

# **Response to School Energy Coalition Technical Conference Questions**

**Grimsby Power Inc.**

**2012 Distribution Rate Application**

**Board File No. EB-2011-0273**

**November 22, 2011**

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## **1 GENERAL**

1. [SEC #1, p. 3] Please clarify the nature of the withdrawal of the request.

### **Grimsby Power Inc.'s Response:**

Grimsby Power Inc. is withdrawing its request for the Board to set an interim rate order for rates effective January 1, 2012 which would be subject to adjustment based on a final decision and order of the current cost of service rate application.

2. [SEC #2, p. 4] Please confirm that the agreement is a unanimous shareholders' agreement. If it is, it overrides the power of the directors, and therefore we ask that it be provided.

**Grimsby Power Inc.'s Response:**

A response will be provided at a later date.

## **2. RATE BASE**

3. [SEC #7, p. 11] Please estimate the impacts on test year capital additions, rate base, depreciation, return, and PILs of the deferral of the ERP project.

### **Grimsby Power Inc.'s Response:**

A response will be provided at a later date.

4. [VECC #3, p. 6] Please confirm that Appendix 4.3 was written by KPMG personnel. Please provide evidence of the expertise of those personnel in assessing the useful lives of utility assets. Please provide a table comparing the useful lives selected by the Applicant with the typical useful lives in the Board's Kinectrics Report.

**Grimsby Power Inc.'s Response:**

Grimsby Power Inc. confirms that Appendix 4.3 was written by KPMG personnel. The document was created by KPMG to record the information which led to the decisions about the useful life of distribution assets. This information was collected in joint sessions with Grimsby Power Inc. personnel and KPMG IFRS experts. Lois Ouellette from KPMG's St. Catharines office was the main consultant utilized in the IFRS project. However, the assessment and determination of useful lives was the sole decision of Grimsby Power Inc. Primarily the useful life of the various assets was the decision of the Director of Engineering and Operations and the Chief Executive Officer. The experience of the individuals in the utility business coupled with the results of the Distribution Asset Management Plan were the primary drivers for the decision making process. A brief description of the personnel in these positions and information about KPMG's IFRS team is included below:

**Doug Curtiss, P. Eng.**  
Chief Executive Officer  
Grimsby Power Inc.

Doug Curtiss is the Chief Executive Officer for Grimsby Power Inc., with responsibility for the safe, reliable, and cost effective operation of the electrical distribution system within the Town of Grimsby.

He is a Professional Engineer with 28 years of experience in the electricity distribution industry, having held positions in Engineering Design, Substation Maintenance, Construction Operations and Maintenance, and Supply Chain Management.

Doug holds a Bachelor of Engineering Degree and a Certificate in Business from McMaster University in Hamilton.

**Richard A. Chrapala, C.E.T.**

Director of Engineering and Operations  
Grimsby Power Inc.

Richard Chrapala is the Director of Engineering and Operations for Grimsby Power Inc., with responsibility for the safe, reliable, and cost effective operation of the electrical distribution system within the Town of Grimsby.

He is a Certified Engineering Technologist and a Certified Journeyman Meterman with 28 years of experience in the electricity distribution industry, having held positions in Engineering Design, Metering, Technical Services Coordination, and Construction Operations and Maintenance.

Richard holds a Diploma in Control Systems Technology and holds a Certificate of Registration as a registered Journeyman Meterman issued by the Electric Power Authorities of Ontario.

**KPMG**

KPMG has extensive experience in the Power and Utilities sector. KPMG personnel assisted Grimsby Power with their conversion to IFRS and are currently working with 18 LDC clients assisting them with their conversion of their accounting policies to IFRS. The KPMG team member assisting Grimsby Power was also a member of the team that worked with the OEB on the Board report on the Transition to International Financial Reporting Standards. In addition to this IFRS experience in the industry, KPMG's Grimsby Power team audits 6 LDCs.

The table below compares the useful lives of Grimsby Power Inc. assets as noted in Exhibit 2 – Page 10 of 65 - Table 2.3 with the ranges of lives noted in the Kinectrics Report.

**Table 2.3 - Modified**

Component (MIFRS)	Component (CGAAP)	Useful Life (MIFRS)	Useful Life (CGAAP)	Kinectrics Useful Life – Min UL	Kinectrics Useful Life – TUL	Kinectrics Useful Life – Max UL
Land	Land	N/A	N/A			
Buildings	Buildings – Robert Road	50	50		50-75	
Buildings – Paving/Fencing	Buildings – Robert Road	40	40			
Buildings – Other Fixtures	Buildings – Robert Road & Other	25	25			
Overhead Poles		60	25			
<i>Fully Dressed Wood Poles – Overall - Kinectrics</i>				35	45	75
Overhead Line Switches and Conductors	Overhead Conductors & Devices	60	25			
<i>OH Line Switch – Kinectrics</i>				30	45	55



<i>OH Conductors – Kinectrics</i>				50	60	75
Overhead Secondary Cables	Overhead Services	60	25			
<i>OH Conductors – Kinectrics</i>				50	60	75
Underground Primary Cable & Switchgear	Underground Conductor & Devices	35	25			
<i>Primary Non-Tree Retardant (TR) Cross Linked Polyethylene (XLPE) Cables Direct Buried – Kinectrics</i>				20	25	30
<i>Primary TR XLPE Cables Direct Buried – Kinectrics</i>				25	30	35
<i>Pad Mounted Switchgear – Kinectrics</i>				20	30	45
Underground Secondary Cables	Underground Services	40	25			
<i>Secondary Cables Direct Buried – Kinectrics</i>				25	35	40

Underground Ducts	Underground Conduit	70	25	30	50	85
Underground Concrete Encased Duct Banks	Underground Conduit	70	25	35	55	80
Overhead Transformers		35	25	30	40	60
Underground Transformers		30	25			
<i>Pad-Mounted Transformers - Kinectrics</i>				25	40	45
Residential Meters (Stranded Meters)	Meters – Single & 3 Phase	25	25		25-35	
Smart Meters		15	15		5-15	
Industrial/Commercial Energy Meters	Interval Meters – 1 Phase, 3 Phase, & Meters YE Adj.	15	25		25-35	
Wholesale Energy Meters	Meters	15	25		15-30	
Other Meters – PT's & CT's	Meters	35	25		35-50	
Office Furniture & Equipment		10	10		5-15	

Computer Equipment Hardware		5	5		3-5	
Computer Software		5	5		2-5	
Vehicles	Transportation Equipment	15	15			
<i>Vehicles – Trucks &amp; Buckets - Kinectrics</i>					5-15	
<i>Vehicles – Trailers - Kinectrics</i>					5-20	
<i>Vehicles – Vans/Cars - Kinectrics</i>					5-10	
Tools, Shop, Garage Equipment		10	10		5-10	
Measurement & Testing Equipment		5	5		5-10	
Wireless Communication	Communication Equipment	5	10		2-10	

### **3. LOADS, CUSTOMERS - THROUGHPUT REVENUE**

### **4. OPERATING COSTS**

### **5. COST OF CAPITAL AND RATE OF RETURN**

5. [EP 30(i), p. 50] Please advise whether the Applicant was aware, at the time it accepted the 10% investment from Fortis, that the investment would disqualify the Applicant from Infrastructure Ontario financing.

#### **Grimsby Power Inc.'s Response:**

Grimsby Power Inc. cannot find any evidence which would indicate that this was a consideration during the negotiations with FortisOntario. Based on this, Grimsby Power Inc. would have to say that it was not aware, at the time, that the investment by FortisOntario would disqualify Grimsby Power Inc. from Infrastructure Ontario financing.

6. [Staff #29(d), p. 57] Please provide a copy of the promissory note that was replaced by the December 18, 2007 promissory note.

**Grimsby Power Inc.'s Response:**

Grimsby Power Inc. has included as Appendix 1 to this Technical Conference Question Set the promissory note dated November 29, 2004 which preceded the promissory note dated December 18, 2007.

7. [Staff #30, p. 58] Please advise when the TD notes will be converted to fixed interest rates. Please advise the current fixed interest rates offered by TD on these notes for 5 and 10 years, and 20 years if available.

**Grimsby Power Inc.'s Response:**

Grimsby Power Inc. has not made any plans to convert the existing loan to a fixed interest rate loan. The TD Bank has advised us of its indicative interest rates for fixed loan of \$2,000,000 over various terms as noted below:

- 2.55% for 5 year term
- 2.85% for 7 year term
- 3.35% for 10 year term

The rate for a 20 year term was not available.

These rates have been supplied based on a start date of November 21, 2011 and are subject to change.

### Grimsby Power Inc.'s Response:

Weighted Debt Cost								
Description	Debt Holder	Affiliated with LDC?	Date of Issuance	Principal	Term (Years)	Rate%	Year Applied to	Interest Cost
Promissory Note	Town of Grimsby	Y	January 1, 2004	5,782,746	20	5.01%	2012	289,716
Smart Meter	TD Commercial Bank	N	April 1, 2010	1,280,000	15	3.50%	2012	44,800
Capital Financing	TD Commercial Bank	N		1,400,000	15	3.50%	2012	49,000
								0
								0
								0
								0
								0
								0
2012 Total Long Term Debt				8,462,746	Total Interest Cost for 2012			383,516
Weighted Debt Cost Rate for 2012								4.53%

**6. SMART METERS**

**7. COST ALLOCATION**

**8. RATE DESIGN**

**9. DEFERRAL AND VARIANCE ACCOUNTS**

**10. LRAM/SSM**

**11. MODIFIED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

9. [Staff #60(d), p. 140] Please advise what burden rates were used in the Application for the calculation of the test year revenue requirement under MIFRS, and how they were calculated.

**Grimsby Power Inc.'s Response:**

The test year revenue requirement utilizes information from Grimsby Power Inc.'s 2012 budget. With respect to burdens, allocations were changed to adjust from CGAAP to MIFRS. The value changes, with respect to allocations, are discussed in detail in Energy Probe Interrogatory # 23. Burdens and/or the results of allocation changes within Grimsby Power Inc.'s 2012 budget are as follows:

<b>Budget Component</b>	<b>CGAAP</b>	<b>MIFRS</b>	<b>Notes</b>
% Burden on Labour	40%	40%	No Change
Large Truck Rate	\$36.00	\$23.46	A reduction of 34.8%
Small Truck Rate	\$20.00	\$13.04	A reduction of 34.8%
Total Spend on Material	\$558,685	\$406,325	A reduction of 27.3%



10. [Staff #61(c), p. 148] Please provide a fuller explanation of the table on this page.

**Grimsby Power Inc.'s Response:**

In the Board Staff IR # 61(c) p.148 Grimsby Power Inc. provided the calculation of the amount to be included in the PP&E Deferral Account by following the OEB guidance in Staff Discussion Paper – Transition to IFRS.11 - EB-2008-0408 issued on March 31, 2011.

Grimsby Power Inc. followed the same methodology the OEB recommended in Issue 2 starting on page 6 of 8 of the Staff Discussion Paper, to calculate the disposition amounts for the next four years. The table provided in the IR follows the guidance provided in Appendix A of the discussion paper. Grimsby Power Inc.'s proposal is to have an account for PP&E only with no carrying charges.

## **12. GREEN ENERGY ACT PLAN**

## **List of Appendices**

APPENDIX 1 – Promissory Note dated November 29, 2004

## **APPENDIX 1**

## PROMISSORY NOTE

**Due: February 1, 2020**

FOR VALUE RECEIVED, Grimsby Power Incorporated ("the Corporation") unconditionally promises to pay to or to the order of The Corporation of the Town of Grimsby ("the Town") the sum of \$5,782,746.01 (Five Million, Seven Hundred and Eighty-two Thousand, Seven Hundred and Forty-six Dollars and one cent) and to pay interest from April 1, 2001 (being the first day of the month following approval of the distribution rates for the Corporation by the Ontario Energy Board) at the rate calculated as the greater of 4% per annum or the monthly average prime rate provided by the Corporation's bank each year in which this note is in effect or the Board may set a rate annually, which will be no lower than the interest rate noted herein above. Interest at the aforesaid rate shall be payable annually to the Town on the 30<sup>th</sup> day after the Corporation's fiscal year.

Any shortfall in payment described shall accrue to the principal sum of this note and shall be assessed interest at the rate as described herein.


At the option of the Town, on one year's prior written notice to the Corporation, the Maturity Date and any of the terms of this Promissory Note may be revised, changed or restated by the Town in consultation with the Corporation.

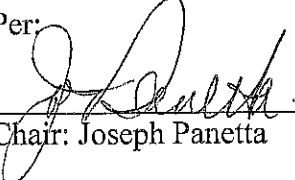
The principal and interest payments are in Canadian dollars and are to be paid, without claim or deduction.

This note is not assignable by the Town without the consent of the Corporation.

Made at Grimsby, Ontario this 29th day of November 2004.

### GRIMSBY POWER INCORPORATED

Per:   
President: Brian A. Weber

Per:   
Chair: Joseph Panetta