# EXHIBIT 1 – ADMINISTRATIVE DOCUMENTS

## *1.* 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.**

*Response:*

**Labour Cost**

| | | |
|---|---|---|
| Total OM&A Impact | 5,372.73 | 27,155.43 |
| | - | - |
| Total Capital impact | 2,109.50 | 2,260.58 |
| | 3,263.22 | 24,894.85 |

a) The OM&A impact of $27K was calculated by first reducing the 2015 compensation & benefits included in OM&A by the different inflation factor of the 2.5% estimate vs. the 2.02% actual. In addition, between the time the application was filed and the time the interrogatory responses were filed, the corporate structure changed. In light of the structure change, senior compensation packages were

reviewed and were designed to be in line with the new roles within the organization. The impact of the revised senior management salaries was calculated and added to the inflationary reduction to calculate the $27K OM&A impact reported in the revised RRWF.

b) As noted above – compensation included in the 2015 test year was revised to reflect the lower inflation factor of 2.02%.

c) The revised compensation amount for management of $38,193 included in the test year is a combination of a reduction of all estimated management salaries based on the original 2.5% inflation factor to the revised actual amount of 2.02%. Secondly – senior management compensation was increased based on the revised corporate structure.

## *2.* 1-Energy Probe-40TC

### Ref: 1-Staff-1 & 4-Energy Probe-30

*Has the RRWF attached to 1-Staff-1 also been updated to reflect the $61,000 impact on PILs identified in the response to 4-Energy probe-30?*

*Response:*

*Festival confirms that the PILS calc excluding the small business deduction of $236,536, grossed up to $321,818 has been reflected in the final RRWF submitted in responses to 1-Staff-1*

# EXHIBIT 2 – RATE BASE

## *3.* 2-Staff-69TCQ – Stranded Meters

### Ref: (None listed)

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

### *Response:*

Festival has incorrectly recorded the removal of stranded meter NBV at December 31, 2015 and as such needs to revise evidence to remove stranded meters from NBV at December 31, 2014. The stranded meter NBV to be removed at December 31, 2014 is as reported in appendix 2-S ($234,537). This was not correctly reflected in appendix 2-BA and needs to be corrected.

## *4.* 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?

### *Response:*

- Confirmed
- Festival's intention was to dispose of assets at Jan 1, 2015 and to calculate depreciation in 2015 after these disposals. Festival felt this was a proper reflection of the requirement to move to MIFRS effective Jan 1, 2015. Festival notes that the depreciation expense in 2015 was calculated incorrectly and erroneously includes depreciation on the assets that were to be disposed at Jan 1, 2015. The losses at December 31, 2014 and January 1, 2015 would be the same and that is why the amount was included in account 1575. It was not Festival's

intention to inflate rate base by reflecting these disposals at January 1, 2015. As such Festival agrees that the following changes are necessary:

- Revise 2015 depreciation expense
- Revise appendix 2-BA to show stranded meters and other losses on disposal as a result of MIFRS at December 31, 2014.
- Revise the balance in account 1575 to exclude the loss on the disposal of stranded meters.

- ci) Festival was under the understanding that the new policies encompassed overhead capitalization policies as well as depreciation policies and the depreciation of pooled assets was still considered appropriate by the OEB until such point as Festival converted to IFRS (Jan 1, 2015).

- cii) Festival considered these losses as a result of transition to IFRS as pooled depreciation is no longer allowed for IFRS reporting purposes, but was still acceptable under CGAAP. For this reason Festival continued to depreciate these assets in 2013 and 2014 with the intent of disposing of them upon conversion to MIFRS at January 1, 2015 (December 31, 2014).

## *5.* 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?

### *Response:*

a) Festival had identified that there would be some disposals while doing the analysis to revise accounting policies to prepare for MIFRS (overhead capitalization, depreciation rates, componentization).

b) Festival decided to continue with pooled asset depreciation for 2013 and 2014 mainly as a result of the need to implement a process for tracking and recording disposals on an ongoing basis from the time of implementation of this revised policy (i.e. to implement a policy where all assets, including non-readily identifiable assets, are recorded as disposals in the year they are taken out of use and disposed of). Festival currently uses a manual fixed asset module and as such wanted to take the time to develop a process whereby we could feel confident that our manual procedures were accurately capturing all disposals in a year and could reasonably estimate the remaining net book value of these assets at time of disposal to record the disposal in our general ledger properly. Festival did not feel we were in a position to develop and implement such a process until the start of 2015.

## *6.* 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.

3 of the 4 kV feeders are supplied by the 27.6 kV feeders in Stratford 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 | 27.6Kv | | |
| 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

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

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?

*Response:*

a)

| Town Village | Number of Feeders | Voltage Level | # of FHI Customers | % of FHI Customers |
|---|---|---|---|---|
| Seaforth | 5 | 4 kV | 1175 | 5.6% |
| Hensall | 1 | 27.6 kV | 504 | 2.4% |
| Dashwood | 1 | 8.32 kV | 234 | 1.1% |
| Zurich | 1 | 27.6 kV | 481 | 2.3% |
| Brussels | 1 | 8.32 kV | 581 | 2.8% |

b) The 5 feeders specified above are for the Town of Seaforth. FHI does have an additional 3 4 kV feeders in Stratford that are being phased out by the end of 2016. The original submission did not include the Stratford feeders.
c) Yes FHI does track outages of the 5 – 4kV feeders.
d) Yes FHI does own the feeders within the service territories identified above
e) Yes FHI has tracks outage causes for all of the feeders identified in A
f) Yes Hydro One provides outage reports for Hydro One owned feeders.

## 7. 2-Energy Probe-41TC

### Ref: 2-Energy Probe-13

The net amount removed in the 2015 continuity schedule is $201,642 (Exhibit 2, Tab 1, Schedule 1, Attachment 1). Please reconcile this figure to the net book value of the stranded meters of $234,537(Exhibit 2, Tab 1, Schedule 4, Appendix 2-S).

*Response:*

Festival confirms that the figure includes in appendix 2-S of $234,537 is the net book value of stranded meters at December 31, 2014. The amount included as a disposal in the 2015 continuity of

$201,642 is the net book value of stranded meters to be disposed at December 31, 2015. Festival agrees that depreciation expense in 2015 is overstated by the amount of depreciation taken on the stranded meters. Festival will update evidence to reflect this correction prior to the settlement conference.

## *8.* 2- Energy Probe-42TC

### Ref: 2-Energy Probe-13 & Exhibit 2, Tab 1, Schedule 4

In Exhibit 2, Tab 1, Schedule 4, Festival states: "Festival confirms the 2015 revenue requirement does not include either a cost of capital return or depreciation expense associated with the total estimated stranded meter costs removed from rate base." In the response to the interrogatory, it was confirmed that the stranded meters are removed from rate base in 2015 meaning they are included in the opening net book value for 2015.

a) Please confirm that there is a return on capital associated with the stranded meters because they are included in the opening net book value used for the calculation of rate base.

b) Please show the calculation of the depreciation expense in this meter category to reflect the statement that no depreciation expense associated with the stranded meters has been included in the revenue requirement for the test year.

### *Response:*

As indicated in 2-Energy Probe-42TC above, stranded meters have not been removed from net book value at January 1, 2015 as originally stated. In order to correct for this, net book value of stranded meters of $234,537 should be removed from 2014 net book value and depreciation expense claimed in 2015 should be reduced. Festival will revise the evidence as appropriate prior to the settlement conference.

## *9.* 2- Energy Probe-43TC

### Ref: 2-Energy Probe-14

a) Please confirm that there is no net book value associated with any of the properties (land) that are not being fully utilized by Festival.

b) Please confirm that the land next to the main administration building was acquired at no cost to Festival, resulting in no net book value at the current time.

### *Response:*

a) Other than the property with net book value as identified in (b) below – there are no other properties with book value that aren't being fully utilized by Festival.

b) The property beside the Festival admin building has a land book value of $1,001. The book value on the building is approximately $2,013 at the end of 2015.

## *10.* 2.0 – VECC - 43

### Ref: 2-Staff-13/14

a) Please confirm that the Table from page 235 shown in the Staff interrogatory response is showing annual capital additions whereas Appendix 2-AA is showing annual capital expenditures.
b) The evidence appears to show 3 variations of capital budget numbers: Page 25 of the DSP/Appendix 2-AA/ Et/T2/S1 Appendix 4 page 2. Each appears to show a different figure for a given year. For example for 2011: $3,010,362 / 3,058,814 / 3,063,507 respectively. The explanation of the variance between Appendix 2-AA and Appendix 4 at 2-Staff-14 relies on the response to 2-Staff-13, and therefore does not explain the 3 different figures. Please explain.

## *11.* 2.0 – VECC - 44

### Ref: 2-Staff-24

a) The response to the interrogatory indicates that in 2011 104 meters were installed at a cost of $40,725. Table above from Appendix 2-AA shows 2011 spending as $147,080. Please explain the discrepancy.
b) Given the inordinately high expected failure rate (26%) what legal or other action has/is/will FHI take to recover ongoing costs of equipment and labour.

### *Response:*

a) The two figures being cited in the question (a) relate to different activities. 2011 smart meter spending was charged to a variance account whereas Appendix 2-AA meter spending refers to the costs incurred on metering including CT's and PT's for upgrades, replacements and new installations of meters outside the smart meter program i.e. GS>50.
b) At this time FHI is not considering legal action as Trilliant is honoring replacements outside the warranty period. FHI will evaluate its options if/when Trilliant discontinues honouring warranty replacements.

# EXHIBIT 3 – OPERATING REVENUE

## *12.* 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).*

### *Response:*

Please see the response to 3.0-Energy Probe-44TC.

## *13.* 3- Energy Probe-44TC

### Ref: 3-Staff-29 & 30

*a) Does the table provided in response to 3-Staff-30 include changes based on the new equation estimated in the response to 3-Staff-29? If not, please update the response to 3-Staff-30 based on the use of the new equation in 3-Staff-29.*
*b) Please provide Tables 3.6 through 3.10 based on the equation estimated in part(c) of 3-Staff-29.*

### *Response:*

a) No. Please see the revised table, below.

**Adjustments to kWh for CDM Impact:**
**Original CDM Forecast:**

| | Initial 2015 | | Revised 2015 | |
|---|---|---|---|---|
| 2013 Programs | 324,574 | | 324,574 | |
| 2014 Programs | 750,000 | (.5 * 1,500,000) | 2,272,125 | (.5 * 4,544,250) |
| 2015 Est | 1,074,574 | | 2,596,699 | |

| Allocated as: | Weather Norm 2015 before CDM | Initial CDM | Weather Norm 2015 after CDM | Revised CDM | Weather Norm 2015 after revised CDM |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| | | 248,261 | 137,145,586 | 601,006 | |
| Residential | 137,393,847 | | | | 136,792,841 |
| Res Hensall | 3,761,644 | 6,797 | 3,754,847 | 16,455 | 3,745,189 |
| G.S. < 50 kW | 64,295,632 | 116,178 | 64,179,454 | 281,251 | 64,014,381 |
| G.S. > 50 kW | 361,682,793 | 653,535 | 361,029,258 | 1,582,121 | 360,100,672 |
| Large Use | 22,182,145 | 40,082 | 22,142,063 | 97,032 | 22,085,113 |
| Streetlights | 4,567,584 | 8,253 | 4,559,331 | 18,318 | 4,549,266 |
| Sentinel Lights | 150,427 | 272 | 150,155 | 603 | 149,824 |
| USL | 662,162 | 1,196 | 660,966 | 2,656 | 659,506 |
| | 594,696,234 | 1,074,574 | 593,621,660 | 2,596,699 | 592,099,535 |

**New OPA Targets:**

| | | | | | |
|---|---|---|---|---|---|
| 2015 to 2020 Budget | kWh | 36,500,000 | | | |
| Minimum per year | 8.30% | 3,029,500 | | | |
| 5 year average | 16.67% | 6,083,455 | | | |
| Mid point | 12.45% | 4,544,250 | | | |
| Half year rule | | 2,272,125 | | | |
| Allocated target for 2015 | | | | | |
| Residential | 1,084 | 19.80% | 449,778 | | |
| NonRes | 4,392 | 802% | 1,822,347 | | |
| | 5,476 | 100.00% | 2,272,125 | | |

Adjustments to Kw for CDM Impact

| | **kW Weather Norm 2015 before CDM** | **kW Initial CDM** | **kW Weather Norm 2015 after CDM** | **kW Revised CDM** | **kW Weather Norm 2015 after revised CDM** |
|---|---|---|---|---|---|
| Allocated as: | | | | | |
| Residential | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Res Hensall | | | | | |
| G.S. < 50 kW | | | | | |
| G.S. > 50 kW | 944,066 | 1,706 | 942,360 | 4,130 | 939,936 |
| Large Use | 34,346 | 62 | 34,284 | 150 | 34,196 |
| Streetlights | 12,017 | 22 | 11,995 | 48 | 11,969 |
| Sentinel Lights | 365 | 1 | 364 | 1 | 364 |
| USL | | | | | |
| | 990,794 | 1,790 | 989,004 | 4,330 | 986,464 |

| | **kWh** | **kW** |
|---|---|---|
| Original CDM | 1,074,574 | 1,790 |
| Revised CDM | 2,596,699 | 4,330 |

b) Please see the following tables restated, based on Part (c) of 3-Staff-29.

**Table 3.6 – (Restated)**

***Annual Actual vs. Normalized Interval***

| | Interval | % Change | Normalized Value | % Change |
|---|---|---|---|---|
| 2005 | 415,128,037 | | 408,202,727 | |
| 2006 | 409,556,912 | -1.3% | 401,685,136 | -1.6% |
| 2007 | 404,758,925 | -1.2% | 402,521,454 | 0.2% |
| 2008 | 385,087,341 | -4.9% | 399,022,429 | -0.9% |
| 2009 | 344,781,983 | -10.5% | 368,795,650 | -7.6% |
| 2010 | 368,453,232 | 6.9% | 366,147,049 | -0.7% |
| 2011 | 379,222,059 | 2.9% | 368,301,083 | 0.6% |
| 2012 | 377,856,480 | -0.4% | 366,532,427 | -0.5% |
| 2013 | 359,953,516 | -4.7% | 361,993,296 | -1.2% |
| 2014 | | | 362,463,970 | 0.1% |
| 2015 | | | 363,336,184 | 0.2% |

**Table 3.7 – GS > 50 kWh (Restated)**

| | GS > 50 | | |
|---|---|---|---|
| Year | Actual kWh | Normalized kWh | % Change |
| 2005 | 408,742,729 | 401,923,941 | |
| 2006 | 402,804,822 | 395,062,822 | -1.7% |
| 2007 | 397,763,768 | 395,564,965 | 0.1% |
| 2008 | 380,372,511 | 394,136,984 | -0.4% |
| 2009 | 341,075,319 | 364,830,822 | -7.4% |
| 2010 | 360,896,551 | 358,637,666 | -1.7% |

| | | | |
|---|---|---|---|
| 2011 | 370,522,725 | 359,852,275 | 0.3% |
| 2012 | 370,402,101 | 359,301,450 | -0.2% |
| 2013 | 358,315,518 | 360,346,016 | 0.3% |
| 2014 | | 360,814,548 | 0.1% |
| 2015 | | 361,682,793 | 0.2% |

**Table 3.8**

| | Large Use | | |
|---|---|---|---|
| Year | Actual kWh | Normalized kWh | % Change |
| 2005 | | 0 | |
| 2006 | | 0 | |
| 2007 | | 0 | |
| 2008 | | 0 | |
| 2009 | | 0 | |
| 2010 | | 0 | |
| 2011 | 2,464,261 | 2,393,294 | |
| 2012 | 18,846,858 | 18,282,033 | |
| 2013 | 21,975,629 | 22,100,160 | 20.9% |
| 2014 | | 22,128,896 | 0.1% |
| 2015 | | 22,182,145 | 0.2% |

**Table 3.9**

| | GS > 50 | | | |
|---|---|---|---|---|
| Year | Actual kW | kW/kWh | Normalized kW | % Change |
| 2005 | 964,785 | 0.00236 | 948,690 | |
| 2006 | 985,468 | 0.00245 | 966,527 | 1.9% |
| 2007 | 996,918 | 0.00251 | 991,407 | 2.6% |
| 2008 | 981,947 | 0.00258 | 1,017,481 | 2.6% |
| 2009 | 938,301 | 0.00275 | 1,003,652 | -1.4% |
| 2010 | 922,410 | 0.00256 | 916,637 | -8.7% |
| 2011 | 948,363 | 0.00256 | 921,051 | 0.5% |
| 2012 | 959,778 | 0.00259 | 931,015 | 1.1% |
| 2013 | 935,277 | 0.00261 | 940,577 | 1.0% |
| 2014 | | | 941,800 | 0.1% |
| 2015 | | | 944,066 | 0.2% |

**Table 3.10**

| Year | Large Use Actual kW | kW/kWh | Normalized kW | % Change |
|---|---|---|---|---|
| 2005 | | | | |
| 2006 | | | | |
| 2007 | | | | |
| 2008 | | | | |
| 2009 | | | | |
| 2010 | | | | |
| 2011 | 3,992 | 0.00162 | 3,877 | |
| 2012 | 31,447 | 0.00167 | 30,505 | |
| 2013 | 34,026 | 0.00155 | 34,219 | 12.2% |
| 2014 | | | 34,263 | 0.1% |
| 2015 | | | 34,346 | 0.2% |

## ***14.*** 3- Energy Probe--45TC

### Ref: Exhibit 3, Tab 1, Schedule 2, Attachment 1, Table 3.9 & 3-Energy Probe-18

*a) Please estimate a regression equation using the kW/kWh ratios shown in Table 3.9 as the dependent variable and a trend variable as the explanatory variable and provide the regression statistics.*

*b) If the equation requested in part (a) above has a statistically significant trendvariable, please provide the forecasted ratio for 2015 and the normalized kWforecast for 2015 if this ratio was used.*

*c) Does Festival have any information as to what is driving the increase in the Large Use billed kW of more than 7% in 2014 relative to 2013?*

### *Response:*

a) Please see the model below

Model 1: OLS, using observations 1905/06/27-1905/07/05 (T = 9)
Dependent variable: kW_kWh

| | *Coefficient* | *Std. Error* | *t-ratio* | *p-value* | |
|---|---|---|---|---|---|
| const | 0.00242522 | 6.56684e-05 | 36.9313 | <0.00001 | ** |
| Trend | 2.52351e-05 | 1.16696e-05 | 2.1625 | 0.06736 | * |

| | | | |
|---|---|---|---|
| Mean dependent var | 0.002551 | S.D. dependent var | 0.000109 |
| Sum squared resid | 5.72e-08 | S.E. of regression | 0.000090 |
| R-squared | | Adjusted R-squared | |

| | | | |
|---|---|---|---|
| | 0.400493 | | 0.314849 |
| F(1, 7) | | P-value(F) | |
| | 4.676264 | | 0.067362 |
| Log-likelihood | | Akaike criterion | -140.3253 |
| | 72.16264 | | |
| Schwarz criterion | -139.9308 | Hannan-Quinn | -141.1765 |
| | | | |
| Rho | | Durbin-Watson | |
| | 0.245321 | | 1.351679 |

b) The Trend variable is statistically significant. The ratio would be 0.00270 kW/kWh, and the resulting 2015 kW forecast if this ratio were used would be 977,558. However, the R-squared of the model is quite low, likely do to the small sample bringing the validity of this approach into doubt.
c) The large use customer is a new customer which only started operations in November 2011. Based on the usage data from November 2011 to December 2013. The load forecast model is projecting the 7% growth, which appears reasonable for a company during the start-up period.

## ***15.*** 3.0 –VECC -45

### Ref: 3-Staff 29 3-VECC 17 b)

*Please confirm that Festival is now proposing to use Model 2 as set out in response to Staff 29 (c) to forecast the NSLS load. If not what model is Festival proposing use?*

*b) Please confirm that VECC-17 b) provide the updated forecast for 2015 NSLS load based on the currently proposed model. If not, please provide the updated forecast.*

*c) Please provide a breakdown by customer class (prior to CDM adjustments) of the updated NSLS forecast for 2015, including updates to Tables 2.8 through 2.11 from the Elenchus Load Forecast Report.*

### *Response:*

Both references refer to the model forecasting the Interval load, not the NSLS load. Therefore, this question is assumed to be regarding the model Festival proposes to use to forecast Interval load, not NSLS load.

a) Festival is now proposing to use the model set out in response to Staff 29 (c) to forecast the Interval load.
b) The model at VECC-17 b) is not currently proposed for forecasting Interval load. The model at Staff 29 (c) is proposed as it includes a statistically significant trend variable, labelled Increment in addition to the variables included in the model at VECC-17 b). The results of this model are provided in 3.0-Energy Probe-44TC.
c) No update is proposed for tables 2.8 through 2.11 from the Elenchus Load Forecast Report. In the context of the Interval Load Forecast, corresponding updated tables 3.6 through 3.10 are also provided in 3.0-Energy Probe-44TC.

## ***16.*** 3.0 –VECC -46

### Ref: 3-Staff – 28 a) 3-VECC – 13 a) – c)

*a) Please confirm that Festival first started initiating CDM programs in 2005.*
*b) Please confirm that the impact of the trend variable (per the forecast models submitted with the original application) on the total predicted usage in 2013 is 3.1 GWh (i.e., 340,446 x 9)?*
*c) Please provide a schedule that sets out the impact on 2013 load of the CDM programs implemented in each year from 2005 to 2013.*
*d) Please re-calculate the value for part (b) based on the forecast models (and associated trend variable coefficients) Festival is now proposing to use to forecast 2015 load.*

### *Response:*

a) Confirmed. Festival started CDM programs in 2005.
b) Festival has yet to determine if this is so, but will in advance of settlement conference.
c) Festival has yet to prepare this schedule , but will in advance of settlement conference.
d) The forecast will be recalculated based on the final CDM report for 2013 and any other noted CDM changes in advance of the settlement conference .

## ***17.*** 3.0 –VECC -47

### Ref: 3-Staff - 30

*a) Please provide any materials received from the OPA documenting Festival's 2015-2020 CDM target.*
b) Please provide any materials that will confirm that the 36.5 GWh target is based on "incremental" CDM impacts through to 2020 as opposed to "cumulative impacts", as was the case for the 2011-2014 CDM targets.
c) With respect to the revised CDM adjustments set out in Staff 30 b):
• Please explain why the proposed adjustments differ from those set out in the revised Appendix 2-I filed with the interrogatory responses and indicate which source reflects the currently proposed adjustment.
• Please provide the basis for the proposed split Residential (19.8%) and Non-Residential (80.2%).
d) Please provide a revised version of Staff 30 b) which incorporates both the updated load forecast and the updated 2015 CDM adjustment, along with any corrections required as a result of responding to part (c).

### *Response:*

a) Please refer to the attached Conservation First Framework LDC tool kit page. 5 GWH target.
b) It is Festival's understanding that the 36.5 GWh target is incremental as opposed to cumulative impacts as per the LDC Tool Kit and sessions held with the OPA.

c) Festival has completed its own calculation based on what it felt was reasonable to attain in the first year of CDM i.e. at the mid-point of the minimum of 8.3% and the five year average of 16.67%, which differs from Appendix 2-1. Festival is of the opinion its calculations reflects what we expect can be reasonably achieved first year. Note that as part of the interrogatories Festival forgot to add in the impact of the 2013 and 2014 persistence of 324,574 per year and plans to factor this into the final calculation. The split comes from the attached Conservation First Framework LDC tool kit page, in the first table, which shows the GWH target annually for Residential and non residential programs

d) A revised version of the load forecast with the revised CDM impacts will be filed in advance of the settlement conference.

## ***18.*** 3.0 –VECC -48

### Ref: 3-ENERGY PROBE – 18 b) 3-VECC – 9 d)

*a) Please confirm that both Table 3.6 and 3.7 from the Elenchus Load Forecast Report include the kWh usage for all the large users that existed during 2011 and earlier but are now classified as GS>50. If not, please explain how these customers are treated for both tables.*
*b) According to both responses Table 3.7 includes all GS>50 customers whereas Table 3.6 just includes the GS>50 interval metered customers. This would suggest that the values in Table 3.7 should exceed those in Table 3.6. However, this is not the case. Please provide an explanation and a schedule that reconciles the differences between the actual kWh reported in the two tables.*

### *Response:*

a) Confirmed, both Table 3.6 and 3.7 from the Elenchus Load Forecast Report include the kWh usage for all the large users that existed during 2011 and earlier.

b) Table 3.6 contains the Interval Metered Customers. Whereas Table 3.7 contains all GS > 50 customers. As customers are reclassified above or below the 50 kW threshold, they retain their meters. Therefore, while most GS < 50 customers have energy or demand meters, and most GS > 50 customers have interval meters, it is not a hard rule. It is possible for GS < 50 customers to be interval metered, as well as for GS > 50 to be demand metered.

Some variation is also possible due to the timing variation of billing kW / kWh where energy is most accurately attributable to rate classes, and Interval kWh where energy is most accurately attributable to the month in which it is consumed.

## ***19.*** 3.0 –VECC -49

### Ref: 3-ENERGY PROBE – 19

*a) What is the status of the draft final report from the OPA regarding 2013 CDM activity?*

### *Response:*

Festival now has the final report which will be incorporated into the update as noted under 3 VECC 47 and provide prior to the settlement conference.

## ***20.*** 3.0 –VECC -50

### Ref: 3-VECC – 9 b)

*Preamble: The response to VECC b) indicates that the NSLS load includes GS>50 customers that are not on interval meters. However, the breakout of the forecast NSLS load for 2014 and 2015 by customer class (as presented in Tables 2.8 through 2.11 of the Elenchus Report) does not include either historical or forecast 2014 and 2015 kWh values for this group of customers.*

*a) Please provide a table that sets out the GS>50 (non-interval metered) customers in a similar format to Tables 2.8 through 2.11:*
*• Actual kWh for 2005 to 2013*
*• Normalized Actual kWh for 2015-2013*
*• Forecast kWh for 2014 and 2015 using the same methodology as employed for the other customer classes.*
*b) Please explain how the 2014 and 2015 forecast load for these customers is incorporated into the forecast GS>50 (total) load as set out in Table 3.7.*
*c) Please provide a revised version of the response to part (a) based on Festival Hydro's updated NSLS forecast model.*

### *Response:*

Preamble:
The vast majority of customers in the GS > 50 class are interval metered, while the vast majority of customers in the GS < 50 class are not. Therefore, the NSLS forecast is used to forecast GS < 50 while the Interval load forecast is used to forecast GS > 50.

The ratio of GS > 50 billed kWh to the Interval kWh is used as the projected ratio of GS > 50 kWh to Interval kWh in 2015. Therefore, Interval is not divvied up, nor is NSLS. At the same time, no customers are missing from the load forecast. The few demand metered GS > 50 customers are forecasted using the Interval load profile as if they had interval meters. It is expected that this model, comprised almost exclusively of GS > 50 and Large Use customers is a more suitable model for all GS > 50 customers – regardless of metering arrangement given its composition.

a) Festival Hydro is unable to obtain billing information at this level of detail required to answer this question prior to the Technical Conference. Further, as stated in the response to the preamble, Festival does not believe this analysis will lead to a more accurate load forecast.
b) As explained in the preamble, the 2014 and 2015 forecast load for these customers is based on the Interval load forecast even though their load would have been captured as part of the NSLS load forecast.
c) As stated in the response to VECC-45, the Festival does not propose to update the NSLS forecast.

## ***21.*** 3.0 –VECC -51

### Ref: 3- VECC – 11 a) 3-VECC – 18 a)

*a) The response to VECC 11 a) suggests that Table 3.7 is based on metered energy values whereas the response to VECC 18 a) suggests that Table 3.7 has been adjusted for losses and reflects purchased energy requirements. Please reconcile.*

### *Response:*

*a) 3.7 reflects kWh metered energy values without losses.*

## ***22.*** 3.0 –VECC -52

### Ref: 3-VECC – 18 c)

*Preamble: VECC 18 c) requested that Festival provide a schedule showing how the 2015 forecast kWh values for GS>50 in Table 3.7 were derived from the forecast for Interval Metered customer load set out in Table 3.6. The data file referenced in the response only provides only historical data and shows the derivation of the historical NSLS values.*

*a) Please provide as schedule that sets out how the forecast for all GS>50 customers (per Table 3.7) was derived from the forecast for GS>50 Interval metered customers set out in Table 3.6. In doing so, please specifically indicate how the forecast 2014 and 2015 load for GS>50 (non-interval metered customers) were established and incorporated into Table 3.7. Please do so using the initial Application's forecast.*

*b) If different, please provide a revised response to part (a) based on Festival's updated and currently proposed load forecast models.*

### *Response:*

a) As explained in VECC-50, the forecast for Interval was used as the basis for all GS > 50 customers as this model is most applicable to all GS > 50 customers regardless of their metering arrangement.

Per table 3.6 2013 Actual Interval was 359,953,516 kWh, and per Table 3.7 2013 GS > 50 actual was 358,315,518 kWh.

358,315,518 / 359,953,516 = 0.99545 (rounded)

The ratio of GS > 50 to Interval is 0.99545:1.

Per table 3.6, the 2015 normalized forecast Interval was 364,143,595 kWh.
364,143,595 * 0.99545 = 362,486,529
The GS > 50 normalized forecast in the application prior to CDM adjustment was 362,486,529 kWh

b) The Actuals, and therefore ratio of GS > 50 to Interval is unchanged at 0.99545:1

The revised Interval normalized forecast is 363,336,184 kWh.
363,336,184 * 0.99545 = 361,682,793
The currently proposed GS > 50 normalized load forecast, prior to CDM adjustment is 361,682,793 kWh.

# EXHIBIT 4 – OPERATING COSTS

## *23.* 4-Staff-74 TCQ – Other Post-Employment Benefits (OPEB)

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

*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?*

*Response:*

a) The amounts in the table are the actual expenses and gains/losses booked to expense accounts in each fiscal year.
b) The amounts in 2006 rate was based on 2004 actual expense plus increase for inflationary factors. The same for 2010 based on 2008 actual expense plus inflationary factors. These are the amounts included in rates.
*c)* The OPEB expense as originally submitted by Festival for test year 2015 was $30,783. Based on the actuarial report, the actuarial report proposed 2015 expense totals $22,226 (excluding the IFRS related adjustment), a difference in expense of $8,557. Festival has kept the expense at the projected $30,783. The actuarial report assumes the discount rate of 3.9% will not change from 2014 to 2015. From Festival's previous experience, not one year has the discount rate been the same form one year to the next.

## *24.* 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.*

### *Response:*

a) Festival has in previous years recognized the charge to our P and L for the higher expense and is warranted recovery on this incurred cost, similar to the impact of the change in depreciation.
b) The form of account Festival should be requesting is a deferral account.
c) The amount does not meet the materiality level, however, from a causality point of view ,it was the belief that LDCs and the ratepayer would be held whole on amounts arising from the conversion from CGAAP to IFRS.

## ***25.*** 4-Energy Probe-46TC

### Ref: 4-Energy Probe-26

*The response to part (a) does not explain the difference in the figures of $298,746 related to overhead policy changes shown in Appendix 2-JB and the figure of $254,313 shown in Appendix 2-DA.*
*a) Please explain the difference in the two figures.*
*b) Which figure is the actual impact on OM&A due to the change in accounting methodologies?*

### *Response:*

a) The difference between the two figures of $44K represents the amount of overhead cost that had previously been included in billable work performed by Festival and billed out to third parties. Upon making the accounting policy changes whereby these overheads no longer were to be capitalized as non-directly attributable items, Festival made the decision to also exclude these overheads from billable work. As such the amounts now impact OM&A expenses. Festival did not include this $44K differential in the analysis of appendix 2-DA as it was an internal decision to absorb these costs going forward versus continuing to bill them out to third parties on billable work order projects.

b) That actual OM&A impact as a result of the accounting policy changes is the amount of $298K reported in the cost driver appendix (2-JB). Festival has only claimed recovery through a variance account of the $254K which is the impact on internal capital projects and excludes the OM&A impact as a result of no longer charging the mark ups on billable work.

## *26.* 4-Energy Probe-47TC

### Ref: 4-VECC-22 & 4-VECC-25

*Please explain the difference in the bad debt expenses for the test year shown in these two responses ($90,564 and $77,419). Which figure is the actual forecast?*

### *Response:*

The actual amount being requested is $90,564. 2013's actual was $82,000 up from $57,800 in the previous year (2012). With the new LEAP and consumer related rules, while they do provide some assistance for consumers to pay their electrical bills, often it leads to larger balances owing and eventually being written off. So Festival has increased the bad debt expense 5% in both 2014 and 2015. This increase in expense beyond the norm was not clearly explained in our original application. The $76,200 for 2014 and $77,419 for 2105 in the 4 VECC 25 table was reported in error.

## *27.* 4-VECC-53

### Ref: 4- Staff-33 / 2-AMPCO-8

a) At 4-Staff-33 it states that "Festival would note that customers will see improved reliability as a result of the new TS". At FHI shows outage by cause. Please provide FHI's measure/target/metric or other quantitative indicator (SAIDI etc.) which it expects to improve due to the new TS.

### *Response:*

Festival expects the values for SAIFI, SAIDI, and momentary outages for Stratford customers to decrease. Specifically, the number of customers in Stratford affected by an outage (feeder lockout) will be less as there will be fewer customers per feeder. This will decrease the number of customers affected (decreasing SAIFI and momentaries) and the total customer outage minutes (decreasing SAIDI). CAIDI is expected to stay the same as it is simply the ratio of SAIDI / SAIFI.

## *28.* 4-VECC-54

### Ref: 4-Staff-34 / 1-VECC-1

a) At 1-VECC-1 it stats that FHI used a labour inflation estimate of 2.5%. At 4-Staff—34 it states that the overall wage increase for all employees was 2.02%. What is the cost difference between the 2015 estimated and actual labour escalator?

### *Response:*

Approximate total is $16K - $14K impact on OM&A, $2K impact on capital.

## ***29.*** 4-VECC-55

### Ref: 4-AMPCO-11

a) The response to this interrogatory implies there may be a difference as between FTEs and Full time employees. If this is correct please provide a revised Appendix 2-K (1st 3 rows) showing (1) permanent employees by category (i.e. management, non-management) and separately part-time employees by category.

### *Response:*

Appendix 2K has been filed on a FTE basis as required per the instructions for the appendix. Employees that work in a department requiring 40 hours a week (such as operations and engineering) are considered 1 FTE. Employees that work in a department requiring 35 hours a week (such as customer service, accounting and billing) are considered 1 FTE. Part time employees are calculated as a part employee and the percentage of an FTE they are depends on whether or not they are in a 35hour week or a 40 hour week position – that is if I'm a part time employee that works in a department required to work 40 hours a week. Festival does not regularly have part time staff – but a part FTE may be calculated in a year where someone retires, or is hired mid-year of for part of a year (e.g. the smart meter implementation hires in 2010).

## ***30.*** 4-VECC-56

### Ref: 4-VECC-22/ 4-Staff-38

a) The response to 4-VECC-22 implies an incremental smart meter cost in 2015 of $135,938. The response to 4-Staff-38 states the smart billing costs are $120k in 2015. What response best represents FHI's net incremental cost of operating smart meters in 2015 as compared to its last cost of service rate approval.

### *Response:*

The table in 4-Staff-38 includes smart meter billing costs only and does not include smart meter reading costs which is 16,000 ($100K data backhaul less $84K meter reading savings) – so the total net incremental cost to Festival of operating smart meters is $135K.

## ***31.*** 4-VECC-57

### Ref: 4-VECC-9

a) What is the incremental cost to FHI of creating different bills for the City of Stratford and the other municipalities in which it serves?

b) How is this cost captured in the charges to the City?

c) Has Festival approached these other municipalities to provide a similar comprehensive utility bill? If not why not?

### *Response:*

a) As indicated in 4-VECC-29 total billing costs of Festival are considered and an allocation of these costs is applied to the cost of billing water on behalf of the City of Stratford. In 2015 we estimate this cost to be $114K for billing alone as per the table provided in 4-VECC-29.

b) Festival bills the City on a per bill basis and total projected costs were used to calculate the per bill charge included in the most recently signed contract with the City. This per bill charge also includes an annual increase at least equal to Festival's weighted average cost of capital.

c) Festival is in the process of approaching the one other larger municipality in our distribution territory to provide similar billing services. The other municipalities in our service area provide their services to customers who are supplied by several LDCs, making it impossible to provide a similar comprehensive utility bill.

## ***32.*** 4-VECC-58

### Ref: 4-VECC-30

a) Festival's insurance costs have increased 38% as between 2015 and 2010. Please explain why?
b) Was the MEARIE group insurance sole sourced or purchased as part of a competitive tender.

### *Response:*

a) Insurance costs in 2010 were reduced by a $18K liability premium reduction. This reduction was not received in 2011, but a $17K premium reduction was again received in 2012. In 2013 Festival did not receive a premium reduction and we also purchased new cyber security insurance for $10K. We have not projected liability premium reductions in either the bridge or test years.

b) The MEARIE group insurance was sole sourced and not purchased as a part of a competitive tender. As a Reciprocal Insurance Exchange, MEARIE is a not for profit organization whose objective is to provide LDCs broad and cost effective insurance coverage specifically designed for the LDC industry. MEARIE's insurance policy includes coverages such as Environmental, Terrorism, Directors & Officers and Privacy & Cyber Breach coverages all under one policy which is not available with other offerings. MEARIE's Board of Directors establishes the rates charged for insurance based upon actuarial analysis of what is needed to fund only claims and expenses and not any profit (unlike traditional insurance market offerings).

# EXHIBIT 5 – COST OF CAPITAL RATE OF RETURN

## *33.* 5-Energy Probe-48TC

### Ref: 5-Energy Probe-32

*a) Please provide the wording in the Board's decision in EB-2009-0263 that supports the conclusion that the excess debt over long term debt obligations was subject to the deemed debt rate.*

*b) Please confirm that in EB-2009-0263 the weighted approved long term debt rate was 5.68%, calculated as the weighted average of the Board's deemed long term debt rate of 5.87% applied to a loan from the City of Stratford of $15,600,000 and a rate of 4.51% applied to an Infrastructure Ontario loan of $2,500,000.*

*c) Please confirm that the deemed long term debt in EB-2009-0263 was approximately $22,570,000.*

### *Response:*

a) Agreed. In 2010, the long term debt rate was calculated applying the deemed debt to the a affiliate (City of Stratford) debt and the actual interest rate on the Infrastructure Ontario loan, as illustrate in b) above.
b) Agreed with the calculation in (b) above.
c) Agreed. Final deemed long term debt was $22,471,444.

## *34.* 5-Energy Probe-49TC

### Ref: 5-Energy Probe-32

*The response indicates that Festival is considering adding $1.2 million in long term debt to cover the payment of the Permanent Bypass Agreement which is due in December, 2014.*
*a) Please provide the term of the loan being considered and the rate associated with this loan.*
*b) Is this loan expected to be from an affiliate, Infrastructure Ontario, or some other party?*

### *Response:*

a) Should Festival borrow additional long term funding, the debt would be repaid over a 25 year period. A rate is not known at this time as the funding would not be needed until December 2014.
b) The loan would not be affiliate debt. It would be from a third party financial institution.

# EXHIBIT 7 – COST ALLOCATION

## *35.* 7- Energy Probe-50TC

### Ref: 7-Energy Probe-33 & Exhibit 7, Tab 1, Schedule 1

*The response to part (b) says that Festival believes that there is no notable difference in the cost between the two classes and as such has assigned the same weighting factor. In addition, part (b) does not provide the average service cost for a residential customer and a GS < 50 customer.*
*The evidence in Exhibit 7, Tab 1, Schedule 1 states that "G.S. < 50 – Factor set at 1.0 as the number of G.S. < 50 kW services are substantially less but the costs to install is higher per connection than residential, so the same factor has been assigned."*

*a) Please confirm that the services allocator is based on both the number of customers and the relative weighting of the service costs by rate class.*
*b) Please reconcile the statement that there is no notable cost differences between residential and GS < 50 with the statement that the costs to install is higher per connection for the GS <50 than for residential.*
*c) Please provide the average service cost for a residential customer and for a GS < 50 kW customer, as originally requested.*

### *Response:*

a) The service allocator is based on the relative weighting of the service costs by rate class.

b) The original wording was submitted in error. It should have read "G.S.<50 – Factor set at 1.0 as the number of G.S.<50 kW services are substantially less the but the costs to install is **similar** per connection than residential, so the same factor has been assigned."

c) The average service cost for a residential customer is $1002.76 (based on actual connections tracked via work orders). The estimated average cost for a G.S.<50 kW customer is $1015.63 (an estimate has been used as Festival does not track GS<50 kW separately from other GS servicing). The difference of 1.3% between these two values did not warrant changing the weighting factors given the number of services in this class is much fewer than residential.

## *36.* 7- VECC -59

### Ref: 7-Staff-49

*a) The last sentence of the response to Staff 49 a) suggests that Festival is now proposing a Billing and Collecting weighting factor for GS>50 of 1.25 as opposed to 1.5. However, the response to part (c) suggests that the change is being made to the GS<50 class. Please reconcile.*

*b) Please outline more clearly the rationale for now proposing a billing and collecting weighting factor for GS<50 (GS>50?) of 1.25 as opposed to the originally proposed 1.5 value.*

*Response:*

a) The change is being made to G.S. < 50 kW.
b) Being billing and collection is similar in nature, the factor has been reduced to better reflect their weighing.

## ***37.*** 7- VECC -60

### Ref: 7-VECC-34

*a) The response to part (c) suggests that weighting factors for USL, Sentinel Lights and Street Lights were established by looking at the incremental impact of making connections for these customers assuming the distribution system already exists to serve other customers. Please confirm that this was the perspective used.*

*b) Please explain why such a perspective is appropriate as compared to one that makes no such pre-judgments as to for which classes the distribution system was primarily constructed and treats all customer classes equally.*

*Response:*

*a)* Confirmed.
b) This perspective is appropriate as it is a reflection of how the distribution system has evolved and continues to grow. The USL are all followers of residential, commercial, and industrial customers - they provide support functions to these customers and do not drive any system expansions or upgrades.

## ***38.*** 7- VECC -61

### Ref: 7-VECC-35 c)

*a) What are the incremental costs that are recorded in the Retailer Services RSVA accounts (in terms of both types of costs and quantum)?*

*Response:*

The balances in Accounts # 1518 and # 1548 are ($54,180) and ($1,433), so they are below materiality even on a combined basis. The main costs charged to these accounts are the fees of the EBT hub provider, which consists of the fixed annual and monthly per account fee. In addition, there are periodic fees from our CIS software provider for EBT updates and related system changes.

## ***39.*** 7- VECC -62

### Ref: 7-VECC-36 Cost Allocation Model – Tabs I7.1 and I7.2

*Preamble: The response to VECC 36 (cross referenced to 1-AMPCO - 2) suggests that all GS<50 customers have smart meters and that all GS>50 customers have interval meters. Tab I7.2 suggests the same. However, the Elenchus Load Forecast report specifically notes that certain GS>50 customers are not interval metered. Similarly, Tab I7.1 indicates that not all GS<50 customers have smart meters and that not all GS>50 customer have interval meters.*

*a) How does Festival obtain meter reading for GS<50 customers without smart meters and for GS>50 customer that are not interval metered?*

*b) What is the forecast 2015 cost per bill for the 3rd party service referred to AMPCO – 2?*

*c) Please reconcile the meter types used to establish the meter reading weighting factors used Tab I7.1 with the types of meters reported by customer class in Tab I7.2. Are any revisions required to either Tab?*

*d) How do the billing and collecting weighting factors proposed by Festival account for the fact that not all GS<50 customers have smart meters and that not all GS>50 customers have interval meters?*

### *Response:*

a) All G.S. < 50 K.W. customers have smart meters which are read remotely. G.S. < 50 kW customers that are not on interval meters are read manually.
b) The cost referred to in AMPCO is relarted to obtaining the pricing, not for the cost of issuing the entire bill and is only one component of the overall billing cost.
c) There is a difference of 28 residential meters form one tab to the other. Festival will update the model in advance of the settlement conference.
d) All GS< 50 kW customers have smart meters. The costs for billing and collecting related to a G.S. > 50 kW interval billed account compared to a demand meter account would be marginally different.

## ***40.*** 7- VECC -63 (**** or is this to be 3-VECC -63 as originally stated)

### Ref: 3 VECC - 37 and 38

*a) Please confirm that in establishing the NCP demand allocator for the combined Residential class Festival simply added the NCP values for the two Residential classes and made no allowance for possible diversity between the two in terms of the timing of their NCP values.*

### *Response:*

The NCP demand allocator for the combined residential class is the addition of the two NCP values. Being Hensall and the remaining Festival Hydro customers are in the same geographic area, it is Festival's belief that the timing of their NCP values would not be materially different. In addition, there are only

410 Hensall residential customers who account for less than 3% of the total residential load so any variance which may exist would not be expected to have a large impact on the overall NCP value.

# EXHIBIT 8 – RATE DESIGN

## *41.* 8- Energy Probe-51TC

### Ref: 8-AMPCO-13

*Please provide a table that shows for each rate class, the exiting fixed charge, the ceiling of the fixed charge from the cost allocation model, Festival's original proposed fixed charge and the fixed charge as a result of the interrogatory process.*

### *Response:*

RESPONSE: The table below outlines the various fixed rates (F.C.):

| Rate Class | Existing Fixed Charge | Existing F.C. with Smart Meter & ICM Rate Riders | Min System with PLCC from Interrogatory Model | Original Proposed Fixed Charge | Interrogatory Proposed Fixed Charge |
|---|---|---|---|---|---|
| **Residential** | 15.18 | 19.76 | 20.37 | 16.59 | 16.75 |
| **G.S. < 50 kW** | 29.44 | 36.88 | 33.48 | 32.16 | 32.50 |
| **G.S. > 50 KW** | 227.57 | 242.46 | 66.98 | 253.49 | 227.57 |
| **Large Use** | 10,883.89 | 11,596.12 | 880.08 | 11,900.62 | 10,883.89 |
| **USL** | 13.04 | 13.89 | 8.20 | 8.19 | 8.20 |
| **Sentinel Lights** | 2.06 | 2.19 | 10.26 | 2.25 | 2.27 |
| **Streetlighting** | 1.10 | 1.17 | 6.46 | 0.96 | 0.97 |

As part of the interrogatories response, Festival had proposed that the maximum fixed charge would be based on the higher of the existing monthly fixed charge and the Minimum System with PLCC. In the table, Column 1 shows the existing fixed charge, however, customers are in fact paying the fixed service charge noted in column 2, which is the approved rate plus the fixed service charge for smart meters and ICM Rater Rider. It is Festival's belief that this should be taken into account in determining the maximum rate. In order to promote rate stability, Festival is of the opinion that the maximum should be based on existing F.C. plus rate riders of $242.46 and $11,596.12 for G.S. > 50 kW and Large Use, respectively.

## *42.* 8.0 –VECC -64

### Ref: 8.0 –8-VECC - 40

*a) If the purchases from the generator are already grossed-up by the Supply Facilities Loss Factor, doesn't applying the value again in the loss factor calculation result in a double counting of these losses?*

### *Response:*

In our response to 8 VECC 40, Festival had meant to say the purchases from generators are reduced by an amount equal to the supply loss factor so as to equal the amount which would have been delivered through the IESO grid.

# EXHIBIT 9 – DEFERRAL AND VARIANCE REPORTS

## *43.* 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.*

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

*Response:*

a) Festival did not expressly request OM & A expenses as pat of its ICM application in 2013 not did the Decision and order expressly provide approval for such OM & A expense.
b) Festival presumed the same accounting practices as followed for smart meters would apply to a capital expenditure such as construction of a transformer station. Much like the introduction of smart meters, there is an entire different set of expenses incurred in the operation of a transformer station representing substantial annual costs, estimated at $140,000 per year. These are expense outside of Festival's normal O & M costs, and were not provide for as part of the 2010 COS application process. Festival, in error, did not request a separate deferral account for that purpose.
c) Capitalized O& M costs were not included in the revenue requirement calculation of the ICM rater rider and was not collected through the ICM rate rider.
d) Festival maintains an excel spreadsheet for Account # 1508 ICM Rate Rider account. This spreadsheet which keeps track of the various component such as capital expenditures, rate rider recovery, recording of depreciation and amortization, recording of O & M expenses incurred and carrying charges on the account. The breakdown was provided in the IRR response filing under 9 OEB Staff 62.

## *44.* 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.*

### *Response:*

At the time of submitting the ICM, Festival planned to use the new TS to supply only the incremental load growth in Stratford, which would not have triggered the need for a Bypass Agreement. When the TS was nearing completion, Festival reviewed options regarding the division of the Stratford load between the Hydro One TS and the Festival TS, to optimize the improvements in reliability by having two separate supply points. As a result of this review, Festival requested an estimate from Hydro One to bypass approximately 20 MW of existing load by transferring it to the new TS. Festival considered the cost of the bypass agreement to be reasonable given the expected improvements in reliability.

## *45.* 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.

### *Response:*

As stated in the ICM application, the new TS was required to meet a potential capacity issue, an on-going voltage issue, and on-going reliability issues. The capacity issue was related to both the ability of the existing Hydro One TS to supply all of Stratford under a single contingency (Festival was exceeding its "assigned capacity" during peak periods), and the ability to supply load growth in the southwest area of the City with only one 27.6 kV feeder (the peak load on the 68M2 feeder exceeded planned capacity since 2009).

i) The 2010 Load Forecast included all load increases.

ii) The estimated incremental load (above "assigned capacity") supplied by the new TS is 2.3 MW. The incremental revenue associated with this incremental load is estimated to be $4,700.

iii) The Hydro One TS continues to supply approximately 53 MW of the Stratford load.

## ***46.*** 9- Staff-79 TCQ – ICM - Half-year rule

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

*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.*

### *Response:*

Festival submitted its 2013 IRM application in August 2012 with the justification for the ICM rate rider and related models completed. Festival submitted a letter requesting a deferral in its COS rebasing to January 1, 2015 in January 2013, , but did not hear back from the Board regarding the approval of the deferral until July 2013, long after the 2013 rate and related ICM rate riders were approved. As such, Festival did not ask for the full year deprecation due to the uncertainty of the deferral being accepted by the Board.

## ***47.*** 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.*

### *Response:*

a) Section 3064 of the CPA Standards Handbook provides guidance on the recognition of intangible assets, which are very similar to the criteria established for IAS 38. Base on the criteria of identifiability, control and future economic benefit, the nature of the Bypass Agreement would afford treatment as an Intangible Asset. In addition, Festival believes the nature of the Bypass Agreement meets the description as provided for Account # 1609 Intangible Assets.

b) Our auditors have been contacted and they have to look into what they can, or if they can, provide an opinion to a governing body on a single accounting decision. As noted in the IRR response, in Festival's 2013 audited financial statements the bypass agreement was

recognized as an Intangible Asset and reference as such can be found in Note 5 to the December 31, 2013 audited statements filed in the original application.

## ***48.*** 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.

### *Response:*

a) Please refer to IRR # 184 which explains the rationale for requesting a deferral account, given no final decision has been made yet by the Board regarding the D1 factor mechanism. The D1-factor proposal serves the purpose of allowing distributors to earn a fair return on their test year capital additions during the intervening years between rebasing applications. The half-year-rule as it is applied now makes sense for the test year, as capital additions are made throughout the test year and was developed historically as a part of cost of service regulation which encompassed annual rebasing. However, because the half-year-rule continues to apply to test year capital additions throughout the subsequent IRM period, the Applicants are unable to earn a fair return on test year capital additions during the subsequent IRM period.

b) With regard to materiality, the following are the test year amounts to be included - based on our IR responses:

| | |
|---|---|
| Proposed Distribution Revenue Requirement | $11,192,091 |
| Materiality threshold | $55,960 |
| Approx annual amount to be recorded in DVA (i.e. depreciation expense, return on capital and associated PILS) | $145,882 |

c) Causation: Festival submits that the amounts to be recorded in the proposed deferral accounts are outside the base upon which base rates were derived. Under the current IRM regime there is no mechanism to account for diminished return on equity associated with the half-year-rule applied to capital additions made in the prior test year.

Materiality: The table under b) sets out the materiality threshold, as well as the approximate amount that would annually be recorded within the Half Year Rule Elimination Deferral Account.

Prudence: Now that rebasings have been extended to five years, the half-year-rule exacerbates the fair return problem during the IRM period.

## ***49.*** 9- Energy Probe-52TC

### Ref: 9-Staff-55

*Please explain why Festival has changed the continuation of the ICM rate rider account from No to Yes. Please explain fully why this account needs to be continued if the underlying assets are included in the test year rate base.*

### *Response:*

Festival put forth in the original application a further claim related to true up for the TS ICM Rate Rider. In addition to the true up of actual costs, Festival has identified a further claim related to 2014 being subject to the half year. Festival was subject to the half year rule for 2013, so in this application Festival is making a claim for full depreciation for the 8 months of 2014. As such Festival has changed the continuation of the ICM rate rider account to Yes to recover this shortfall.

## ***50.*** 9- Energy Probe-53TC

### Ref: 9-Staff-59, 60 & 61

*Please explain Festival's proposed disposition of accounts 1575 and 1576, including the amounts to be disposed of and the period over which this disposition will occur based on the corrections and updates in the noted interrogatory responses.*

### *Response:*

The net amounts being claimed for 1575 and 1576, including WACC in the interrogatory process included the following:

| | | |
|---|---|---|
| Appendix 2EA | 1575 | $ 790,936 |
| Appendix 2EC | 1576 | (2,304,459) |
| Net claim | | $ (1,513,523) |

As part of the interrogatory process, Festival put forward the proposal to be paid back over a four year period. The time period has been expanded to a four year period due to the impact on cash flows arising from this payback.

The amounts above will be changing as a result of the removal of the smart meters as noted under 9 EP 54 TC.

## ***51.*** 9- Energy Probe-54TC

### Ref: 9-Staff-61 & Exhibit 2, Tab 1, Schedule 1, Attachment 1 & Exhibit 2, Tab 1, Schedule 4, Appendix 2-S

*a) Is there a direct link between the net disposals of $632,747 shown in the 2015 continuity schedule in the second reference, to the $632,749 shown in Appendix 2-EA in the first reference?*
*b) If the answer to part (a) is yes, do these figures include or exclude the net removal of $234,537 associated with stranded meters in the third reference? Please explain fully.*

### *Response:*

a) Yes, these two figures represent the same thing - the net book value of assets no longer in use at Festival. It was intended for this loss figure to be based on a disposal date of January 1, 2015 – however Festival has determined that this loss was calculated based on disposal of these assets at December 31, 2015 and as such this needs to be corrected.

b) The figure includes the disposal of stranded meters. Festival will revise the amount included in variance account 1575 to remove the loss on stranded meters in updated evidence prior to the settlement conference.

## ***52.*** 9- Energy Probe-55TC

### Ref: 9-Staff-63

*Please explain why there is no PILs impact shown in the calculations for 2013 and 2014, including the CCA deduction. Please explain fully.*

### *Response:*

The entry was presented not showing the tax effect. The ICM models do incorporate the impact of both PILS and the CCA deduction and will be processed accordingly.

## ***53.*** 9.0 – VECC -65

### Ref: E9/T3/S10, Attachment 1

*a) Please confirm that the 2011-2013 kW savings values reported for the Demand Response 3 program are contracted values and not actual demand reductions in each year.*

*b) Does Festival have any record as to how much actual demand reduction was achieved in each year due to the Demand Response 3 program? If so, how much was the actual demand reduction in each year and was the demand reduction coincident with the peak interval used to establish the customers' billing demands?*

### *Response:*

a) Confirmed
b) No – DR3 performance is tracked by the aggregator