Festival Hydro Inc.

Technical Conference

Board Staff Questions

Please note: These questions are indicative of the questions Board staff may ask and identify major areas of interest. The list is not intended to be exact or complete, and Board staff may have further questions arising from the answers to the sample questions below.

1-Staff-68 TCQ – Labour Cost

Ref: IRR# 1 - 1-Staff-1 (p.1)
Ref: IRR# 104 - 4-Staff-39 (p. 104)
Ref: IRR# 105 - 4-Staff-40 (p. 105)
Ref: IRR# 11 - 1-Energy Probe-1 (p. 7)
Ref: IRR# 26 - 1-VECC-1 (p. 13)

In the first reference Festival Hydro notes that controllable expenses as shown in the revised RRWF have been increased by $27,155 in response to 4-Staff-39.

In 4-Staff-39 Festival Hydro confirmed that an increase of 2.5% in compensation was estimate, but as a result of the new collective agreement the actual increase in compensation was 2.02%.

In response to 4-Staff-40 Festival Hydro filed a revised Appendix 2-K which shows an increase of total compensation of $24,895 for the 2015 test year. This increase in total compensation is comprised by an increase in the management category of $38,193 and a decrease of $13,298 for non-management labour.

a) Please explain how the amount of $27,155 was derived?
b) In response to 1-VECC-1, Festival Hydro has calculated compensation for the 2015 test year based on a 2.5% increase. In 1-EP-6 Festival Hydro states that the evidence has been updated to reflect the information obtained regarding newly negotiated salaries.
    i. Please explain the changes and state if salaries have been adjusted for a wage increase of 2.02%.
    ii. If not, please explain why not.
c) Please explain the revised compensation amount for management.

2-Staff-69TCQ – Stranded Meters

Please confirm the year and quantum of the removal of stranded meters from rate base.

2-Staff-70 TCQ – Continuity Schedule

Ref: IRR# 28 - 2-Staff-28 (p. 16)
Ref: IRR #170 – 9-Staff-61 (p. 161)
Ref: IRR Attachments Appendix 2-BA

In response to 2-Staff-28 (IRR 28) Festival Hydro indicates that differences in Appendix 2-BA between New Policy and MIFRS is in part, due to losses from the disposal of assets no longer in use by Festival, but not fully amortized. The 2014 loss included in the MIFRS schedule is $746,297. The 2015 loss included in the MIFRS schedule for the same assets as 2014, assuming that MIFRS was only reflected starting in 2015 is $632,750.

a) From IRR 28d, Festival has indicated that it has updated Appendix 2-BA 2015 MIFRS to record the loss as an adjustment to depreciation expense. However, Festival has not made this adjustment to depreciation expense in the RRWF. Instead, Festival has proposed to recover this loss in Account 1575. Please confirm that this is correct.
b) Account 1575 should record differences up to the bridge year 2014. Please explain why Festival is proposing to include the test year loss amount in Account 1575.
c) From IRR 28a, it appears that the losses are from pooled assets that are no longer in use by Festival. This would be the case regardless of whether Festival is under CGAAP new policies or MIFRS.
    i. Why did Festival not identify these losses under 2014 CGAAP new policies?
    ii. How are these losses considered to be due to transition to IFRS and thus, to be included in Account 1575?

2-Staff-71 TCQ – Continuity Schedule
Ref: IRR # 107 – 4-Staff-42 (p.108)

Festival Hydro recalculated the average remaining service lives in 2014 MIFRS and again 2015 MIFRS due to the disposals in the year.

a) Please explain whether Festival had identified these disposals when it was analyzing the capitalization and depreciation policy changes in 2013.
b) If yes, why did Festival not incorporate these disposals in 2013 as it would have resulted in more reliable and relevant information?

2-Staff-72 TCQ - DSP

Ref: IRR# 41 – 2-Staff-18 and E2/T2/S1/Attachment 1/pages 31-32

In response to interrogatory 2-Staff-18 Festival Hydro included a list of the feeders owned by Festival Hydro and the corresponding voltage level (summarized below for convenience). The interrogatory asked for the reliability indices of 13 feeders, since Festival Hydro reported the reliability indices on only 9 of 22 feeders owned by Festival Hydro (E2/T2/S1/Att. 1/pp. 15-24).

- 5 feeders at 4 kV;
- 2 feeders at 8.32;
- 4 feeders at 13.8 kV; and
- 11 feeders at 27.6 kV

In its response to the noted interrogatory, Festival Hydro indicated that:

- 4 of the 27.6kV feeders are new as of December 2013 and don't have historical performance metrics - part of the new Stratford TS.
- The 9 feeders identified (5 – 27.6 kV feeders in Stratford and 4- 13.8 kV feeders in St Marys) account for over 87% of FHI customer count.
- <u>3 of the 4 kV feeders are supplied by the 27.6 kV feeders in Stratford</u> and their reliability performance is included in the results of the 27.6 kV feeders.
- The remaining feeders are located in smaller municipalities of Seaforth, Brussels, Dashwood, Hensall and Zurich. Most of the feeders in these towns are embedded Hydro One feeders, with the vast majority of outages caused by loss of supply.

At the second reference, the details provided on the system configuration appear to be at variance with the interrogatory response at the first reference in regard to the 5 - 4 kV feeders.

a) Please complete the following table, which includes the basic feeder information based on the evidence contained in the second reference.

	Feeders Serving Town/Village	Number of FHI Customers	Percent of Total FHI

Town/Village	Number of Feeders	Voltage Level	Served at the Town/Village	Customers[1]
Town - Seaforth	5	4 kV		
Village - Hensall	1	27.6 kV		
Village Dashwood	1	8.32 kV		
Village - Zurich	1	27.6 kV		
Village Brussels	1	8.32 kV		

b) Please confirm that the 5 feeders specified in the noted Board staff interrogatory are those supplying the Town of Seaforth. Please note that the evidence in the second reference indicates that there are 3 4 kV feeders that are presently supplying a portion of the City of Stratford via 2- 4 kV distribution stations.

c) Please indicate whether Festival Hydro monitors the performance of the 5- 4 kV feeders supplying the Town of Seaforth.

d) Please confirm whether Festival Hydro owns the portions of the 4 feeders inside its service areas supplying the villages of Hensall, Dashwood, Zurich and Brussels.

e) Please indicate whether Festival Hydro keeps statistics on interruptions that occurred due to faults, damage equipment or false trips that originated at FHI owned facilities on the noted feeders listed in the Table under a) above.

f) Does Festival Hydro receive from Hydro One performance reports on the five feeders it owns (all or a portion of) in order to establish the number and duration of interruptions caused by loss of supply?

3-Staff-73 TCQ – Load Forecast

Ref: IRR# 73 - 3-Staff-29 (p.58-59)

Please provide a load forecast based on the regression model provided as part of 3-Staff-29 c).

4-Staff-74 TCQ – Other Post-Employment Benefits (OPEB)

Ref: IRR #106 - 4-Staff-41 (p. 105)
Ref: IRR Attachment Actuarial Report

[1] Number of FHI Customers Served at the Town/Village in percent of Total FHI Customers

a) Part IRR 106b iii and iv asked that Festival provide the OPEB amounts Festival included in rates from 2006. Festival provided a table showing the accrual and expense/gain amounts recorded in Accounts 5645 and 4390. It appears that the amount in the table provided may be actual amounts instead of amounts included in rates.
   i. Please clarify what the amounts in the table represent.
   ii. If the amounts are not amounts included in rates, please provide the amounts.

b) In IRR 106b, Festival indicated that it assumed there were no changes in discount rates in 2014 and 2015, resulting in no actuarial gains or losses being included. The discount rate per Festival's 2013 financial statement is 4.6%. However, Festival has received a recent actuarial report projecting 2014 and 2015 OPEBs, it indicates that the discount rate used is 3.9% for 2014 and 2015. Is Festival planning to update actuarial gains/losses for this change in discount rate? If not, why not?

4-Staff-75 TCQ – Employee Future Benefit Accrual

Ref: IRR #108 – 4-Staff-43 (p. 160)

In IRR 108b, Festival Hydro identified a transitional difference arising from Employee Future Benefit Accrual. The accrual under IFRS is $44,850 less than the accrual under CGAAP. Festival indicated that it is requesting a variance account for the $44,850 that would be owing to Festival.

a) Without a DVA account, Festival would be recording the transitional difference as a reduction to liabilities and an increase to retained earnings. Please explain why Festival believes that the $44,850 is owing to Festival when there is a reduction to liabilities and an increase in retained earnings.
b) Please explain why Festival is requesting for a variance account and not a deferral account.
c) As per the Filing Requirements for 2015 Rate Applications, please explain how the variance account meets the criteria of causation, materiality and prudence.

9-Staff-76 TCQ – ICM True-up – OM&A

Ref: IRR# 172 - 9-Staff-63 (p.165-167)
Ref: IRR# 171 - 9-Staff-62 (p.164-165)
Ref: IRR# 32 - 2-Staff-9 (p.21)

In 9-Staff-63 (IRR 172) b) i.) Festival Hydro noted that the 2013 IRM Decision (EB-2012-0124) did not specifically state whether or not OM&A would be added to the ICM account 1508.

Festival Hydro noted that it has adopted accounting practices for its ICM account similar to what was followed for Smart meters.

a) Please confirm that Festival Hydro did not expressly request OM&A expenses as part of its ICM application in 2013 and that the Decision and Order (EB-2012-0124) did not approve such OM&A expenses.
   i. If so, explain why Festival Hydro did not request OM&A expenses and/or a separate deferral account for that purpose, given that Festival Hydro was aware that incremental OM&A cost would be incurred.
   ii. Please state if capitalized OM&A expenses were included in the revenue requirement calculation of the 62 MVA Transformer Station (EB-2012-0124) and consequently collected through the ICM rate rider.

b) Please state which subaccount of Account 1508 was used by Festival Hydro to track incremental OM&A expenses.

9-Staff-77 TCQ – Bypass Agreement

Ref: IRR# 32 - 2-Staff-9 (p.21)
Ref: IRR# 66 - 2-VECC-4 (p.51)
Ref: Transmission System Code, s. 6.7

a) Please explain why Festival Hydro was not aware of the requirement for a Bypass Agreement with Hydro One Network Inc., given section 6.7 of Transmission System Code.

9-Staff-78 TCQ

Ref: IRR# 172 - 9-Staff-63 (p.165-167)
Ref: IRR# 171 - 9-Staff-62 (p.164-165)
Ref: IRR# 32 - 2-Staff-9 (p.21)

a) Please provide a calculation of the overall cost of the new TS including the incremental OM&A expenses over the life of the asset, as well as the deferred charge for the bypass agreement in the amount of $1.23M.

a) Please confirm that the new TS was required due to load growth.

   i. If so, please state if the increased load was part of Festival Hydro's 2010 load forecast.

ii. Please provide the incremental load that has been serviced by the new TS in 2014 and provide the associated incremental distribution revenue.
iii. Please state if Festival Hydro still receives any load from Hydro One's TS. If so, how much.

9-Staff-79 TCQ – ICM - Half-year rule

Ref: Letter re. Festival Hydro Inc. 2014 Cost of Service Application Deferral Request, January 4, 2013

a) On January 4, 2013, Festival Hydro informed that Board it would defer its rebasing application by 8 months for rates effective January 1, 2015. Please confirm that, at that time, Festival Hydro did not vary its ICM request to apply a full year of depreciation nor notify the Board of its intention to recover additional ICM funding as part of an ICM true-up. If so, why not.

9-Staff-80 TCQ – Intangible Asset

Ref: IRR# 32 2-Staff-9 (p.21)

a) Please state under what criteria the Bypass Agreement was recognized as an intangible assets under CGAAP.
b) Please provide a letter from Festival's external auditors indicating that under IFRS, this amount will continue to be recognized as an intangible asset and their opinion on how it meets the criteria of recognition under IAS 38, paragraphs 21 and 22.

9-Staff-81 TCQ – D1 Factor

Ref: IRR #184 (p.177)
Ref: Letter re. Board Staff Proposal for New Policy Options for the Funding of Capital Investments.

To address the potential D1 factor mechanism as part of a Board policy that is under development, Festival is requesting a deferral account to record depreciation expenses, plus return on capital and associated taxes/PILS from its 2015 test year capital additions during the IRM period.

a) The Board staff proposal for the D1 factor currently states that the D1 factor is proposed to be accomplished through an adjustment to the price cap formula in the first IR application, subsequent to the cost of service application that resulted in rebased rates. If the D1 factor is to be accomplished through adjustments in the IR applications, please explain why Festival feels the need to have a deferral account established during this cost of service rate application.
b) Please provide a cost estimate of the depreciation expenses, return on capital and associated PILS for each of the IRM years.
c) As per the Filing Requirements for 2015 Rate Applications, please explain how the deferral account meets the criteria of causation, materiality and prudence.