of 1.12% would have to be deducted from these tax rates for the gross-up calculations.

ii. In 2003 use 34.32% to calculate the tax impact and deduct 1.12% for the gross-up.

iii. In 2004 use 33.07% to compute the tax impact and deduct 1.12% from this for the gross-up calculations.

iv. In 2005 use 27.62% to compute the tax impact and deduct 1.12% from this for the gross-up calculations.

Will Grimsby undertake to update the SIMPIL models with these tax rates to show what the differences are?

17. Ref: Board staff IR # 56 – Collections or Amounts Billed to Customers

a) The amount of $1,384.41 for January 2006 looks to be too low when compared to December 2005 and February 2006. Please explain.

b) Please explain how Grimsby reflected the PILs related to unbilled revenue as at April 2006?

c) Was Grimsby able to pro-rate as at April 30, 2006 for billing purposes?

d) Grimsby was unable to provide the calculations that show the PILs rate slivers from sheet 6 and sheet 8 of the 2002 RAM multiplied by billing determinants for 2002 and 2003. Grimsby submitted an Excel workbook for 2004. Grimsby did not submit a workbook for 2005.
    i. Does Grimsby have the billing determinants for 2002, 2003 and 2005?
    ii. Can Grimsby use the Excel workbook for 2004 and create workbooks for the missing years?
    iii. If not, why not?

18. Ref: Board staff IR # 56 – Interest Expense

For the tax years 2001 to 2005:

a) Did Grimsby have interest expense related to other than debt that is disclosed as interest expense in its financial statements?

b) Did Grimsby net interest income against interest expense in deriving the amount it shows as interest expense? If yes, please provide details to what the interest income relates.

c) Did Grimsby include interest expense on customer security deposits in interest expense?

d) Did Grimsby include interest income on customer security deposits in interest expense?

e) Did Grimsby include interest expense on IESO prudentials in interest expense?

f) Did Grimsby include interest carrying charges on regulatory assets or liabilities in interest expense?

g) Did Grimsby include the amortization of debt issue costs, debt discounts or debt premiums in interest expense?

h) Did Grimsby deduct capitalized interest in deriving the interest expense disclosed in its financial statements?

i) Please provide Grimsby‘s views on which types of interest income and interest expense should be included in the excess interest true-up calculations.

j) Please provide a table for the years 2001 to 2005 that shows all of the components of Grimsby’s interest expense and the amount associated with each type of interest.