May 20, 2015

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

Attention: **Kirsten Walli**
Board Secretary

Dear Kirsten,

<u>RE:</u> **Festival Hydro (EB 2014-0073)**
<u>Response to Comments on Draft Rate Order</u>

On April 30, 2015, with a correction date of May 5, 2015, the Ontario Energy Board (the "Board") issued its Decision and Order relating to Festival Hydro's 2015 Distribution Rates with an effective date of May 1, 2015. The Board ordered Festival to file with the Board, and intervenors of record, a Draft Rate Order ("DRO)" no later than 7 days after issuance of the Decision.

The Board in its Decision also ordered Board staff and intervenors of record, to file any comments within six days of Festival filing its DRO. Festival was further ordered by the Board to file responses to any comments received from Board staff and intervenors on the DRO within 3 days of final receipt.

Festival received comments on its DRO from Energy Probe Research Foundation ("EP") on May 8, 2015. The Vulnerable Energy Consumers Coalition ("VECC") filed their response on May 11, 2015 noting that they concur with the comments as presented by EP. Board staff submitted their comments on the DRO on May 14, 2015. Neither the School Energy Coalition nor the Association of Major Power Consumers in Ontario ("AMPCO") provided comments.

Collectively, there was agreement by the responding parties on the changes as proposed and for the periods of rate rider recoveries as outlined within the DRO except for the following topics requiring further clarification:

- **Working Capital** - The accuracy of the controllable expenses and costs of power as reported in the Settlement submission column in the Determination of Rates table shown on Page 12.
- **Rate Base** - The inclusion of the net book value of the Permanent Bypass agreement in the opening balance of rate base and the completeness of Appendix D.

  Rate Rider recovery period - Clarification on the 7 month recovery period of the rate riders from May 1, 2015 to December 31, 2015 (with exception of the recovery of the Permanent

Bypass Agreement Expenditure rate rider whereby all parties agree to a 31 month collection period from June 1, 2015 to December 31, 2017).

- **Permanent Bypass Agreement Rate Rider** - Expenditure amount to be used in the permanent bypass agreement rate rider and timing of recovery.
- **Cost Allocation** - Clarification of the appropriate revenue-to-cost ratio for the Large Use classification.
- **Transformer Allowance** - Confirmation that the transformer allowance credit reflects the approved load forecast.
- **Implementation of January 1, 2015** - Confirmation that Festival is in agreement with the Board's direction for rates to be effective May 1, 2015.

In advance of this filing, Festival had discussed with Mr. Randy Aiken, representing Energy Probe, the points of clarification indentified in EP's submission. Festival and EP are in agreement with all matters other than the issue related to the inclusion of the net book value of the Permanent Bypass Agreement ("PBA") in the opening balance of the 2015 rate base. There continues to be a difference in the position held by Festival Hydro and by EP, VECC and Board staff on this matter.

Attached is Festival's formal response to EP, VECC and Board staff comments. Festival is of the view that it has complied with the Board order which expressly dealt with the issues and therefore no changes to the DRO have been submitted in respect of these issues.

Festival respectfully submits that the Board issues its Final Rate Order approving the new distribution rates to be implemented June 1, 2015 with an effective date of May 1, 2015.

An electronic copy of this filing has been submitted via RESS and two hard copies sent by courier to the Board Secretary.

Sincerely,

FESTIVAL HYDRO INC.

Debra Reece for Y. Semsedini.

Ysni Semsedini,
Chief Executive Officer

EB-2014-0073

IN THE MATTER OF the *Ontario Energy Board Act, 1998,* S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Festival Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2015.

RESPONSE TO COMMENTS ON DRAFT RATE ORDER OF FESTIVAL HYDRO INC.

FILED MAY 20, 2015

Festival has provided its response to each issue below:

Working Capital – Festival acknowledges there was an error in the controllable expenses and the cost of power as reported in the Settlement Submission column in the Determination of Rate Base Table shown on Page 12 of the Draft Rate Order. Festival has corrected the table as provided below.

Determination of Rate Base

Description	Original COS Submission	Interrogatories	Settlements Submission	Argument in Chief	Board Decision	Difference as Filed vs. Board Decision
Average Net Book Value of Fixed Assets:						
Gross Fixed Assets (average)	101,093,557	93,229,931	93,229,931	93,229,931	92,783,740	- 8,309,817
Accumulated Depreciation (average)	- 47,443,019	- 39,871,779	- 39,871,779	- 39,871,779	- 40,012,127	7,430,892
Average Net Book Value of Fixed Assets	53,650,538	53,358,152	53,358,152	53,358,152	52,771,613	- 878,925
Allowance for Working Capital:						
Controllable Expenses	5,144,253	5,171,408	5,014,412	5,031,511	5,031,511	- 112,742
Cost of Power	67,551,604	66,004,393	68,871,222	68,871,222	68,871,222	1,319,618
Working Capital Base	72,695,857	71,175,801	73,885,634	73,902,733	73,902,733	1,206,876
Working Capital Factor	13%	13%	13%	13%	13%	13%
Allowance for Working Capital	9,450,461	9,252,854	9,605,132	9,607,355	9,607,355	156,894
Rate Base	63,100,999	62,611,006	62,963,284	62,965,507	62,378,968	- 722,031

Rate Base – Festival's understanding on the timing of the transfer of the Permanent Bypass Agreement from rate base to expense in 2015 differs from the interpretation of Energy Probe, VECC and Board staff. On page 13 of the Decision and Order the Board states:

> "***The OEB finds, given the specific fact situation in this case, that the payment under the Bypass agreement is to be removed from the intangible assets and expensed in 2015.***
> ***The amount is to be recovered through a rate rider outside of the revenue requirement over three years, so that the annual amount of disposition is similar to the annual amount of savings in transmission charges. Accordingly, Festival will need to declassify this asset for regulatory accounting purposes following this decision. This declassification will trigger an expense in 2015. As the expense is incurred upon declassification of the asset for regulatory accounting purposes, no retroactivity issue arises"***.

The opening sentence states the PBA is to be "removed from intangible assets and expensed in 2015". The necessary implication from this sentence is the PBA is in the opening balance of 2015. The Decision continues and clearly states that ***"Festival will need to declassify this asset for regulatory accounting purposes following this Decision."*** The Decision and Order was dated April 30, 2015 and corrected May 5, 2015. Since it states the transfer was not to occur until "***following this decision"***, this would mean the net book value included in intangible assets is not to be declassified from intangible assets and recognized into expense until sometime after April 30, 2015. As such, the opening rate base of January 1, 2015 will contain the net book value of the intangible asset. In addition, the Decision also clearly states that "***As the expense is incurred***

upon declassification of the asset for regulatory accounting purposes, no retroactivity issue arises". This further confirms Festival's understanding that there is no retroactive treatment for this transaction for the period prior to the Board's decision date of April 30, 2015, corrected May 5, 2015.

Since the Board expressly states that no retroactivity issue arises, Festival considered the December 31, 2014 rate base as presented to be approved by the Board with the asset to be removed only from the December 31, 2015 closing balance of rate base resulting from the declassification entry dated May 1, 2015. Based on the order in the Decision, Festival will remove the net book value of the Permanent Bypass Agreement from intangible assets and expense the full amount effective May 1, 2015. The net book value of the permanent bypass expenditure will be subject to recovery over a 3 year period (subsequently agreed to by the parties over a 31 month period ending December 31, 2017). As noted in the DRO, the 2015 depreciation expense on the intangible asset of $27, 334 and the closing net book value of the permanent bypass agreement have already been removed from the 2015 revenue requirement as part of the DRO filing.

EP, VECC and Board staff are of the view that Festival should remove the gross book balance of $1,230,026 and associated accumulated depreciation from the 2015 opening balance and closing balance of account 1609. However, the Board states ***"Festival will need to declassify this asset for regulatory accounting purposes following this Decision."*** It is Festival understanding that the Board is directing Festival to declassify the intangible asset and to expense it sometime after the Decision date of April 30, 2015. Had the Board wanted Festival to revise the opening rate base balance they would have instructed Festival to retroactively change the accounting treatment effective December 31, 2014 and to expense the cost in 2014. The Decision is very explicit that "***no retroactive issues arise***".

The impact of the inclusion of the bypass in the opening January 1, 2015 rate base rather than retroactively adjusting 2014 balances is well under the materiality threshold. Further, it ignores the impact of the interest rate differential that Festival will suffer as a result of the difference between the prescribed rate of 1.1% and the amount of the loan used to fund the payment to Hydro One.

Appendix D filing - Festival acknowledges that Appendix D was filed missing a number of columns. Appendix D has been re-filed as part of this document.

Permanent Bypass Agreement Rate Rider – Festival has included the most recently pricing available from Hydro One in the amount of $1,433,710. Hydro One is currently assessing the amount of reduction in the cost which may be available as a result of Conservation and Demand Management (CDM) and Distributed Generation (DG) which occurred during the measurement period from July 1, 2013 to June 30, 2014. Since Festival expects the cost reduction from CDM and DG will be an immaterial amount, Festival proposed using the $1,433,710, being the most recent pricing from Hydro One and filed as part the DRO of this proceeding. Festival further proposed to adjust the rate riders for the true-up amount as part of its 2016 IRM application. Energy Probe in their comments to the Draft rate order states ***"Energy Probe submits that the Board should approve the rate rider and the disposition period as proposed by Festival, including the adjustment as part of the 2016 IRM rates".*** VECC supports EP's position.

Board staff suggest using the $1,230,026 as originally filed as part of the proceeding with a true-up of rate riders for the final invoice costs as part of the 2016 IRM application. To promote regulatory efficiency, Festival request the rate rider be approved as filed in the Draft rate order, based on the $1,433,710 amount, with the impact of the expected minimal true-up being incorporated into the rate riders as part of the 2016 IRM application.

In addition, Festival will be required to finance this expenditure through debt issuance, which will carry an interest rate higher than the current deferral and variance account interest of 1.10%. Given the shortfall on the spread in the interest rates, Festival believes it is prudent that Festival commence collecting the rate rider based on the $1,433,710 amount and adjust the rate riders accordingly as part of the 2016 IRM application.

Cost Allocation - The tables on both page 19 and page 20 should show a revenue-to-cost ratio of 107.89 for the Large Use class. A revised page 20 table is included below.

Revenue to Cost Ratios - Comparison to Previous Approved and Original Application Rates					
Class		Previously Approved Ratios	Original 2015 Application Ratios	Final 2015 Revenue to Cost Ratios	Policy Range
		Most Recent Year: 2013	%	%	%
Residential		106.47	104.51	101.36	85 - 115
GS < 50 kW		112.03	116.79	117.91	80 - 120
GS > 50 kW to 4999 kW		81.31	82.85	87.16	80 - 120
Large Use		112.03	100.62	107.89	85 - 115
Unmetered Scattered Load		70.00	120.00	120.00	70 - 120
Sentinel Lighting		70.00	86.09	87.16	80 - 120
Street Lighting		120.00	120.00	120.00	80 - 120

Rate Design – As illustrated in the table below, the kW demand data used in the calculation of the transformer allowance (TA) credit was updated (in cells G27 and H27) for the final Board approved load forecast resulting in a change from $393,290 as originally filed to $392,291 as shown in the DRO filing Appendix G (*immaterial rounding error of $5*).

TA Calculation	**Original COS filing**	**DRO Filing**
kW load - GS > 50 kW	621,061	618,661
kW load – Large Use	34,422	35,166
Total kW subject to TA	655,483	653,827
$0.60 rate	$(0.60)	$(0.60)
Total Transformer Allowance	$393,290	$392,296

Rate Rider Recovery Period - The recovery of rate riders is intended to occur over a 7 month collection period of June 1, 2015 to December 31, 2015 (with exception of the recovery of the Permanent Bypass Agreement Expenditure rate rider whereby all parties agree to a 31 month collection period from June 1, 2015 to December 31, 2017). The May 31, 2015 date was a typing error.

Implementation of January 1, 2015 Rates and Changes - The Board's Decision and Order states *" **the OEB finds that the rates resulting** **from** **the OEB's determination in this proceeding will be effective May 1, 2015".*** Festival concurs with the Board's Decision for rates to be effective May 1, 2015.

In addition, in EP's Comments of the draft rate order, EP states ***"EP concurs with Festival's understanding that the underlying intent to move the rate year to January 1 applies and that Festival will be filing its upcoming IRM application with an effective date of January 1, 2016".*** VECC is in agreement with EP's submission.

Tariff of Rates and Changes - Festival discovered after filing of the DRO that the Tarff of Rates and Charges filed as part of the DRO had the wrong description for the volumetric billing determinants for the G.S.<50 kW rate class. The volumetric billing determinants should state "kWh" rather than "kW". The final Tarff of Rates and Charges filed with the Board will have the corrected kWh volumetric billing determinant description for the G.S. <50 kW rate class.

Respectfully submitted this 20th of May 2015.

Ysni Semsedini
Chief Executive Officer
Festival Hydro Inc.

Attachment: Appendix D

Appendix D

Appendix 2-BA
Fixed Asset Continuity Schedule - MIFRS

Year 2015 Pre IFRS 1 exmemption deeming opening NBV as cost

CCA Class	OEB	Description	Cost: Opening Balance	Cost: Additions	Cost: Disposals	Cost: Closing Balance	Accumulated Depreciation: Opening Balance	Accumulated Depreciation: Adj to opening Acc. Dep	Accumulated Depreciation: Additions	Accumulated Depreciation: Disposals	Accumulated Depreciation: Closing Balance	Net Book Value	
12	1611	Computer Software (Formally known as Account 1925)	$ 797,009	$ 215,000	$ -	$ 1,012,009	-$ 452,137		-$ 124,901	$ -	-$ 577,038	$ 434,971	
N/A	1805	Land	$ 338,728	$ 913,474	$ -	$ 1,252,202	$ -		$ -	$ -	$ -	$ 1,252,202	
47	1808	Buildings	$ 1,471,352	$ -	$ -	$ 1,471,352	-$ 1,016,204		-$ 39,423	$ -	-$ 1,055,627	$ 415,725	
47	1815	TS capital	$ -	$ 13,961,840		$ 13,961,840	$ -	-$ 346,870	-$ 320,187		-$ 667,057	$ 13,294,783	
47	1820	Distribution Station Equipment <50kV	$ 1,060,334	$ -	-$ 58,599	$ 1,001,735	-$ 833,371		-$ 27,835	$ 57,221	-$ 803,985	$ 197,750	
47	1830	Poles, Towers & Fixtures	$ 15,590,364	$ 633,784	-$ 107,791	$ 16,116,357	-$ 5,880,933		-$ 298,677	$ 105,891	-$ 6,073,719	$ 10,042,638	
47	1835	Overhead Conductors & Devices	$ 9,594,837	$ 269,216	-$ 99,972	$ 9,764,081	-$ 3,430,025		-$ 95,678	$ 98,802	-$ 3,426,901	$ 6,337,180	
47	1840	Underground Conduit	$ 5,637,137	$ 242,740	-$ 17,348	$ 5,862,529	-$ 1,846,652		-$ 106,024	$ 17,348	-$ 1,935,328	$ 3,927,201	
47	1845	Underground Conductors & Devices	$ 17,602,032	$ 275,000	-$ 17,868	$ 17,859,164	-$ 11,624,268		-$ 207,063	$ 17,868	-$ 11,813,463	$ 6,045,701	
47	1850	Line Transformers	$ 12,079,798	$ 284,806	-$ 106,054	$ 12,258,550	-$ 6,609,706		-$ 189,627	$ 102,602	-$ 6,696,731	$ 5,561,819	
47	1855	Services	$ 4,869,814	$ 190,954	$ -	$ 5,060,768	-$ 2,803,262		-$ 72,297	$ -	-$ 2,875,559	$ 2,185,209	
47	1860	Meters	$ 5,250,358	$ 175,000	-$ 1,785	$ 5,423,573	-$ 1,910,585		-$ 495,176	$ 545	-$ 2,405,216	$ 3,018,357	
	1890	Major Spare parts	$ 468,946	$ -	$ -	$ 468,946	$ -		$ -	$ -	$ -	$ 468,946	
	1905	Land	$ 17,041	$ -	$ -	$ 17,041	-$ 17,041		$ -	$ -	-$ 17,041	$ -	
47	1908	Buildings & Fixtures	$ 601,155	$ 90,000	$ -	$ 691,155	-$ 147,965		-$ 35,008	$ -	-$ 182,973	$ 508,182	
13	1910	Leasehold Improvements	$ 21,798	$ -	$ -	$ 21,798	-$ 21,798		$ -	$ -	-$ 21,798	-$ 0	
8	1915	Office Furniture & Equipment (10 years)	$ 128,061	$ -	$ -	$ 128,061	-$ 99,707		-$ 5,513	$ -	-$ 105,220	$ 22,841	
10	1920	Computer Equipment - Hardware	$ 0	$ -	$ -	$ 0	-$ 0		$ -	$ -	-$ 0	$ 0	
45	1920	Computer Equip.-Hardware(Post Mar. 22/04)	-$ 0	$ -	$ -	-$ 0	$ 0		$ -	$ -	$ 0	$ -	
45.1	1920	Computer Equip.-Hardware(Post Mar. 19/07)	$ 517,819	$ 30,000	$ -	$ 547,819	-$ 286,141		-$ 81,131	$ -	-$ 367,272	$ 180,547	
10	1930	Transportation Equipment	$ 3,083,105	$ 135,000	-$ 61,082	$ 3,157,023	-$ 2,235,628		-$ 124,213	$ 61,082	-$ 2,298,759	$ 858,264	
8	1935	Stores Equipment	$ 36,199	$ -	$ -	$ 36,199	-$ 36,199		$ -	$ -	-$ 36,199	$ -	
8	1940	Tools, Shop & Garage Equipment	$ 507,541	$ 30,000	$ -	$ 537,541	-$ 374,994		-$ 28,839	$ -	-$ 403,833	$ 133,708	
8	1945	Measurement & Testing Equipment	$ 39,170	$ -	$ -	$ 39,170	-$ 32,731		-$ 3,220	$ -	-$ 35,951	$ 3,219	
8	1955	Communications Equipment	$ 45,860	$ -	$ -	$ 45,860	-$ 45,788		-$ 36	$ -	-$ 45,824	$ 36	
8	1960	Miscellaneous Equipment	$ 7,842	$ -	$ -	$ 7,842	-$ 5,489		-$ 784	$ -	-$ 6,273	$ 1,569	
47	1970	Load Management Controls Customer Premises	$ 245,119	$ -	$ -	$ 245,119	-$ 226,068		-$ 14,808	$ -	-$ 240,876	$ 4,243	
47	1980	System Supervisor Equipment	$ 427,351	$ 50,000	$ -	$ 477,351	-$ 274,401		-$ 15,151	$ -	-$ 289,552	$ 187,799	
47	1995	Contributions & Grants	-$ 5,046,473	-$ 150,000	$ -	-$ 5,196,473	$ 1,498,017		$ 104,632	$ -	$ 1,602,649	-$ 3,593,824	
	2075	Non-utility property owned under capital lease	$ 294,688	$ -	$ -	$ 294,688	-$ 51,827		-$ 14,863	$ -	-$ 66,690	$ 227,998	
14	1609	Intangible assets	$ 1,710,026	$ 436,468	-$ 1,230,026	$ 916,468	-$ 77,612	-$ 18,914	-$ 49,457	$ 29,612	-$ 116,371	$ 800,097	
		Sub-Total	**$ 77,397,012**	**$ 17,783,282**	**-$ 1,700,525**	**$ 93,479,769**	**-$ 38,842,518**		**-$ 2,245,279**	**$ 490,971**	**-$ 40,962,610**	**$ 52,517,160**	
		Less Socialized Renewable Energy Generation Investments (input as negative)				$ -					$ -	$ -	
		Less Other Non Rate-Regulated Utility Assets (input as negative)	-$ 294,688			-$ 294,688	$ 51,827		$ 14,863		$ 66,690	-$ 227,998	
		Total PP&E	**$ 77,102,324**	**$ 17,783,282**	**-$ 1,700,525**	**$ 93,185,081**	**-$ 38,790,691**		**-$ 2,230,416**	**$ 490,971**	**-$ 40,895,920**	**$ 52,289,162**	
		Depreciation Expense adj. from gain or loss on the retirement of assets (pool of like assets)							- 9,140			-$ 2,185	Wage impact on avg through entire table
		Total							**-$ 2,239,556**			$ 52,286,977	

CCA Class	OEB	Description											
							Less: *Fully Allocated Depreciation*						
10		Transportation					Transportation			-$ 156,997			
8		Stores Equipment					Stores Equipment						
							Net Depreciation			-$ 2,082,559			