

Festival Hydro

November 18, 2014

Ontario Energy Board
2300 Yonge St. 27th Floor
Toronto, ON M4P 1E4

Attention: **Kirsten Walli**
 Board Secretary

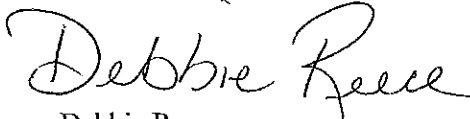
Dear Kirsten,

RE: Covering Letter re: Responses to Undertakings Arising from Festival Hydro's Oral Hearing (EB 2014-0073) Re: January 1, 2015 Distribution Rates

Enclosed please find the responses to the Undertakings arising from Festival Hydro's Oral Hearing held on November 13 and 14, 2014 re: January 1, 2015 Distribution Rates. A copy of this document will be filed today via RESS.

Please contact me at 519-271-4703 ext. 268 if you have any questions regarding the information attached.

FESTIVAL HYDRO INC.



Debbie Reece
Chief Financial Officer

UNDERTAKING NO. J2.1: TO SHOW STATUS OF PROJECT MS NO. 8, PH2, AND TO PROVIDE AN UPDATE TO APPENDIX 2AA UP TO THE END OF SEPTEMBER.

As of the end of September, Project: MS No. 8, Ph 2 was approximately 75% complete and as of November 7, 2014 it is 95% complete. Appendix 2-AA has been updated below with September 30, 2014 figures in the YTD column.

Appendix 2-AA							
Capital Projects Table							
Projects	2010	2011	2012	2013	2014 Bridge Year	2014 Year to date	2015 Test Year
Reporting Basis							
System Access							
Subdivisions	199,708		240,986	40,177			
Customer Connection/Extension		305,005		88,353			
Goderich Street E (LTLT)			60,719				
Capital Additions					200,000	62,610	204,000
New Upgraded Services					115,000	83,386	117,500
Sub-Total	199,708	305,005	301,705	128,530	315,000	145,996	321,500
Miscellaneous	86,160	134,981	201,417	143,697			
Project Total	285,868	439,986	503,122	272,227	315,000	145,996	321,500
General Plant							
Truck 4 - Single Bucket	226,311						
Truck 22 - Backhoe		75,425					
Computer Equipment		76,969	90,259	293,712	290,000	160,295	245,000
Truck #2 - RBD			322,414				
Land and Buildings					80,000	8,966	90,000
Electric Vehicle							70,000
Sub-Total	226,311	152,394	412,673	293,712	370,000	169,261	405,000
Miscellaneous	132,855	67,012	92,614	111,496	90,000	8,867	95,000
Project Total	359,166	219,406	505,287	405,208	460,000	178,128	500,000

System Renewal							
Centre St. & Helen St. - spun secondary	\$104,383						
Cobourg Area 1F1 Phase 2 - conversion	\$303,048						
Delamere (Mornington to Romeo)	\$229,748						
St. George St.	\$154,788						
9M4 - Northwest Section	\$182,440						
Brantford - rear lot conversion	\$73,024						
Transformers	\$203,773	\$188,460	\$93,776	\$232,841	\$200,000	\$130,797	\$205,000
Distribution Meters	\$198,305	\$147,080	\$152,023	\$91,138	\$190,000	\$29,255	\$175,000
Switchgear at MS#1	\$66,713						
St. David Rebuild (Downie to Church)		\$194,855					
Devon St. Rebuild (Romeo to T.S.)		\$177,240					
Lorne Ave. W. Rebuild (Boyd to St. Vincent)		\$305,866					
9M4-Northwest Section Ph 2		\$113,385					
Cemetery @ Charles St.		\$63,412					
Market St. Rebuild (High to deadend)		\$66,917					
Flora St. to Tumbery St.		\$180,012					
M.S. #8 Phase 1 - Conversion		\$170,086					
Packham Road - Rebuild (3ph double circuit)			\$320,190				
Park Street Rebuild (east of Romeo)			\$74,838				
M1 Feeder - Cemetry to James St. South			\$146,227				
Tumbery Rebuild (Flora to PME)			\$170,856				
West Gore Rebuild (John to Sewage Plant)				151,110			
Victoria Street M4 Rebuild (RRX to Wellington)				85,535			
Jones St W Rebuild & Salina St S				160,436			
Queen St. Rebuild				177,154			
Sports Drive, Thomas & Maple				123,534			
Brunswick Street (Romeo to Queen)					\$145,000	\$190,958	
Mornington St. Rebuild (Delamere to Quinlan)					\$255,000	\$150,302	
Elgin St (Ontario to West End & Warner)					\$130,000	\$108,245	
Chuch St. N. & Egan St.					\$110,000	\$45,701	
CN Road, Princess St., Albert St.					\$100,000	\$92,887	
Dunedin Drive Rebuild (Tumbery to Burgess)					\$65,000	\$38,919	
M.S. #8 Ph 2					\$180,000	\$108,393	
M8 Feeder Rebuild (Ontario to Douro)							\$125,000
Trinity Street (Brunswick to Regent)							\$90,000
King Street (Albert to Douro)							\$60,000
Elgin Street (Church to James)							\$90,000
Jones Street (James to Church & Peel)							\$60,000
John Street (High St to Sparring)							\$75,000
Jarvis Street & Lloyd Eisler St.							\$150,000
M.S. #9 Conversion Ph 1							\$230,000
Sub-Total	1,516,223	1,607,313	957,911	1,021,748	1,375,000	895,457	1,260,000
Miscellaneous	600,713	698,955	802,002	1,014,652	313,000	196,639	230,000
Project Total	2,116,936	2,306,268	1,759,913	2,036,400	1,688,000	1,092,096	1,490,000
System Service							
Wright Blvd. Extension & Gibb Road tie line	\$159,056						
TS Conduit	\$142,562						
Switchgear Replacement			259,867	112,695	110,000		110,000
Line Re-insulation			232,385	98,812	150,000	85,811	150,000
O'Loane Feeder Tie				306,280			
Forman Feeder Tie				132,318			
Sub-Total	301,618	0	492,252	650,105	260,000	85,811	260,000
Miscellaneous	76,215	93,154	30,839	23,847	50,000	21,121	50,000
Project Total	377,833	93,154	523,091	673,952	310,000	106,932	310,000
Total	3,139,803	3,058,814	3,291,413	3,387,787	2,773,000	1,523,152	2,621,500
Less Renewable Generation Facility Assets and Other Non Rate-Regulated Utility Assets (input as negative)							
Total	3,139,803	3,058,814	3,291,413	3,387,787	2,773,000	1,523,152	2,621,500

UNDERTAKING NO. J2.2: TO PROVIDE THE ACTUAL RETURN ON EQUITY FOR 2012 AND 2013.

Regulatory Rate of Return as reported under 2.1.5.6 of the RRR Reporting:

2013 - 10.90%

2012 - 9.75%

2011 - 11.71%

UNDERTAKING NO. J2.3: TO PROVIDE DOCUMENTATION CONCERNING DECISION TO ENTER THE BYPASS AGREEMENT.

Below is a copy of the memorandum presented and approved by Festival Hydro's Board of Directors at the Board meeting held on September 26, 2013:

MEMORANDUM

September 20, 2013

To: Board Members

From: Jac Vanderbaan, COO

Re: Stratford TS – Update

Hydro One Bypass -

As reported at the last Board Meeting, Hydro One has provided details regarding the potential costs for permanent or temporary bypass of the existing TS. Hydro One has indicated that there is no requirement for FHI to free up a breaker at the existing TS if we proceed with the bypass, but since they cannot reserve the capacity for us, there may be need in the future to do so. We have reviewed the by-pass agreement with Scott Stoll and received an opinion from our auditors that we should be able to claim the by-pass cost as part of the TS capital project. The estimated cost to permanently by-pass approximately 20 MW is \$1.2M.

In 2008, KPMG completed a review of the accounting treatment for a permanent bypass for another LDC. In their opinion, under either CGAAP or IFRS rules, this expenditure should qualify to be treated as part of the LDCs property plant and equipment. In addition, KPMG put forward the following arguments in support of inclusion in rate base:

Under CICA 3061, rate regulated PP&E are items of PP&E held for use in operations meeting all of the following criteria:

- (a) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products.*
- (b) The regulated rates are designed to recover the cost of providing the services or products.*
- (c) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for any capitalized costs.*

Based on our understanding of the use of the transformer station and the rate setting process, it is reasonable to assume that the transformer station is an item of rate regulated PP&E.

The other LDC referred to above has submitted its 2014 COS application which includes their claim for the permanent bypass to be part of their property, plant and equipment (i.e. rate base). The LDC is scheduled to receive its interrogatories from the intervenors before the end of September. We will monitor the interrogatories and LDC response with regard to this expenditure being allowed as part of the rate base. Management will report back to the Board as information becomes available.

Festival has also been in contact with RBC who have verbally confirmed they have lending capacity available to Festival Hydro to cover the potential \$1.2 million bypass cost. Management will be assessing its cash requirements as part of the 2014, 2015 and 5 year budgets being presented at the next Audit Committee. Management will bring forth a recommendation of further borrowing requirements at that time.

Recommendation:

That Management enter into negotiations with Hydro One to permanently by-pass approximately 20 MW with the estimated cost of \$1.2M, and include this amount in the overall TS Capital cost.

UNDERTAKING NO. J2.4: TO ADVISE OF RESIDENTIAL CUSTOMER BILL IMPACT OF REDUCTION OF THE RTSR CHARGE.

If the monthly 20,000 kW savings (\$475,200) is removed from the transmission connection (RTSR) model, the residential monthly transmission connection charge rises from \$0.0045 per kWh to \$0.0053 per kWh. Noted below is the bill impact table for residential customers. Removing the \$475,000 in RTSR savings for a residential customer using 250 kWh per month the customer would see an increase in their bill of \$0.20 cents per month. An 800 kWh per month customer would see an increase of 0.65 per bill.

Oral Hearing Undertaking # J2.4									
2015 COS - Bill Impact for Typical Residential Customers (Revised from Oral Hearings Nov 18, 2014)									
<i>(With reduced transmission charges of \$475,200; and proposed ICM Rate Rider for impact of TS True up and O M & A recovery totalling \$634,496)</i>									
Customer Class	2014 Distribution Charge	2015 Proposed Distribution Charge	Dollar Change	% Change	2014 Total Bill	2015 Total Bill	Dollar Change	% Change	
Residential, 250 kWh	25.24	22.28	(2.96)	-11.7%	54.70	51.56	(3.14)	-5.7%	
Residential, 250 kWh non RPP with Global Adjustment	25.24	22.93	(2.31)	-9.2%	54.70	52.22	(2.48)	-4.5%	
Residential, 800 kWh	35.37	30.02	(5.35)	-15.1%	128.52	122.46	(6.06)	-4.7%	
Residential, 800 kWh non RPP with Global Adjustment	35.37	32.10	(3.27)	-9.2%	128.52	124.58	(3.94)	-3.1%	
<i>(Without reduced transmission charges of \$475,200; and proposed ICM Rate Rider for impact of TS True up and O M & A recovery totalling \$634,496)</i>									
Customer Class	2014 Distribution Charge	2015 Proposed Distribution Charge	Dollar Change	% Change	2014 Total Bill	2015 Total Bill	Dollar Change	% Change	Trans Connection Savings
Residential, 250 kWh	25.24	22.28	(2.96)	-11.7%	54.70	51.77	(2.93)	-5.4%	0.21
Residential, 250 kWh non RPP with Global Adjustment	25.24	22.93	(2.31)	-9.2%	54.70	52.42	(2.28)	-4.2%	0.20
Residential, 800 kWh	35.37	30.02	(5.35)	-15.1%	128.52	123.12	(5.40)	-4.2%	0.66
Residential, 800 kWh non RPP with Global Adjustment	35.37	32.10	(3.27)	-9.2%	128.52	125.23	(3.29)	-2.6%	0.65

EXHIBIT K2.1

Festival was asked to review the calculation of CCA included in K2.1 and compare it to our own CCA figure used in the ICM true up calculation. Festival has attached a revised CCA calculation that differs slightly from that calculated in K2.1 as a result of class 14 assets being amortized beginning from the date of use, and then on a straight line basis in following years.

As Festival has a corrected CCA figure of \$1.007M, revised ICM true up calculations have been included as well as revised rate rider calculations.

		Class 1 (6%)	Class 6 (10%)	Class 8 (20%)	Class 14 (based on life of contract)	Class 17 (8%)	Class 47 (8%)	No CCA
Station Building	5,781,414	5,781,414						
Parking lot	129,619					129,619		
Fence	102,323		102,323					
HVAC equip for buildin	202,951	202,951						
Power transformer	3,137,075						3,137,075	
Station metal clad swit	1,748,081						1,748,081	
Station Switch	90,360						90,360	
Solid stat relays	856,272						856,272	
rigid busbars	315,544						315,544	
UG foundations	437,208						437,208	
UG cable	167,507						167,507	
service - UG cable	236,931						236,931	
Fibre connection	12,849						12,849	
Revenue meter	39,069			39,069				
CT&PT	346,820			346,820				
SCADA	160,349			160,349				
Security equipment	77,467			77,467				
Hydro One class B stud	120,000						120,000	
Land	913,474							913,474
Training								0
CWIP	-375,885	-162,509	-2,779	-16,937		-3,520	-190,139	
Hydro One CCRA	436,468				436,468			
	14,935,897	5,821,856	99,544	606,768	436,468	126,099	6,931,688	913,474
Per TS schedule	15,311,782							

Diff -375,885 CWIP

2013 CCA @ half year	174,656	4,977	60,677	11,767	5,044	277,268	0	534,388
2014 CCA	338,832	9,457	109,218	17,459	9,684	532,354	0	1,017,004

**Note 2013 CCA on class 14 based on start date of contract (April 30, 2013) & then straightline for remainder of 25 year contract
 **CWIP is a non-cash asset (regulatory interest booked during construction of the asset) that has been taxed in the period it was earned (2013) and therefore should not be included in the CCA calculation above and has been removed accordingly.

Festival Hydro Inc.
2015 COS Application (EB-2014-0073)
Oral Hearing Evidence

Ref: E9/T3/S12, pp. 1-9 – Incremental Capital Module True-up

In Exhibit 9, Tab 3, Schedule 12 Pages 4 to 9, Festival originally provided a true-up calculation for its new 62 MVA Transformer station, which was funded through an incremental capital module as part of its 2013 IRM application. Festival is refileing the true up calculation evidence based on the fact that the asset was not energized until December 2013. It also reflects the fact that Festival’s rebasing was moved out an additional year.

The original ICM model, as filed with Festival’s 2013 IRM application (EB-2012-0124), has been updated as follows:

- The total TS spend has been reduced from the original ICM budget amount by \$551,330 to agree to the final spend amount at December 31, 2013 of \$15,311,782.
- The incremental capital CAPEX represents the average of the 2013 and 2014 net asset balance for the TS balances, as reported on Exhibit 2, Tab 1, Schedule 1, and Page 3.
- A full year’s depreciation of \$337,644 has been used in the calculation.
- The calculation reflects the projected 2014 CCA claim of ~~\$951,896~~ **\$1,017,004**.

The original incremental revenue requirement approved as part of the 2013 IRM application (EB -2012-0124) was \$672,412. For the 20 month period May 1, 2013 to December 31, 2014, the amount totals \$1,120,687 (\$672,412/12*20).

On Page 3 is the updated Incremental Capital Adjustment worksheet from the ICM model. The annual incremental revenue requirement total is ~~\$1,390,762~~ **\$1,367,288**. For the thirteen month period, the recalculated total revenue requirement is ~~\$1,506,659~~ **\$1,481,229** (~~\$1,390,792~~ **\$1,367,288/12*13**).

The amount projected to be collected through the rate riders by December 31, 2104 totals \$1,091,548. Festival is proposing that the difference of ~~\$415,111~~ **\$389,681** between the amounts collected through the ICM rate rider and the true-up calculated revenue requirement be recovered through an incremental rate rider to be collected over a one year period, as presented in the rate rider table on Page 2.

Description	2013	2014	Total
Inc. Revenue Requirement – as originally filed EB-2012-0124)	\$ 448,275	\$ 672,412	\$1,120,687
True-up Amounts:			
Inc. Revenue Requirement – true up of costs, depreciation and CCA	\$ 113,941 \$ 115,897	\$1,367,288 \$1,390,762	\$1,481,229 \$1,506,659
ICM Rate Rider collected/to be collected	\$380,410	\$ 711,138	\$1,091,548
Variance arising on true up – additional inc capital requirement	(\$266,469) (\$264,513)	\$656,150 \$679,624	\$389,681 \$415,111

On the bottom of the Incremental Revenue Requirement worksheet (E4.1) is a summary of the ICM True up claim being submitted by Festival Hydro. The claim includes \$389,681 for the 13 month True up calculation and \$244,815 for the 2013 and 2014 OM&A for a total rate rider of \$634,496.

Festival is proposing to recover this rate rider using Incremental Capital Rate Rider Option A Fixed/Variable as provided in the model under F1.1 Incr Cap RRider Opt A FV. A fixed/variable rate rider was used to collect the original ICM rate rider. The rate rider table is presented below.



Incremental Capital Workform for 2013 Filers

Incremental Capital Adjustment

Current Revenue Requirement			
Current Revenue Requirement - Total	\$	10,001,218	A

Return on Rate Base			
Incremental Capital CAPEX	\$	15,114,823	B
Depreciation Expense	\$	337,644	C
Incremental Capital CAPEX to be included in Rate Base	\$	14,777,179	D = B - C
Deemed Short Term Debt %	4.0%	E \$ 591,087	G = D * E
Deemed Long Term Debt %	56.0%	F \$ 8,275,220	H = D * F
Short Term Interest	2.07%	I \$ 12,236	K = G * I
Long Term Interest	5.68%	J \$ 470,211	L = H * J
Return on Rate Base - Interest		\$ 482,446	M = K + L
Deemed Equity %	40.0%	N \$ 5,910,872	P = D * N
Return on Rate Base - Equity	9.85%	O \$ 582,221	Q = P * O
Return on Rate Base - Total		\$ 1,064,667	R = M + Q

Amortization Expense			
Amortization Expense - Incremental	C \$	337,644	S

Grossed up PIL's			
Regulatory Taxable Income	O \$	582,221	T
Add Back Amortization Expense	S \$	337,644	U
Deduct CCA		\$ 1,017,004	V
Incremental Taxable Income		-\$ 97,139	W = T + U - V
Current Tax Rate (F1.1 Z-Factor Tax Changes)	26.5%	X	Y = W * X
PIL's Before Gross Up		-\$ 25,742	Z = Y / (1 - X)
Incremental Grossed Up PIL's		-\$ 35,023	

Ontario Capital Tax			
Incremental Capital CAPEX	\$	15,114,823	AA
Less : Available Capital Exemption (if any)	\$	-	AB
Incremental Capital CAPEX subject to OCT		\$ 15,114,823	AC = AA - AB
Ontario Capital Tax Rate (F1.1 Z-Factor Tax Changes)	0.000%	AD	AE = AC * AD
Incremental Ontario Capital Tax		\$ -	

Incremental Revenue Requirement			
		12 months	13 months
Return on Rate Base - Total - 13 months	Q \$	1,064,667	\$ 1,153,389
Amortization Expense - Total - 13 months	S \$	337,644	\$ 365,781
Incremental Grossed Up PIL's - 13 months	Z -\$	35,023	-\$ 37,942
Subtotal - variance arising on True up		\$ 1,367,288	\$ 1,481,229
Less ICM Rate rider collected/to be collected		-\$ 1,091,548	-\$ 1,091,548
Incremental Revenue Requirement		\$ 275,740	\$ 389,681
Summary: ICM True UP claim			\$ 389,681
2013 and 2014 O, M & A claim			\$ 244,815
2015 Net Rate rider to be recovered			\$ 634,496



Incremental Capital Workform for 2013 Filers

Calculation of Incremental Capital Rate Rider - Option A Fixed and Variable

Rate Class	Service Charge % Revenue	Distribution Volumetric Rate % Revenue kWh	Distribution Volumetric Rate % Revenue kW	Service Charge Revenue D = \$N * A	Distribution Volumetric Rate Revenue kWh	Distribution Volumetric Rate Revenue kW	Total Revenue by Rate Class G = D + E + F	Billed Customers or Connections	Billed kWh	Billed kW	Service Charge Rate Rider	Distribution Volumetric Rate kWh Rate Rider	Distribution Volumetric Rate kW Rate Rider
	A	B	C		E = \$N * B	F = \$N * C		H	I	J	K = D / H / 12	L = E / I	M = F / J
Residential	32.3%	21.7%	0.0%	\$ 205,094.38	\$ 137,746.39	\$ -	\$ 342,840.77	18,224	140,396,363	0	\$ 0.94	\$ 0.0010	
Residential - Hensall	0.0%	0.0%	0.0%	\$ -	\$ -	\$ -	\$ -	0	0	0			
General Service Less Than 50 kW	6.8%	9.1%	0.0%	\$ 43,111.59	\$ 57,729.48	\$ -	\$ 100,841.07	2,029	64,120,602	0	\$ 1.77	\$ 0.0009	
General Service 50 to 4,999 kW	5.6%	0.0%	21.4%	\$ 35,776.48	\$ -	\$ 135,812.24	\$ 171,588.72	227	361,168,299	942,723	\$ 13.13	\$ 0.0000	\$ 0.1441
Large Use	1.2%	0.0%	0.4%	\$ 7,503.11	\$ -	\$ 2,453.31	\$ 9,956.42	1	22,711,894	35,166	\$ 625.26	\$ 0.0000	\$ 0.0698
Unmetered Scattered Load	0.2%	0.1%	0.0%	\$ 1,267.12	\$ 322.35	\$ -	\$ 1,589.47	227	657,094	0	\$ 0.47	\$ 0.0005	
Sentinel Lighting	0.0%	0.0%	0.0%	\$ 63.04	\$ -	\$ 237.29	\$ 300.32	41	149,276	353	\$ 0.13	\$ 0.0000	\$ 0.6722
Street Lighting	0.8%	0.0%	0.4%	\$ 5,047.78	\$ -	\$ 2,331.11	\$ 7,378.89	6,626	4,532,631	11,925	\$ 0.06	\$ 0.0000	\$ 0.1955
				\$ 297,863.50	\$ 195,798.21	\$ 140,833.95	\$ 634,495.66						

Enter the above rate riders onto "Sheet 11. Proposed Rates" in the 2013 OEB IRM3 Rate Generator as a "Rate Rider for Incremental Capital"