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July 31, 2015

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2015-0003
PowerStream Inc. – 2016 CIR Application
Energy Probe – Interrogatories to Applicant

Pursuant to Procedural Order No. 1, issued July 10, 2015, attached please find the Interrogatories of Energy Probe Research Foundation (Energy Probe) to PowerStream in the EB-2015-0003 proceeding.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Tom Barrett, PowerStream Inc. (By email)
Colin Macdonald, PowerStream Inc. (By email)
James Sidlofsky, Border Ladner Gervais LLP (By email)
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EB-2015-0003

Ontario Energy Board

**Application for electricity distribution rates for the period
from January 1, 2016 to December 31, 2020.**

**INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")**

July 31, 2015

**POWERSTREAM INC.
2016 -2020 CUSTOM IR APPLICATION
EB-2014-0003**

**ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES**

SECTION I

I-Energy Probe-1

Ref: Section I, Tab 1, Schedule 1

- a) What is the current status of the merger announcement made on April 16, 2015?**
- b) What is the expected closing date of any such merger?**
- c) Is it possible that the merger could take place before the effective date for rates of January 1, 2016?**
- d) Has PowerStream reflected any impacts of a potential merger in its application? If not, why not?**
- e) What are the potential impacts on FTE's of a merger, especially in regards to new positions that may not need to be filled as synergies with the other merger partners may allow for sharing of employees?**
- f) What are the potential impacts on expenditures on general plant (e.g. vehicles) if a merger takes places and vehicles can be shared across the merged entities?**

I-Energy Probe-2

**Ref: Section I, Tab 1, Schedule 1 &
EB-2014-0138 Report of the Board: Rate-Making Associated with
Distributor Consolidation dated March 26, 2015**

- a) Please provide the type of incentive rate-making plan that each of the potential merger participants is currently under.**
- b) Please provide the period for the applicable rate-making plan for each of the potential merger participants.**

- c) **Based on the EB-2013-0138 Report noted above, please provide PowerStream's understanding of when the merged entity could apply to the OEB for cost-of-service rebasing. Please indicate the parts in the Report that lead to this understanding.**

I-Energy Probe-3

Ref: Section I, Tab 1, Schedule 1, page 4

- a) **What is the status of the new customer care and billing system that went into service in the second quarter of 2015?**
- b) **What was the budgeted cost for this new system and what are the actual costs incurred?**

I-Energy Probe-4

Ref: Section I, Tab 1, Schedule 1

Please confirm the figures in Table 1 are consistent with the figures provided in the RRWF's found in Section VI, Tab 25. If this cannot be confirmed, please explain.

I-Energy Probe-5

Ref: Section I, Tab 3, Schedule 1

Table 11 shows a WCA factor of 13% for each of 2016 through 2020. On June 3, 2015, the Board issued a letter detailing the Allowance for Working Capital for Electricity Distribution Rate Applications. In that letter the Board states "*For a custom incentive rate-setting (Custom IR) application distributors are expected to file robust evidence of costs and revenues, and the review of these applications is expected to require considerable resources from both the OEB and the distributor. It is therefore reasonable to expect distributors choosing this option to file evidence in support of their requested working capital allowance, rather than the use of a default value.*"

- a) **Has PowerStream filed a lead-lag study as part of the current application? If not, does PowerStream intend to file a lead-lag study, and if so, when will it be filed?**
- b) **Has PowerStream started to move all customers to monthly billing? Please provide details of this movement.**

- c) **Has PowerStream included any incremental costs in the 2015 to 2020 forecasts associated with the movement to monthly billing?**
- d) **Has PowerStream included any incremental cost savings in the 2015 to 2020 forecasts associated with the movement to monthly billing?**

SECTION II

II-Energy Probe-6

Ref: Exhibit A, Tab 1 & EB-2014-0002 Settlement Proposal (Horizon Utilities Corporation) dated September 22, 2014

PowerStream has indicated that the application is on a standalone basis regardless of whether or not the potential merger proceeds. Based on this standalone basis, please answer the following questions.

- a) **Is there anything that would preclude PowerStream from adopting the earnings sharing mechanism as described on pages 29-30 of the Horizon Settlement Proposal that was accepted by the Board? If yes, please explain.**
- b) **Is PowerStream willing to accept such an earnings sharing mechanism? If not, please explain why not.**
- c) **Is there anything that would preclude PowerStream from adopting the efficiency adjustment mechanism as described on pages 31-32 of the Horizon Settlement Proposal that was accepted by the Board? If yes, please explain.**
- d) **Is PowerStream willing to accept such an efficiency adjustment mechanism? If not, please explain why not.**
- e) **Is there anything that would preclude PowerStream from adopting the capital investment variance account as described on pages 32-35 and Appendix L of the Horizon Settlement Proposal that was accepted by the Board? If yes, please explain.**
- f) **Is PowerStream willing to accept the capital investment variance account? If not, please explain why not.**

II-Energy Probe-7

Ref: Exhibit A, Tab 1, page 3

- a) Please confirm that the WCA annual adjustment for the cost of power is limited to the cost of power rates and there would be no adjustment in the cost of power related to volumes (kWh's).**
- b) Please what is included in tax rates (e.g. CCA changes, tax credits, corporate rates, etc.)?**
- c) Do changes in the cost of capital include the impact of any changes in the deemed capital structure? If not, please explain why not.**

II-Energy Probe-8

Ref: Exhibit A, Tab 1, page 4

In part (b) an example is given wherein it states that if the Board's inflation rate is greater than 4.0% (when the forecast used was 2.0% for 2017), then there would be an adjustment to the revenue requirement for 2017 in preparing the 2017 draft rate order. If the inflation rate was 4.5% as determined by the Board for 2017 as compared to the forecast of 2.0% used and the 200 basis point threshold was approved by the Board:

- a) Would the full incremental inflation rate of 250 basis points be used in the adjustment or would the incremental inflation rate in excess of the threshold be used (i.e. 50 basis points)?**
- b) What components of the revenue requirement would the incremental inflation rate be applied to?**

II-Energy Probe-9

**Ref: Exhibit A, Tab 1, pages 4-7 &
Report of the Board - Renewed Regulatory Framework for Electricity
Distributors: A Performance-Based Approach dated October 18, 2012**

Please explain how PowerStream's proposal for an inflation threshold adjustment and/or adjusting the current Custom IR plan are consistent with the RRFE where the Board has stated that it expects a distributor's application under Custom IR to demonstrate its ability to manage within the rates set, given that actual costs and revenues will vary from forecast?

II-Energy Probe-10

**Ref: Exhibit B, Tab 1, page 1 &
Section III, Tab 3, Schedule 1, BOMA-9**

The evidence states that the new Vaughn transformer station will be going into service in the spring of 2017 to provide needed capacity and has no impact in 2016. Please reconcile this statement with the response to BOMA-9 that PowerStream has included \$3.2 million in land to be used for this TS in rate base in 2014.

II-Energy Probe-11

**Ref: Exhibit E, Tab 1 &
Section V, Tab 1, Schedule 1 &
Section III, Tab 1 Schedule 1**

- a) Please provide an updated version of Table 1 (Exhibit E, Tab 1) that reflects the corrections and updates noted in Section V, Tab 1, Schedule 1.**
- b) Please provide an updated version of Table 1 provided in the response to E-Energy Probe-5 (Section III, Tab 1, Schedule 1) that reflects the corrections and up-dates noted in Section V, Tab 1, Schedule 1.**

II-Energy Probe-12

Ref: Exhibit F, Tab 1

- a) Please confirm that the productivity savings in Table 4 over the 2016 through 2020 period is about \$5.4 million.**
- b) Please provide a version of Table 4 that replaces the 2014 figures with actual 2014 OM&A expenses along with the updated inflation adjustments, customer growth adjustments and incremental new costs and provide the total productivity savings over the 2016 through 2020 period.**

II-Energy Probe-13

Ref: Exhibit F, Tab 2, page 3

The evidence states that PowerStream is experiencing different operating conditions than typical in the industry and that this may not be fully reflected in the historical data used in the PEG model.

- a) **Please provide more detail on the different operating conditions experienced by PowerStream.**
- b) **How does PowerStream know that other distributors are not facing the same operating conditions, given the limited knowledge that distributors appear to have of the characteristics of other distributors?**
- c) **Has PEG confirmed that this is a legitimate limitation of the PEG model in forecasting future results?**
- d) **Please explain how the PEG model can provide reasonable forecasts for PowerStream when the model needs historical data from numerous distributors in order to estimate robust coefficients and cannot incorporate such data from other distributors over the forecast period against which PowerStream is being evaluated.**

II-Energy Probe-14

Ref: Exhibit G, Tab 2a

- a) **Please update Tables 2 and 3 to reflect the most recent year-to-date information available for 2015, along with the current forecast for the remainder of 2015. Please explain any changes to 2016 or future years that result from the change in 2015 due to deferred projects or accelerated projects or any other change.**
- b) **Based on the response to part (a), please provide updated continuity schedules for 2015 through 2020. Please also provide an electronic copy of the updated continuity schedules.**

II-Energy Probe-15

Ref: Exhibit G, Tab 4

- a) **Please update the cost of power for 2016 to reflect the April 20, 2015 Regulated Price Plan Price Report for the RPP and non-RPP prices, along with any required changes to the transmission, low voltage, wholesale rates, etc. that are known as of the current time.**
- b) **Please provide an electronic version of Appendix G-4-1 that shows the 2016 calculation as requested in part (a), along with the forecasts for 2017 through 2020.**

II-Energy Probe-16

Ref: Exhibit H, Tab 4

- a) Please explain the difference in total customer counts shown in Tables 4 and 7.**
- b) Please provide a table in the same level of rate class detail as shown in Table 7 that shows for each class, the forecasted number of customers/connections by month for each month in 2015. Please also add a line for each rate class that shows the actual number of customers in each month for which actual data is now available.**

II-Energy Probe-17

Ref: Exhibit I, Tab 1

Please provide the most recent year-to-date actual available for other operating revenues shown in the same level of detail as found in Table 1 for 2015. Please also show the corresponding figures for the same period in 2014.

II-Energy Probe-18

Ref: Exhibit I, Tab 1

What is the current status of the water billing contracts that are up for renewal by the end of 2015?

II-Energy Probe-19

Ref: Exhibit J, Tab 1

- a) Please update Table 1 to reflect the most recent year-to-date actuals available for 2015, along with the current forecast for the remainder of the year.**
- b) Please update Appendix 2-K based on year-to-date actuals for 2015 along with the forecast for the remainder of the year.**
- c) Please provide the number of FTEs for management and non-management as of the most recent actuals available for 2015.**

II-Energy Probe-20

Ref: Exhibit J-1-1

Please provide the most recent year-to-date figures for 2015 available in the same level of detail as shown in Appendix 2-JA, along with the corresponding figures for the same period in 2014.

II-Energy Probe-21

Ref: Exhibit K, Tab 1

- a) PowerStream has forecast the addition of \$45 million in long term debt effective January 1, 2016 at a rate of 4.50%. Please provide an update on any talks with potential lenders and the rate currently available from them.**
- b) Interest rates have been steady or declining for several years. Please explain why PowerStream has forecast a rate 4.50% for the 2016 issuance when in November, 2014 it was able to borrow \$150 million at a rate of 3.239%.**
- c) How was the rate of 3.239% on the unsecured debentures issued in November, 2014 determined with respect to the Canada bond rates and/or a spread over those rates?**

II-Energy Probe-22

Ref: Exhibit L, Tab 1

Please update the cost allocation to reflect the street lighting changes as required in the June 12, 2015 letter from the Board regarding the Issuance of New Cost Allocation Policy for Street Lighting Rate Class.

II-Energy Probe-23

Ref: Exhibit M, Tab 1

Please update the proposed fixed variable splits for residential customers such that the proposal is in compliance with the July 16, 2015 letter from the Board re Implementing a New Rate Design for Electricity Distributors.

SECTION III

III-Energy Probe-24

Ref: J-Energy Probe-42

- a) The response to part (c) indicates that PowerStream intends to utilize the taxable losses arising in 2015 in that year. Please explain what this means and what the impact on taxes paid in 2015 and previous years is.**
- b) Is PowerStream entitled to carry the 2015 loss back to previous years in order to receive a refund of previous PILs paid? Please explain fully.**
- c) Please confirm that the negative taxable income forecast for 2015 includes the impact of the full CCA deduction available for 2015.**
- d) Please confirm that PowerStream is not required to deduct the full amount of CCA in 2015.**
- e) Please confirm that if PowerStream reduced the CCA deduction used in 2015 to reduce the taxable income loss to \$0, there would be more CCA available to be carried forward into 2016 and subsequent years.**

III-Energy Probe-25

Ref: K-SEC-40

Please provide the most recent BMO indicative pricing updates for PowerStream for the all in cost of a 10, 20 and 30 year bond.