

December 6, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board,
2300 Yonge St.
Suite 2700, P.O. Box 2319
Toronto, Ontario
M4P 1E4
Canada

Dear Ms. Walli:

Re: Board Determination of Stretch Factor Rankings for 2013 3rd Generation Incentive Regulation Applications (IRM3)

On November 28, 2012, the Ontario Energy Board (the “Board”) determined the Stretch Factor Rankings for 2013 3rd Generation Incentive Regulation Application (“IRM3”) and it also published the Power System Engineering Inc. (“PSE”) report which presents the Stretch Factor calculation methodology and results. The PSE’s report has also ranked distributors into three efficiency cohorts.

Based on PSE’s report, the Board determined stretch factors for those distributors whose rates are set using IRM3; Guelph Hydro Electric Systems Inc.’s (“Guelph Hydro”) 2013 distribution rates are to be set using IRM3.

According to PSE’s report, Guelph Hydro was placed in the second efficiency cohort and classified as a middle performer. Guelph Hydro has studied and analyzed the methodologies, Econometric Method and Unit Cost Indexing Method, and the results of PSE’s report. Based on this analysis, Guelph Hydro has two main concerns with the accuracy of the results related to its efficiency ranking.

First, Guelph Hydro transitioned to IFRS on January 1 2011. The IFRS impact on OM&A expenses was significant. Guelph Hydro has calculated the impact from transitioning to IFRS at \$1,761,720 as the impact of changing the policy on capitalization of overheads under IFRS versus CGAAP. In other words, had Guelph Hydro not transitioned to IFRS, its 2011 OM&A would have been lower by \$1,761K (i.e. \$11,137K); (please also see Attachment A).

It is our understanding that the majority of the LDCs have not yet transitioned to IFRS, and therefore, their 2011 financial results were reported under CGAAP. In our view, this has altered the Performance Ranking results under both methods (i.e. Econometric and Unit Cost Indexing), and skewed the comparison between Guelph Hydro's performance and the performance metrics for other LDCs.

Secondly, Guelph Hydro has noticed that the amount of OM&A calculated by PSE is slightly higher (by \$145K) than the amount that was reported via Guelph Hydro's RRR 2011 Trial Balance on May 2, 2012 (please see Attachment B). The PSE report shows Guelph Hydro's OM&A expenses at \$12,898K, whereas Guelph Hydro's 2011 Trial Balance reported OM&A expenses at \$12,752K (Distribution Expenses, Billing Collecting, Community Relations, and Administration General Expenses).

We respectfully ask the Board and its consultant PSE to update the study taking into consideration the IFRS impact, by adjusting the OM&A accordingly. Guelph Hydro believes that future Stretch Factor studies should consider this base and sensitive to LDC's that have converted to IFRS reporting.

If this review results in a change to the Stretch Factor assigned for Guelph Hydro, Guelph Hydro respectfully asks the Board to recalculate/update Guelph Hydro's 2013 IRM Price Cap Index, file number EB-2012-0128, application for distribution rates effective January 1, 2013.

Guelph Hydro has been working towards improving its performance and efficiency, always having in mind providing superior service to its customers.

Should there be any questions, please contact me at the number below.

Respectfully Submitted,



Cristina Birceanu

Director of Regulatory Affairs
Guelph Hydro Electric Systems Inc.

395 Southgate Drive,
Guelph, ON N1G 4Y1
Telephone- (519) 837-4735
Mobile- 226-218-2150
Email-cbirceanu@guelphhydro.com
CC: Daniel Kim - Daniel.Kim@ontarioenergyboard.com
CC: Market Operations - market.operations@ontarioenergyboard.ca
CC: Kazi Marouf - kmarouf@guelphhydro.com
CC: Pankaj Sardana - psardana@guelphhydro.com

ATTACHMENT A – IFRS IMPACT ON OM&A

Guelph Hydro Electric Systems Inc.

Summary of IFRS Non-burdenable costs

2011

Account	Description	Amount	Totals
LINE CONSTRUCTION			
2012-450.01-01	ADMINISTRATION EXPENSE / OTHER	\$ 2,119.39	
2012-450.01-02	ADMINISTRATION EXPENSE / CONFERENCES & SEMINARS	8,096.11	
2012-450.01-03	ADMINISTRATION EXPENSE / LODGING	4,866.88	
2012-450.01-04	ADMINISTRATION EXPENSE / MEALS	7,838.46	
2012-450.01-05	ADMINISTRATION EXPENSE / MILEAGE ALLOWANCE	5,893.84	
2012-450.12-02	COST REDISTRIBUTION / BUILDING OPER. ALLOCATION	69,553.55	
2012-450.16-07	DIRECT LABOUR - LINE CREW / TRAINING	3,581.16	
2012-450.16-08	DIRECT LABOUR - LINE CREW / SAFETY MEETINGS	5,809.20	
2012-450.16-09	DIRECT LABOUR - LINE CREW / ADVERSE WEATHER	20,059.74	
2012-450.17-08	DIRECT LABOUR-MAINTENANCE / SAFETY MEETINGS	282.20	
2012-450.18-08	DIRECT LABOUR - METERING / SAFETY MEETINGS	511.28	
2012-450.20-07	DIR LABOUR - ENGINEERING / TRAINING	249.36	
2012-450.20-08	DIR LABOUR - ENGINEERING / SAFETY MEETINGS	155.85	
2012-450.21-01	EMPLOYEE BENEFITS / OTHER	59,698.50	
2012-450.29-00	LINE CONSTRUCTION / INSURANCE	17,300.04	
2012-450.37-11	OUTSIDE SERVICES / SUB-CONTRACT	1,058.02	
2012-450.44-00	LINE CONSTRUCTION / PROPERTY TAXES	95,418.00	
2012-450.48-01	SALARY - MANAGEMENT / REGULAR	407,153.57	
2012-450.48-02	SALARY - MANAGEMENT / OVERTIME	12,681.83	
2012-450.48-03	SALARY - MANAGEMENT / OTHER	14,295.82	
2012-450.48-04	SALARY - MANAGEMENT / VACATION PAY	43,424.54	
2012-450.48-05	SALARY - MANAGEMENT / STATUTORY HOLIDAYS	18,802.81	
2012-450.48-06	SALARY - MANAGEMENT / SICK TIME	26,437.58	
2012-450.48-07	SALARY - MANAGEMENT / TRAINING	4,761.57	
2012-450.48-08	SALARY - MANAGEMENT / SAFETY MEETINGS	1,514.58	
2012-450.51-01	SUPPLIES / OTHER	505.85	
2012-450.51-11	SUPPLIES / OFFICE	107.37	
2012-450.52-01	TELEPHONE / OTHER	15.00	
2012-450.54-01	TRAINING / OTHER	14,650.00	
2012-450.54-02	TRAINING / FRONTLINE LEADERSHIP	2,902.40	
2012-450.54-08	TRAINING / APPRENTICE TRAINING	21,886.60	\$ 871,631.10

STORES

2012-471.01-02	ADMINISTRATION EXPENSE / CONFERENCES & SEMINARS	\$	50.00	
2012-471.01-04	ADMINISTRATION EXPENSE / MEALS		216.00	
2012-471.12-02	COST REDISTRIBUTION / BUILDING OPER. ALLOCATION		81,300.15	
2012-471.21-01	EMPLOYEE BENEFITS / OTHER		6,000.37	
2012-471.21-32	EMPLOYEE BENEFITS / BOOT ALLOWANCE		256.10	
2012-471.24-00	STORES / FREIGHT		6,300.55	
2012-471.29-00	STORES / INSURANCE		6,800.04	
2012-471.30-01	INVENTORY ADJUSTMENTS / OTHER		32.58	
2012-471.30-02	INVENTORY ADJUSTMENTS / INVENTORY ADJ CABLE REEL		311.15	
2012-471.30-03	INVENTORY ADJUSTMENTS / UNIT PRICING		(18.00)	
2012-471.37-01	OUTSIDE SERVICES / OTHER		157.50	
2012-471.44-00	STORES / PROPERTY TAXES		43,165.32	
2012-471.47-01	SALARY - BARGAINING UNIT / OTHER		138,195.34	
2012-471.47-02	SALARY - BARGAINING UNIT / OVERTIME		3,984.22	
2012-471.47-03	SALARY - BARGAINING UNIT / OTHER		(79.76)	
2012-471.47-04	SALARY - BARGAINING UNIT / VACATION PAY		14,481.51	
2012-471.47-05	SALARY - BARGAINING UNIT / STATUTORY HOLIDAYS		7,176.07	
2012-471.47-06	SALARY - BARGAINING UNIT / SICK TIME		6,388.50	
2012-471.47-07	SALARY - BARGAINING UNIT / TRAINING		26.31	
2012-471.47-08	SALARY - BARGAINING UNIT / MEETINGS		492.30	
2012-471.51-10	SUPPLIES / STATIONERY		174.40	
2012-471.51-11	SUPPLIES / OFFICE		293.29	
2012-471.57-00	STORES / VEHICLES		783.88	
2012-471.58-00	STORES / WORK ORDER CHARGES		2,031.82	\$ 318,519.64

FLEET

2012-472.01-01	ADMINISTRATION EXPENSE / OTHER	\$	110.00	
2012-472.01-02	ADMINISTRATION EXPENSE / CONFERENCES & SEMINARS		225.00	
2012-472.01-03	ADMINISTRATION EXPENSE / LODGING		143.25	
2012-472.01-04	ADMINISTRATION EXPENSE / MEALS		14.32	
2012-472.12-02	COST REDISTRIBUTION / BUILDING OPER. ALLOCATION		170,203.93	
2012-472.29-00	FLEET / INSURANCE		40,800.00	
2012-472.37-01	OUTSIDE SERVICES / OTHER		1,247.47	
2012-472.37-09	OUTSIDE SERVICES / SMALL TOOL REPAIRS		34.95	
2012-472.44-00	FLEET / PROPERTY TAXES		88,602.00	\$ 301,380.92

ENGINEERING

3042-481.01-01	ADMINISTRATION EXPENSE / OTHER	\$	222.16	
3042-481.01-02	ADMINISTRATION EXPENSE / CONFERENCES & SEMINARS		6,088.00	
3042-481.01-03	ADMINISTRATION EXPENSE / LODGING		1,134.32	
3042-481.01-04	ADMINISTRATION EXPENSE / MEALS		2,478.39	
3042-481.01-05	ADMINISTRATION EXPENSE / MILEAGE ALLOWANCE		8,290.67	
3042-481.21-01	EMPLOYEE BENEFITS / OTHER		48,042.02	
3042-481.23-02	EQUIPMENT MAINTENANCE / PHOTOCOPIER		494.26	
3042-481.24-00	ENGINEERING / FREIGHT		239.39	
3042-481.34-01	MEMBERSHIPS / OTHER		1,035.96	
3042-481.37-01	OUTSIDE SERVICES / OTHER		2,546.00	
3042-481.45-04	P.C. COMPUTER EXPENSES / SOFTWARE PURCHASES		9,422.73	
3042-481.45-05	P.C. COMPUTER EXPENSES / INTERNET		1,415.86	
3042-481.45-06	P.C. COMPUTER EXPENSES / SYSTEM OPTIMIZATION EXP		6,781.00	
3042-481.47-01	SALARY - BARGAINING UNIT / REGULAR		201,417.84	
3042-481.47-02	SALARY - BARGAINING UNIT / OVERTIME		8,379.23	
3042-481.47-03	SALARY - BARGAINING UNIT / OTHER		554.48	
3042-481.47-04	SALARY - BARGAINING UNIT / VACATION PAY		29,098.56	
3042-481.47-05	SALARY - BARGAINING UNIT / STATUTORY HOLIDAYS		10,753.44	
3042-481.47-06	SALARY - BARGAINING UNIT / SICK TIME		4,998.68	
3042-481.47-07	SALARY - BARGAINING UNIT / TRAINING		5,074.43	
3042-481.47-08	SALARY - BARGAINING UNIT / MEETINGS		589.55	
3042-481.48-01	SALARY - MANAGEMENT / REGULAR		348,835.80	
3042-481.48-02	SALARY - MANAGEMENT / OVERTIME		1,157.50	
3042-481.48-03	SALARY - MANAGEMENT / OTHER		9,822.78	
3042-481.48-04	SALARY - MANAGEMENT / VACATION PAY		34,043.70	
3042-481.48-05	SALARY - MANAGEMENT / STATUTORY HOLIDAYS		17,175.34	
3042-481.48-06	SALARY - MANAGEMENT / SICK TIME		6,757.38	
3042-481.48-07	SALARY - MANAGEMENT / TRAINING		9,815.75	
3042-481.48-08	SALARY - MANAGEMENT / MEETINGS		805.94	
3042-481.51-01	SUPPLIES / OTHER		89.74	
3042-481.51-08	SUPPLIES / SMALL OFFICE EQUIPMENT		960.02	
3042-481.51-09	SUPPLIES / SMALL TOOLS		1,065.38	
3042-481.51-10	SUPPLIES / STATIONARY		269.04	
3042-481.52-01	TELEPHONE / OTHER		11,123.73	
3042-481.54-01	TRAINING / OTHER		4,248.56	795,227.63

TOTAL IFRS NON-BURDENABLE COSTS (100% EXPENSED UNDER IFRS)	\$	2,286,759.29
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% of burdenable costs allocated to capital expenditures under CGAAP	Note (1)	77.04%
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ADDITIONAL OPERATING EXPENSES UNDER IFRS	\$	1,761,720.45
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Note (1) As per 2009-2012 Burdenable costs comparison schedule prepared by Engineering.

ATTACHMENT B – 2011 TRIAL BALANCE

E 2.1.7 - Trial Balance: 2.1.7; 2; Revised; 5/2/2012; April

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Assets **Liabilities and Equity** **Income Statement** **Trial Balance Summary and Submit**

Clicking Save or Apply will not automatically submit this filing. To SUBMIT this filing, click on the SUMMARY/SUBMIT tab, scroll to the end of the page, select Yes in the Submit drop down then click the SAVE button.

Assets

Current Assets

38,382,895.43

Inventory

1,700,108.56

Non-current Assets

0.02

Other Assets and Deferred Charges

4,961,292.29

Other Capital Assets

162,193,362.33

Accumulated Amortization

-49,185,682.74

Net Assets

158,052,065.89

Liabilities and Equity

Non-current Liabilities

-6,263,006.32

Current Liabilities

-19,550,663.39

Other Liabilities Deferred Credit

-72,891,150.87

Shareholders' Equity

-59,347,245.31

Net Liabilities and Equity

-158,052,065.89

Revenues

Sales of Electricity

-126,454,656.70

Revenues from Services

-24,781,032.75

Other Operating Revenues

-1,001,011.72

Other Income / Deductions

-1,292,513.65

Investment Income

-430,666.27

Total Revenues

-153,959,881.09

Expenses

Generation Expenses

0.00

Other Power Supply Expenses

126,454,657.01
Transmission Expenses
0.00
Distribution Expenses
4,906,038.44
Other Expenses
Billing Collecting
2,335,622.70
Community Relations
73,496.21
Sales Expenses
Administration General Expenses
5,437,592.15
Amortization Expense
5,016,745.97
Interest Expense
3,543,207.72
Taxes
1,865,500.04
Other Deductions
56,010.78
Extraordinary Items
Discontinued Operations
Total Expenses
149,488,871.02
Profit / Loss
-4,471,010.07
Final Total/Balancing Factor
Trial Balance Total Excluding accounts 1605 and 3046
-0.00
Submit?
* Submit Form
No <input type="button" value="Submit"/>