

**ONTARIO ENERGY BOARD**

**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 PUC Distribution Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2018.

**INTERROGATORIES ON BEHALF OF THE  
SCHOOL ENERGY COALITION**

**SEC-1**

[General] The following table lists annual general service distribution bills for 2017 for LDCs with 20,000 to 50,000 customers.

**Annual Distribution Bill Comparison - 2017 Rates (20,000 to 50,000 customers)  
(monthly charge and volumetric rate)**

	<i>Utility</i>	<i>Residential</i>		<i>GS&lt;50</i>		<i>GS&gt;50</i>		<i>Overall</i>	<i>Number</i>
		<i>800 kwh</i>	<i>% of</i>	<i>2000</i>	<i>% of</i>	<i>250 KW</i>	<i>% of</i>	<i>Performance</i>	<i>Customers</i>
			<i>Avg</i>	<i>kwh</i>	<i>Avg</i>		<i>Avg</i>		
<b>1</b>	Peterborough (2016)	\$272.64	82.7%	\$584.76	84.9%	\$10,045.44	77.8%	81.78%	36,058
<b>2</b>	Westario	\$319.44	96.9%	\$572.88	83.1%	\$9,324.54	72.2%	84.07%	22,822
<b>3</b>	Kingston	\$301.20	91.4%	\$537.48	78.0%	\$10,592.88	82.0%	83.79%	27,356
<b>4</b>	Brantford	\$286.56	86.9%	\$551.28	80.0%	\$11,199.66	86.7%	84.54%	38,789
<b>5</b>	Entegrus	\$301.80	91.5%	\$608.76	88.3%	\$11,022.24	85.3%	88.41%	40,503
<b>6</b>	Milton	\$331.44	100.5%	\$626.04	90.8%	\$10,121.46	78.4%	89.92%	35,111
<b>7</b>	Essex	\$318.60	96.6%	\$709.56	103.0%	\$9,422.58	73.0%	90.85%	28,640
<b>8</b>	Halton Hills	\$308.64	93.6%	\$578.76	84.0%	\$12,466.50	96.5%	91.38%	21,534
<b>9</b>	Welland	\$338.16	102.6%	\$589.32	85.5%	\$12,480.54	96.6%	94.91%	22,470
<b>10</b>	Festival	\$347.04	105.3%	\$756.24	109.7%	\$10,416.24	80.6%	98.55%	20,362
<b>11</b>	North Bay	\$336.12	102.0%	\$732.84	106.3%	\$11,263.50	87.2%	98.50%	23,975
<b>12</b>	Thunder Bay	\$313.56	95.1%	\$774.00	112.3%	\$12,022.62	93.1%	100.17%	50,482
<b>13</b>	Greater Sudbury	\$317.40	96.3%	\$719.88	104.5%	\$15,086.76	116.8%	105.85%	47,187
<b>14</b>	PUC Distribution	\$301.32	91.4%	\$697.32	101.2%	\$17,685.12	136.9%	109.84%	33,487
<b>15</b>	Whitby	\$367.80	111.6%	\$760.68	110.4%	\$15,174.72	117.5%	113.15%	41,488
<b>16</b>	Newmarket-Tay	\$327.00	99.2%	\$846.60	122.9%	\$15,999.78	123.9%	115.31%	34,871
<b>17</b>	Bluewater	\$395.76	120.0%	\$811.80	117.8%	\$14,963.64	115.9%	117.90%	36,115
<b>18</b>	Canadian Niagara	\$449.76	136.4%	\$945.84	137.3%	\$23,191.92	179.6%	151.08%	28,627
	<b>AVERAGE</b>	\$329.68		\$689.11		\$12,915.56			

With respect to this comparison:

- a) Please confirm that the calculations are accurate. (The full Excel spreadsheet is also attached.)
- b) Please confirm that the Applicant's existing rates result in:
  - 1) Distribution bills for residential customers that are 8.6% lower than the average for similar sized LDCs.
  - 2) Distribution bills for GS>50 customers than are 36.9% higher than the average for similar sized LDCs.
  - 3) Distribution bills that are on average 9.84% higher than similar sized LDCs.
  - 4) Distribution bills that are on average higher than the other three comparable northern LDCs: Thunder Bay, Sudbury, and North Bay.
- c) Please confirm that, compared with all of the LDCs in the province, the Applicant's overall distribution bills are 11.42% higher than the provincial average, and GS>50 bills are 44.7% above the provincial average.
- d) Please describe in detail the steps the Applicant is taking, or is planning to take, to rectify these disparities and bring its distribution bills in line with provincial averages, and the averages of similar sized LDCs.

## SEC-2

[Ex. 1, p. 7] The Applicant notes that, in its last rebasing year, the approved OM&A was \$9.95 million, of which \$100,000 was ring-fenced for special productivity projects, but the actual OM&A for that year was \$11.2 million.

The 2013 rebasing proceeding, EB-2012-0162, was the subject of a complete settlement. In the Board-Approved Settlement Agreement, at page 22, the Applicant agreed to the following wording:

*"For the purposes of settlement, the Parties agree the 2013 OM&A for the Test Year should be \$9,952,946 (CGAAP), a decrease of \$975,924 from the \$10,928,870 set out in the original Application. The Parties relied on PUCDI's representation that it can safely and reliably operate the distribution system based on the total OM&A budget proposed." [emphasis added]*

With respect to the disparity between the Applicant's representation to the other parties and the Board in the Settlement Agreement, and the actual OM&A spending in 2013:

- a) Please advise whether, at the time the Applicant entered into the Settlement Agreement, and made the representation to the Board and the parties set out in the Agreement, it was the intention of the Applicant to keep its OM&A spending for 2013 within the approved and agreed OM&A budget amount.
- b) If it was not the intention of the Applicant to keep 2013 OM&A spending within the approved and agreed budget, please provide a justification for the Applicant's actions in making the said representation and agreeing to the budget amount.
- c) If it was the intention of the Applicant to keep 2013 OM&A spending within the approved and agreed budget, please provide a detailed breakdown of the facts and information not known to the Applicant on June 14, 2013, the date the Settlement Agreement was filed with

the Board, that resulted in the agreed OM&A budget being insufficient in the amount of more than \$1.3 million. For each of the drivers of that insufficiency, please identify the reasons the Applicant was reasonably surprised at the differential between budget and actual.

**SEC-3**

[Ex. 1, p. 7] Please confirm that the Applicant and Kingston Hydro are the only virtual utilities left in the province, and that all of the other LDCs that were at one time virtual utilities have ceased to use that structure. Please advise what plans, if any, the Applicant has to normalize the operational structure of the distribution company to operate in on a basis similar to other LDCs.

**SEC-4**

[Ex. 1, p. 9] The following table is taken from the website of the Sault Ste. Marie PUC. Please confirm that this is the current composition of the Boards of Directors and executive management of the Applicant, its parent company, and PUC Services Inc., the Manager.

**PUC INC. and PUC SERVICES INC. Board of Directors**

Jim. P. Boniferro, Chair	President & CEO, Boniferro Mill Works ULC
Cecilia Bruno	Chief Financial Officer, Sault College
Paul Christian	City Councillor
Christian Provenzano	Mayor
Jim Rennie	Vice President, Human Resources, Essar Steel Algoma Inc.
Andy McPhee	Retired Vice-President, Great Lakes Power Transmission
Elaine Pitcher	Lawyer, Pitcher Law
Ron Gagnon	President & CEO, Sault Area Hospital
John Naccarato	President & General Counsel, Evolutiondeck Inc.

**PUC DISTRIBUTION INC. Board of Directors**

Ella Jean Richter, Chair	Retired, Regional Director Bell Canada
Jim. P. Boniferro	President & CEO, Boniferro Mill Works ULC
Christian Provenzano	Mayor

**PUBLIC UTILITIES COMMISSION Board of Directors**

Mark Howson	Retired, Senior Maintenance Engineer Essar Steel Algoma Inc.
Paul Christian	City Councillor
Christian Provenzano	Mayor

**PUC SERVICES INC. Officers of the Corporation and Executive Team**

Robert Brewer, HBS, MBA	President & CEO/Secretary
Kelly McLellan, CPA, CMA, M.Acc.	Vice President, Finance & Corporate Support/Treasurer
Claudio Stefano, P. Eng., MBA	Vice President, Operations & Engineering
Kevin Bell, P. Eng	Vice President, Customer Engagement & Business Development
Trina Avery	Executive Assistant

Please provide the names and titles of the officers of the Applicant and its Executive Team. In each case, please advise the legal employer of the individual, and describe in detail the legal relationship between the individual and the Applicant.

#### **SEC-5**

[General] With respect to management and governance of the Applicant:

- a) Please provide the Shareholders Agreement or Shareholders Declaration with respect to the Applicant, and any Shareholders Agreement or Declaration with respect to its parent company, PUC Inc.
- b) [Also Ex. 1, p. 21] Please describe in detail the reporting relationships between management and boards of directors. In particular, and without limiting the generality of the foregoing:
  - 1) Please describe which decisions are made by the PUC Inc. Board vs. the Applicant's Board. Where decisions are made by the Applicant's Board, please describe in detail the involvement if any of the parent company board members in discussions about those decisions, either before, during, or after the decision by the Applicant's Board.
  - 2) Please describe the formal and informal reporting structure for management, with particular attention to reporting by management to their employer, and the Board of their employer, vs. reporting to their services customer, the Applicant, to the Board of the Applicant, to the Board of the Applicant's parent, and to the City or City employees.
  - 3) Please provide any legal opinions or other legal analyses, of the fiduciary duties of those individuals that have management roles with respect to the Applicant, and those individuals who sit on the Board of the Applicant and related entities. In addition, if there are any codes of conduct, conflict of interest protocols, or other policies or documents intended to ensure that the Board and management of the Applicant act in the best interests of the Applicant, please provide those documents.

#### **SEC-6**

[Ex. 1, p. 9] Filed concurrently with these interrogatories is the 2016 Shareholder Report of PUC Inc. and PUC Services Inc., which includes reporting with respect to the Applicant.

- a) Please confirm that this is the 2016 Annual Shareholder Report to the City, delivered in May 2017.
- b) The annual shareholder report has been provided to the City at a meeting in May of each year from at least 2011-2017. Please confirm that an annual shareholder report was provided to the City at a meeting in May of 2018, for the year ended December 31, 2017. If it has not been provided to the City, please advise the reasons for the delay.
- c) Please file the annual shareholder report for PUC Inc. and PUC Services Inc. provided to the City in respect of 2017, together with the four quarterly reports provided to the City for 2017. Please explain why the 2017 quarterly reports and the 2017 annual shareholder report are not on the SSMPUC website as in previous years.

#### **SEC-7**

[Ex. 1, p. 11] Please provide detailed information with respect to the timing of the filing of the

Application, including specifics as to each reason for the delay between the normal filing date required by the Board, and the actual filing date. Please explain why it is appropriate for the Board to “expedite the proceeding” in these circumstances.

**SEC-8**

[Ex. 1, p. 14] Please provide details on the dates, amounts and purposes of all entries into the Productivity Initiatives Variance Account.

**SEC-9**

[Ex. 1, p. 16] Please advise the Applicant’s plans, if any, to roll out the mobile work order system to types of work orders other than meters.

**SEC-10**

[Ex. 1, p. 18] For each of the productivity initiatives for which the Applicant prepared, or caused to be prepared, a cost-benefit analysis, either before or after the fact, or an alternative form of analysis of the success of the initiative, please provide that analysis document.

**SEC-11**

[Ex. 1, p. 19] Please provide details on the new contract with the unionized employees, and quantify the impacts if any on the Applicant for the Test Year.

**SEC-12**

[Ex. 1, p. 20] Please provide the most recent (2017 if completed) financial statements for PUC Services Inc.

**SEC-13**

[Ex. 1, p. 23] Please confirm that, in seeking “approval of the DSP”, the Applicant is not seeking direct or indirect approval by the Board of the cost consequences of the DSP, except to the extent that those cost consequences relate to the Test Year and are detailed in the Application.

**SEC-14**

[Ex. 1, p. 29] The Applicant is experiencing a long term decline in billing determinants. Please confirm that this is expected to continue. Please describe in detail the Applicant’s strategy, if any, to cause costs to move in a trajectory similar to the billing determinants on which revenues will be based, so that unit rates can be kept under control.

**SEC-15**

[Ex. 1, p. 31, 92] Please confirm that 2013 figures are on the basis of CGAAP, not MIFRS.

**SEC-16**

[Ex. 1, p. 41] Please provide the full report of Ironside Consulting Services Inc. on the Strategic Direction Plan Survey.

**SEC-17**

[Ex. 1, p. 44] Please provide details – including timing and dollar amounts – of the changes to the DSP resulting from the feedback from customers on price. Please quantify the impact of those changes on rates in the Test Year. Please also provide details on reductions, if any, to the Test Year OM&A budget from the initial budget prepared by management, to the final budget proposed in the Application. Please identify those changes that are permanent changes, vs. those that defer but do not reduce spending.

**SEC-18**

[Ex. 1, p. 47] Please describe the Lone Worker Program.

**SEC-19**

[Ex. 1, p. 47] Please provide the full report of Focused Management Resources on the Productivity Improvement Project. Please confirm that FMR is not related to Focused Management Resources Inc., of the UK.

**SEC-20**

[Ex. 1, p. 62] Please provide the 2017 Scorecard.

**SEC-21**

[Ex. 1, p. 77] Please provide detailed calculations showing the adjustments that would cause the Applicant to be in Group 3 rather than Group 4.

**SEC-22**

[Ex. 1, p. 77] Please calculate the 2018 cost per customer on the same basis as the figures of \$615 and \$695, and calculate the compound annual growth rate from 2012 to 2018.

**SEC-23**

[Ex. 1, p. 78] Please provide a detailed calculation of the \$660 target, and the \$670 2016 adjusted actual, including the specific adjustments proposed to remove certain costs from the calculation.

**SEC-24**

[Ex. 1, p. 81] Please confirm that, no matter whether the full list in Table 1-21 is used, or any reasonable subset, the Applicant's 2016 OM&A per customer is in the least efficient third relative to other LDCs.

**SEC-25**

[Ex. 1, p. 83] CustomerFirst is a consortium of several distributors, including those in Sudbury, North Bay, Newmarket, Cochrane, St. Thomas and Sault Ste. Marie, that initially implemented joint CDM programs, but planned to expand to other joint activities. Please advise the status of CustomerFirst, and provide details on any non-CDM activities that the consortium is implementing or plans to implement on a joint basis.

**SEC-26**

[Ex. 1, p. 88] Please confirm that the Applicant and its parent company are continuing to pay dividends to the City, even when, as in 2016, the parent company operated at a loss. Please explain how the Applicant can achieve a 60% debt level if it continues to pay dividends and invest in capital assets at amounts in excess of depreciation.

**SEC-27**

[Ex. 1, p. 90] Please provide the 2017 financial statements for the Applicant, and those of its parent company PUC Inc.

**SEC-28**

[Ex. 1, Appendix 12] Please provide the date of the Business Plan, and identify who (by position, if members of management) were the authors of the Business Plan. Please advise when the Business Plan was first presented to a Board of Directors for consideration. Please advise which Board of Directors first considered it, and which other Boards also considered it, if any. Please provide a copy of any resolution of any Board of Directors approving the Business Plan.

**SEC-29**

[Ex. 1, App. 12, p. 8] Please explain why none of the three strategic Focus Areas and Aspirations include control of costs and prices, given the feedback from customers that price is their highest concern.

**SEC-30**

[Ex. 1, App. 12, p. 9] Please reconcile the \$1.6 million estimated increase in distribution revenues as a result of the COS application with the \$3.7 million deficiency showing on the Revenue Requirement Work Form. Please provide evidence the Board of Directors of the Applicant is aware that the Applicant is seeking an increase in rates of \$3.7 million for 2018.

**SEC-31**

[Ex. 1, App. 12, p. 11] Please provide an update on the CCAA proceedings for Essar Steel Algoma, including any impacts of recent creditor voting.

**SEC-32**

[Ex. 1, App. 1] Please provide a detailed table showing, for each of the expense categories in which there is an allocation to the Applicant on Appendix 2-JC (whether as a direct cost or a shared cost under section 4.1 of the Amended Agreement), the total amount of the forecast expense related to that category by PUC Services Inc. in the Test Year, the amount to be paid by the Applicant, the amount to be paid by the Public Utilities Commission, the amount to be allocated to other customers of PUC Services Inc., and the amount to be absorbed by PUC Services Inc. For each amount allocated to the Applicant, please provide a detailed calculation showing the basis of the calculation. By way of example, and without limiting the generality of the foregoing, if an amount to be paid by the Applicant is made up of some combination of operating costs, and use of capital assets, of PUC Services Inc., please show the percentage of each operating cost and the reason for the percentage, the book value of the capital assets and the full calculation of the annualized amount to be paid by the Applicant in respect of each such capital asset. In calculating the amounts to be paid with respect to assets, please ensure that the cost of capital, if any, is completely broken down including rates, ratios, calculation methods, and tax impacts (including the cost or benefit, if any, of any timing differences, and how that is accounted for).

**SEC-33**

[Ex. 1, App. 1] SEC understands that the full cost of ownership of the building and any leasehold improvements to the building is included in the revenue requirement calculation of the Applicant, including interest, ROE, PILs (including timing differences), and depreciation. SEC also understands that the full total of those amounts is charged to PUC Services Inc. as rent, and that PUC Services Inc. in turn rents a portion of the building back to the Applicant at the same pro rata cost, plus related OM&A expenses such as janitorial services, property taxes, etc.

- a) Please confirm that our understanding is correct. If it is not correct, please clarify the arrangement.
- b) Please provide a copy of the current lease from the Applicant to PUC Services Inc., together with the full calculation of the rent to be paid by PUC Services Inc. under the terms of the lease during the Test Year. Please track the calculation of rent back to the costs of the Applicant related to the ownership of the asset.

- c) Please provide a copy of the current lease from PUC Services Inc. to the Applicant, together with the full calculation of the rent to be paid by the Applicant to PUC Services Inc. under the terms of the lease during the Test Year. Please structure your response so that it is possible to follow the flow of gross costs relating to the building (incurred by either the Applicant or PUC Services Inc.), the amounts flowing through to the other party by way of rent, or by way of allocation of OM&A costs.
- d) Please confirm that the Applicant owns the land upon which the building is situated. If that is not the case, please provide details.
- e) Please provide an as-built floor plan of the building, with square footages. Please identify offices, board rooms, and other facilities within the structure, and how those spaces are allocated between the Applicant, the Public Utilities Commission, and PUC Services Inc. Please reconcile the square footages allocated to the allocation of building costs.

**SEC-34**

[Ex. 1, App. 1, p. 7] Please confirm that, notwithstanding Section 2.5 of the Agreement, the Manager is the employer of all of the employees, and the Applicant has no direct employee-employee relationship with any of them, and no direct financial obligations to any of them. By way of example, and without limiting the generality of the foregoing, please confirm that in the event an employee is terminated by the Manager, the Applicant has no direct obligation to the employee to pay severance or any other amount arising out of the termination. All such obligations must initially be satisfied by the Manager out of their own funds. Please describe any contractual arrangements under which the Applicant reimburses the Manager for such costs.

**SEC-35**

[Ex. 1, App. 1, Amending Agreement p. 1] Please provide the full calculation of the “proportionate share” percentage of the Applicant for each expense category, and for each year from 2012 to 2018.

**SEC-36**

[Ex. 4, p. 10] Please explain why the two years with large OM&A increases, 2012 to 2013 and 2017 to 2018, are both cost of service rebasing years.

**SEC-37**

[Ex. 4, p. 22] Please provide a detailed (qualitative and quantitative) description of the Bell Fibre to the Home initiative, and its direct and indirect impact on the Applicant for each year in which it was in effect, and thereafter.

**SEC-38**

[Ex. 4, p. 39] The following table sets out the compensation costs per FTE for 2013 and 2018.

	2013 Board Approved	2013 Actual	Percent Increase	2018 Test Year	Percent Increase
<b>Total Salary and Wages including overtime and incentive pay</b>					
Management (including executive)	98,716	107,933	9.34%	116,165	17.68%
Non-Management (union and non-union)	61,136	75,649	23.74%	84,176	37.69%
Total	69,525	82,410	18.53%	91,438	31.52%
<b>Total Benefits (Current + Accrued)</b>					
Management (including executive)	22,122	21,590	-2.41%	29,463	33.18%
Non-Management (union and non-union)	23,937	20,114	-15.97%	22,218	-7.18%
Total	23,532	20,423	-13.21%	23,862	1.40%
<b>Total Compensation (Salary, Wages, &amp; Benefits)</b>					
Management (including executive)	120,838	129,523	7.19%	145,628	20.52%
Non-Management (union and non-union)	85,073	95,763	12.57%	106,393	25.06%
Total	93,057	102,833	10.51%	115,300	23.90%

With respect to the compensation per FTE comparisons:

- a) Please confirm that the figures are accurate. (The Excel spreadsheet is also attached.)
- b) In the event that presentation changes (e.g. non-productive labour, Stores, or Fleet) make the results misleading, please correct the allocations of costs in the original Appendix 2-K spreadsheet numbers and restate the compensation per FTE table above.
- c) Please explain why salaries per FTE were increased substantially from 2013 Board approved to actual.
- d) Please explain why total compensation per FTE has increased by 4% per year for Management, and 5% per year for Non-Management.

**SEC-39**

[Ex. 4, p. 48] Please provide the report giving the most recent benchmarking of the Applicant’s executive group salaries.

**SEC-40**

[Ex. 4, p. 58] Please provide details of the improved outcomes valued by customers that arise due to the 22% increase in Shared Services costs from 2013 Board approved to 2018 proposed in Table 4-36.

**SEC-41**

[Ex. 4, p. 65, 73] Please provide a detailed breakdown, with quantification, of the incorrect and correct amounts of depreciation charged, including the impact on the shareholder and on the customers. With respect to the 2013 rebasing year, please provide details by asset class of the amount of depreciation included in revenue requirement for rate-making purposes, and the correct amount of depreciation

actually recoverable in that year. Please discuss the impact on timing differences and annual tax position of incorrect depreciation amounts for accounting purposes, and provide a continuity schedule with respect to tax impacts, if material.

**SEC-42**

[Ex. 4, p. 81] Please provide the rationale behind the proposed treatment of the tax loss carryforwards. Please confirm that the tax loss carryforwards will not actually be applied to reduce taxes in the same manner as the proposed ratemaking treatment.

**SEC-43**

[Ex. 5, p. 3] Please reconcile the express terms of the promissory note with PUC Inc. with the statement that the repayment is “principal payable one year after demand”.

**SEC-44**

[Ex. 5, App. 1] Please identify where in the Promissory Note is paragraph 1.2 referred to in the Notice.

Respectfully submitted on behalf of the School Energy Coalition this July 17<sup>th</sup>, 2018.

---

Jay Shepherd  
Counsel for the School Energy Coalition