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BY EMAIL and RESS

August 23, 2016
Our File No. 20150003

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

Attn: Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: EB-2016-0003 – Powerstrream – DRO

We are counsel for the School Energy Coalition. Pursuant to the Board's Decision in this matter, this letter constitutes the comments of the School Energy Coalition on the Draft Rate Order of the Applicant filed August 15, 2016.

Rate Base

SEC has the following concerns about the rate base proposals of the Applicant:

1. With respect to 2017, the Board ordered (page 15 of the Decision) that the capital budget be reduced by $16.235 million. It is not clear to us how the Applicant has translated that into a reduction in net capital additions in the year of $10.8 million, and a reduction in WIP for the remainder. This does not appear to us to be consistent with the Board's intent. The Applicant should be required to show that their partial reduction in rate base is consistent with the Board's Decision, for example by showing how each of the specific reductions by the Board have been reflected in the fixed asset continuity tables.

2. The Applicant has assumed that 100% of the proposed capital additions in the IRM year, 2016, should be included in 2017 opening rate base of $956.7 million. This does not appear to us to be consistent with the Board's analysis of 2017, in which it found that the capital spending proposals of the Applicant were too high. To assume that the Board intended that a high capital spend in the IRM year would be acceptable is not, in our view, appropriate or consistent. It is, in our view, more consistent with the Decision to assume that, except for the capital additions associated with the previous ICM, the Applicant would live within the IRM envelope in 2016, including capital expenditures commensurate with the revenue requirement the Board has approved. Only that level of capital spending in 2016 would then find its way into opening 2017 rate base.

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Income Tax

It is not clear to us why the reduction in capital spending in 2017 results in a large decrease in CCA, and thus an increase in tax that offsets the reduced ROE from the lower rate base. We have reviewed the Schedule 8 for the 2015 to 2017 years, but there is no indication of the changes made in this filing, so it is not possible with a reasonable effort to track the CCA vs. depreciation changes the Applicant is proposing. It is submitted that, in providing a tracking of the reductions in rate base in the fixed asset continuity tables, as proposed above, the Applicant should also provide a similar tracking of those reductions to the CCA tables in Schedule 8.

Cost Allocation

The Applicant does not appear to have followed the standard practice for allocating adjustments to revenue to cost ratios.

The new cost allocation for 2017 shows that Street Lighting is above the band, so it has to be reduced by $632,329, which the Applicant has done. Similarly, the model showed that the Large Use class was below the band, and so had to be increased by $66,571. This was also done.

The remaining $565,758 then had to be allocated to the classes that are within the bands, but below 100%. The Applicant has done this pro rata. This is not the Board's practice. The practice, which has been approved by the Board many times, is to allocate the amount sequentially to the other classes, starting with the one with the lowest revenue to cost ratio. In this case, they should have done the following:

a. Allocate $1,892 to Sentinel Lighting to bring it up to 85%, the same as the Large User class
b. Allocate $3,531 to Sentinel Lighting and $78,140 to the Large User Class to bring them up to the Residential Class level of 98.4%.
c. Allocate $53 to Sentinel Lighting, $978 to Large User, and $241,770 to Residential to bring them up to the GS>50 level of 98.6%.
d. Allocate the remaining balance of $239,394 pro rata between those four classes.

This would, for example, reduce the allocation to GS>50 by about $110,000, increase the allocation to Large Users by about $80,000, and increase the allocation to Residential by about $30,000. More importantly, it would leave those four classes with the same revenue to cost ratios, which is the fairer result.

Although the amounts are small in this case, in our submission it is not a good precedent for the Board to allow re-allocations that follow a different pattern than the one normally followed by LDCs in Ontario, and the one that has been demonstrated to be the fairest approach. There is no reason why this re-allocation should not be done properly.

All of which is respectfully submitted.

Yours very truly,
JAY SHEPHERD P. C.

Jay Shepherd

cc: Wayne McNally, SEC (email)
Interested Parties